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Pawn shops go upscale for affluent clients

by Russ Wiles - Jul. 14, 2012 03:54 PM The Republic | azcentral.com 8 comments

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Maybe it's the original artwork displayed around the office or the soft lighting, paneled walls, Persian rugs and leather furniture. The receptionist adds to the aura, too. So does the TV screen turned to a financial-news channel.

Whatever the reason, Biltmore Loan and Jewelry feels more like a stock brokerage or private-banking office than a pawn shop.

Still, the Scottsdale company makes loans collateralized on personal belongings. It thus fits the legal definition of a pawn shop and is regulated as one, despite the upscale touch.

"We want to give people a professional option with dignity," said David Goldstein, Biltmore's president and a veteran jewelry retailer. "We're private, quick and discreet."

Pawn-brokering might be associated more with dingy storefronts cluttered with junk and customers desperate to scrape up enough cash for groceries or rent. But the recession, credit crunch and slow economic recovery have hit Americans up and down the socio-economic ladder, and that has created an opportunity to serve a more high-end clientele for firms like Biltmore.

"We're seeing an increase in these kind of stores in Beverly Hills and other affluent neighborhoods," said Emmett Murphy, a spokesman for the National Pawnbrokers Association. "People in all walks of life are in need of short-term credit."

Reality-TV shows such as "Pawn Stars" also have helped to change the image of the industry, which is more euphemistically referred to as collateralized or secured lending. High prices for gold and other precious metals, meanwhile, have brought out more people as borrowers and sellers.

It's not just job losses and paltry yields on savings accounts that have decimated personal incomes, forcing more people to consider short-term financing. Another key factor has been the general reluctance of banks to lend money, while often making the process so onerous and time-consuming that traditional loans don't make sense for small, short-term cash needs.

Even some businesses are turning to pawn transactions to raise money in a pinch.

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James Verbic, a Scottsdale resident who runs a firm that operates ATM machines, said he recently sought a loan from Biltmore for business needs. He turned to Biltmore after getting the runaround from several of the largest banks operating in Arizona. He pledged more than a dozen paintings as collateral.

"I spent six months dealing with banks and five days dealing with (Biltmore)," he said.

Indeed, banks typically aren't equipped to evaluate and make loans on the types of collateral that people bring to pawn stores, including artwork, sports memorabilia, other collectibles, gold coins, jewelry, watches, musical instruments, diamonds, expensive electronic equipment and even firearms.

"We're a Band-Aid to use until the government corrects the banking system," Goldstein said.

Lofty rates

These services don't come cheap, however. Arizona, for instance, allows pawn establishments to charge interest rates of up to 8 percent a month for the first two months and 6 percent monthly thereafter. On a \$100 loan, that works out to \$22 in interest over a three-month period, though borrowers have the option of repaying loans earlier.

Rate ceilings are just the tip of the regulatory iceberg, as pawn operators must deal with many state, local and federal rules -- from the anti-laundering Patriot Act to Internal Revenue Service reporting requirements. Among various regulations, shops must retain collateralized items on the premises and obtain proper identification from customers.

Because of the interest rates charged, the loans are more suitable for borrowings spanning a matter of months but not a year or more, said Irv Friedman, a semi-retired former pawn-store owner who now works part time at Scottsdale Loan Co., another upscale firm.

"Often around tax time, people will get kicked in the tail and need cash," he said, adding that small businesses for various reasons might require short-term help.

Those interest rates also reflect the fact that brokers accept some risk of not being able to sell unclaimed property for a good price when loans aren't repaid. For example, gold and silver have dropped significantly over the past year, so pawn businesses that bought a lot of metal back at the peak have lost money on their inventory. Losses also are possible on artwork, heirlooms, collectibles and more.

"We're shooting craps to a degree," Friedman said.

Nationally, loans typically are small and short-term, averaging \$150 for three months, according to the National Pawnbrokers Association. Individuals who can't repay a debt will lose the items they pledged, though 85 percent of customers pay off the loans and reclaim their assets, the trade group reports.

If inclined, pawn businesses can extend much larger loans worth hundreds of thousands of dollars, or higher. They thus can cater to affluent individuals who find themselves asset rich but cash-flow poor.

"If you have a Monet on your wall and need money, we can help," Goldstein said. "For a lot of people, all they have left is stuff."

If you're thinking of applying for a loan, Murphy suggests shopping around, especially on more valuable items. "There's a lot of competition for high-end loans, and you can negotiate below the interest-rate caps." He also recommends a website, pawnfyndr.com, to locate stores.

Areas of expertise

Pawn shops sometimes specialize in or exclude certain types of assets. An upscale Atlanta firm called Chapes-JPL cites an expertise not just in diamonds, watches and jewelry but also in designer handbags and luggage. Expensive wine collections are another area of expertise, Murphy said.

Goldstein emphasizes diamonds and jewelry, among other items, but he doesn't deal in firearms or guitars. He and various other collateralized lenders also provide auto-title loans on lien-free vehicles. Goldstein calls the strong demand for this type of lending one of the surprises he has noticed since opening Biltmore (www.ifyouownitweloanonit.com) last year.

Although the interest charges can be stiff, there are advantages to working with a pawn establishment. Among them are speed, convenience, privacy and relatively little paperwork. In addition, credit checks aren't required. And if you can't repay a loan, that won't show up as a blotch on your credit history.

"If you default to a bank, your credit is murdered," Goldstein said. "If you default to us, there's no record."

Goldstein describes himself as a provider of liquidity and as a "market maker for products."

He said he doesn't desire to take possession of items through default and often charges interest rates well below Arizona's statutory caps.

"I want people to feel comfortable (with the process) and for it to be private," he said. "I'm not here to take their last thing."

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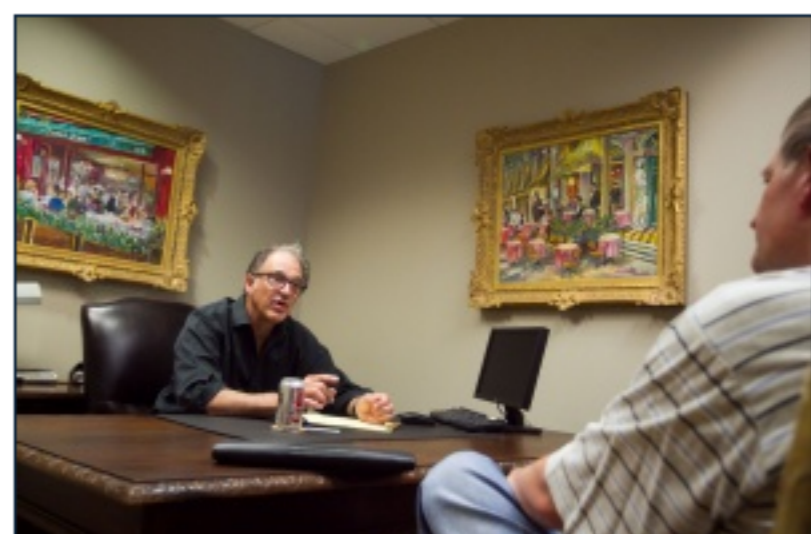
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Owner David Goldstein talks with customer James Verbic at Biltmore Loan and Jewelry in Scottsdale on Thursday, May 17, 2012.

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Pawn pointers

Here are some key things to know about pawn or collateralized lenders, based largely on information from the National Pawnbrokers Association:

**What do pawn stores do?** These companies make collateral loans -- those secured by something of value. Stores also buy personal items, but the focus is on lending.

**How do the loans work?** Customers bring in an asset, and the broker offers a loan based on a percentage of the estimated value. The firm holds the item until the customer repays the loan.

**How much money is offered on loans?** That depends on the retail value of an item, the broker's estimate and other factors. The average loan amount nationally is \$150.

**What interest rates apply?** In Arizona, maximum rates run 8 percent a month for the first two months and 6 percent monthly after that. Loans are written for a minimum of three months.

**What's required to obtain a loan?** Your asset should have obvious value, you might need to provide proof of ownership and you will have to supply proper personal identification. But loans don't require credit checks.

**What happens if a loan isn't repaid?** The broker would keep the item, though 85 percent of loans are repaid with consumers reclaiming their assets, according to the association.

Investing

The pawn industry is highly fragmented, with independent stores representing the vast majority of the estimated 10,000 outlets in the U.S. Only three companies are publicly owned, according to the National Pawnbrokers Association:

- Cash America International (stock ticker CSH).
- EZCorp Inc. (EZPW).
- First Cash Financial Services (FCFS).

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