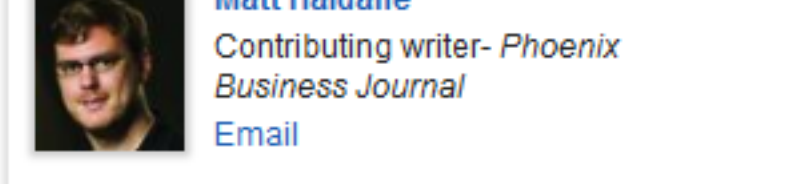


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Sophisticated pawn: High-end collateral loans emerging as business finance alternative

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David Goldstein, founder and president of Biltmore Loan and Jewelry in Scottsdale, discusses an art piece with customer James Verbic.

The dearth of available credit has hit small businesses particularly hard during the downturn, forcing many to find other means of financing or go out of business. Collateral loans have become a popular alternative, and a Scottsdale company is looking to bring it into the mainstream.

David Goldstein started Biltmore Loan and Jewelry when he noticed a niche in the credit industry that he could fill. Goldstein, a diamond retailer, decided to apply his expertise to other high-end items to provide a service for those who need fast cash. His company buys and makes loans on a wide variety of big-ticket items, from precious metal bullion to fine art to classic cars.

"I assure you that you will see this on every corner in the U.S. within the next five years," he said. "I am convinced we are going to be in all major cities."

There's just one snag: Most people don't have these kinds of items on hand — and those who do tend not to let go of them.

"I don't think it will ever have a significant place in the market because people don't want to give up family heirlooms or valuables hanging on the wall," said Rick Murray, CEO of the Arizona Small Business Association.

Murray had not heard of Biltmore Loan before, but he described the business model as limited in scope.

Collateral loans are nothing new to small-business owners, who often put up their homes as collateral, he said.

"A majority of (people's net) worth is tied up in their home," he said.

Goldstein doesn't make loans on houses, but still doesn't see his company as limited.

"I cater to the market of \$3,000 and above," he said.

A number of art pieces now housed at Biltmore Loan belong to James Verbic, who owns a chain of ATMs and needed cash to buy out his partners.

Verbic started collecting art when he was a stockbroker.

"I thought it was going to be something really just to hang on my walls," he said.

Verbic said he visited five pawn shops across the country before discovering Biltmore Loan a few miles from his home.

"I got the loan and solved the problem all in one day," he said.

Justin Hagerty is another customer who was able to use his merchandise as collateral.

He supports himself by purchasing and fixing up cars, but his cash flow limited him to one car at a time. He recently conducted his second transaction at Biltmore Loan, hoping to expand his business.

"I can't increase my volume without it," he said.

Hagerty has been using car titles as collateral, fixing up each one with loaned money, then paying off the loan when he sells the car.

His first loan was for \$7,000, which he used on a classic Ford Mustang. That sold quickly, he said. Now he is using a \$10,000 loan to work on a 1965 Chevy Impala.

Hagerty and Verbic both said they paid about 4 to 5 percent interest per month. That can add up if loans are not paid off quickly, but collateral loans are meant to be short-term, usually 30 to 90 days.

"They're really flexible ... but it is going to cost you," said Verbic, who paid 4 percent on a \$25,000 loan.

This is why people try everything they can before pawning prized possessions.

Often, the alternative is to turn to family members. Verbic borrowed \$25,000 from his mother before going to Biltmore Loan for the second half of what he needed.

Goldstein said he prides himself on his low rates. He said his knowledge and connections around the world allow him to command higher prices on the items he takes in, which in turn allows him to offer higher prices and lower interest rates than the average pawn shop.

"They might have had a good avenue on that," said Stacia Palagi, manager of North Phoenix Pawn and president of the Arizona Pawnbrokers Association.

Palagi suggested that a posh Scottsdale location might bring in a different class of clientele. Since the rise of the History Channel show "Pawn Stars," Palagi said she has seen her business grow as all types, including entire families, come in to check out her shop.

North Phoenix Pawn usually charges 16 percent interest for the first 60 days before imposing the full 22 percent allowed by law, Palagi said. The shop negotiates terms depending on the item, she added.

One pitfall for many pawn shops is that they can't make loans on vehicle titles unless specifically licensed to do so. North Phoenix Pawn must take ownership of the vehicles they make loans on, Palagi said, which would make a business like Hagerty's untenable.

Biltmore Loan is exploring options for the future. Loaning on accounts receivable, or merchandise that already is sold and awaiting payment, might be one option, according to General Manager Marc Israel.

However, questions remain about how scalable the business is in its current form.

It is not the only one in the country trying to cater to the high-end market. Borro, a New York company with a similar business model, recently got some national attention after being covered by CNN Money. If nothing else, there appears to be a market for these kinds of loans in cities with the right population.

"Where would you go if you needed money and you had these things and you were in that kind of situation?" Goldstein asked.

It seems he has provided the local answer to that question: In Arizona, you go to Scottsdale.

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