

Senate Bill 411 - SUPPORT

BUSINESS REGULATIONS - PAWNBROKERS-INTEREST RATE ON PAWN TRANSACTIONS

NEED FOR LEGISLATION IMPOSING INTEREST CHARGE RESTRICTIONS FOR THE MARYLAND PAWNBROKER INDUSTRY

Thank you for investigating the regulation or lack of regulation on pawn loans. I was afraid that this was an area where economic fairness was overlooked. It does not compute that auto title loans carrying questionable collateral and payday loans with no collateral carry limits on repayment terms. This is contrasted with no control on pawn loan interest rate with zero risks (loan amount is always less than the resale value of objects. The only difference in auto title loans, payday loans, and pawn loans is storage costs of the pawned items. I feel that new legislation is warranted to protect Maryland's most vulnerable residents from unfair credit practices.

Here is what I observed regarding present pawnbroker practices in Maryland leading to my conversations with ex-Senator Manno and Senator Kramer. I am very much heartened that Senator Kramer researched these unjust business practices and submitted SB 411.

Three years ago I became aware of a pawnshop charging 144% annual interest .A friend borrowed \$1100 with two rings being used as collateral. Interest only payments of \$150 a month or 12% interest a month were paid for 2 years with monthly loan renewals. .After two years the rings were redeemed with a payment of\$1100 and a last month's payment of \$1500. So to pay off an \$1100 loan and redeeming the rings required total payments of \$4,700.

Typical fees and interest rate charges are:

1. A collateralized loan is made to the borrower for a one month period in the amount determined by the pawnbroker with an interest only payment of 12% for the month.
2. Items may not be redeemed in less than 22 days.
3. Between 30 and 40 days an item may be redeemed with the loan amount and 12% and an 8% penalty.
4. If redemption is not made by the 30 day limit the loan may be renewed at the discretion of the pawnbroker.

As an illustration of practices regarding pawnbroker interest rates in Maryland here is one pawnbroker's claim of interest charges that are lower than other sources available to the non creditworthy individuals:

<https://topdollarpawnbrokers.com/pawn-loans/>

Excerpts from this link:

Need some extra cash to pay some bills or purchase some essential items for the family? Or maybe you have a small business and need a loan to buy some equipment or pay employee salaries? Whatever the reason, personal or business, **Top Dollar Pawn & Jewelry** has you covered. We've been serving the residents of the DC Metropolitan area for over 25 years and have been helping individuals, families and businesses in the area get extra cash to make ends meet.

We've provided loans for as little as \$10.00 to loans exceeding \$10,000. We provide one month loans with options to renew, and anyone over the age of 18 can get a loan on just about anything of value. We offer loans on jewelry, TV's, stereos, bicycles, tools, computers, iPhones, tablets and so much more. Better yet, since your loan is collateral based there is no credit reporting that needs to be done to secure the loan.

Loans over \$2,500 are only 5% per month (60% APR)
Loans between \$1500 - \$2500 are only 10% per month (120% APR)
Loans between \$500 - \$1500 are 15% per month (180% APR)
Loans up to \$500 are 20% per month (240% APR)

LOAN EXAMPLE 1: We recently loaned out on a pair of diamond earrings for \$2,600 cash. The customer walked out the door with money in-hand, on the spot. That customer has one month to pay off the loan. If paid back after one month, they would owe \$2,730. The customer also has the option to simply pay the \$130 which would extend the loan an additional month. The customer would still owe \$2,730 to pick up their loan by the end of the second month. The customer may extend the loan in this manner as many times as needed.

LOAN EXAMPLE 2: We recently loaned out on a gold necklace for \$700 cash. The customer walked out the door with money in-hand, on the spot.

That customer has one month to pay off the loan. If paid back after one month, they would owe \$805. The customer also has the option to simply pay the \$105 which would extend the loan an additional month. The customer would still owe \$805 to pick up their loan by the end of the second month. The customer may extend the loan in this manner as many times as needed.

Why the Pawn Industry and Our Loans Are So Important to the Public:

Lower Debt: Due to the collateral based nature of pawn loaning those seeking loans only borrow what is necessary which keeps their loan debt lower than traditional lending methods.

Lower Fees: Our loan fees are lower than other traditional short-term loans and penalties.

No Damaging Credit Reporting: Since each loan is collateral based there is no need to have to run credit reports which can be harmful to your credit.

A Responsible Option: For those individuals who cannot obtain a loan through traditional lending institutions but need money for diapers, medical bills and other expenses to support their families; pawn loans are a responsible option.

Did you know that pawn loans have competitively low interest rates, typically less than a non-sufficient fund charge on a bounced check or past-due fee on a utility bill? Pawn stores can offer this service because the customer offers their personal property as collateral which significantly reduces the risk to the lender.

Who Are Our Customers?

Did you know that over 80% of our typical pawn customer are employed? That's right. These individuals have jobs but have a quick and urgent need for a loan to help make ends meet. The average age of our customer is 40 years old and approximately 82% have earned a high school diploma or GED, which is the same as our nation's average for high school graduation rates. In addition, one-third of our customers are home owners and even some of them are small business owners.

When it comes to our pawn customers they're just like anyone else. They have jobs, are hard working and are looking for a means to help make ends meet. When you consider the lower debt and fees associated with pawn lending and the lack of risk in damaging your credit; it's no wonder that obtaining a pawn loan is viewed as a responsible option for someone in need of extra money to help make ends meet. If you're interested in a pawn loan or any other services we offer make sure to stop by at any of our locations.

I hope I've convinced the Finance Committee that the submitted bill remedies an oversight in Maryland regulations that places an unfair burden on many Maryland residents.

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