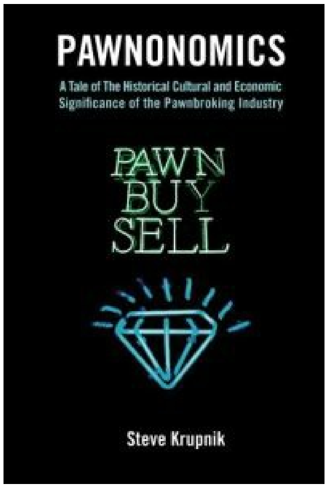

Book Pawnonomics

A Tale of The Historical, Cultural, and Economic Significance of the Pawnbroking Industry

Steve Krupnik
BookSurge, 2009
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Recommendation

Throughout history, people have maligned pawnbrokers. The popular image of a pawnbroker is that of a heartless loan shark. According to 30-year pawnbroker and author Steve Krupnik, society has condemned pawnbrokers unfairly for thousands of years, when in fact they provide a vital service, particularly to the poor, as "lenders of last resort." In his colorful, impassioned – and perhaps not entirely objective – book, Krupnik debunks the criticism leveled at his beloved yet much belittled industry and offers a spirited defense. *BooksInShort* welcomes this iconoclastic, unusual report on an ancient but little-explored facet of economic history and commercial activity, and recommends it to industry insiders, curious outsiders and anyone who might consider pawning an old guitar or Granny's tea set for a quick, helpful, few-questions-asked infusion of cash.

Take-Aways

- Pawnbroking has been an active industry for thousands of years.
- Class prejudice partly accounts for pawnbroking's shoddy reputation.
- Pawnbrokers give their customers better deals than they could get from banks.
- Pawnbrokers give the working poor an immediate way to obtain cash.
- Since pawnbroking provides cash to low-income individuals who can use the money for small business purposes, it promotes capitalism and entrepreneurship.
- Throughout history and in most societies, powerful elites have always tried to limit poor people's access to financial credit.
- In the process, the upper class has belittled and besmirched pawnbrokers, characterizing them as villains preying on the disadvantaged.
- Yet many poor people would not be able to live sustainable lives without pawnshops that serve them in times of need.
- People prefer to use pawnshops for quick loans because they get immediate cash and, if their situation allows, they can redeem their pawned items later.
- An economy where credit is king will always need pawnbrokers.

Summary

The History of "The Second Oldest Profession"

Pawnbroking – the securitization of short-term loans with collateral – has been with humankind since the ancient days of civilization. In Mesopotamia, the Bronze-Age Sumerians (4000 to 1200 B.C.) recorded "collateralized lending transactions" in cuneiform writing on clay tablets. The first written laws, developed by Babylonia's King Hammurabi (1795 to 1750 B.C.), included information about "loans, interest, pledges and guarantees." The Bible's Old Testament states that people routinely submitted collateral for loans.

> "From the simplicity and ease of the transaction to the accommodations made to ensure the discretion of transaction, the pawnbroker industry truly offers the best money you can borrow."

Early Jewish and Christian clerics warned their constituents against usury. They were not allowed to lend money for interest to their co-religionists. But they were allowed to lend money and charge interest to peoples of other faiths. Throughout its long history, the Catholic Church outlawed usury. However, since this greatly restricted its own affairs, the Church routinely developed loopholes. Church leaders circumvented usury prohibitions by referring to interest on loans as "administrative fees" or by turning to Jewish lenders.

> "The need for the services the industry provides can never be replaced and will never be eliminated."

The ancient Romans also used collateral for loans. Sometime between A.D. 382 and 391, a pagan named Quintus Aurelius Symmachus complained to the emperor that Christian clerics were trying to "invalidate [estate] monies," then being used to provide loans to poor "porters and sewage cleaners." This clerical move fits in with a tendency that repeats throughout history: Elites believe that money should always be available to people in their own class. However, they also believe that those who make money available to the "poor and working class," that is, pawnbrokers, are vile degenerates. This mean-spirited attitude continues to the present day.

> "Surprisingly little has changed in the industry over the past several centuries."

During the Middle Ages, the Franciscans were active moneylenders. Pawnshops were prominent in Renaissance Italy. Medici family members were famous pawnbrokers and moneylenders. They set up pawnshops throughout northern Italy's Lombardy region. The Medicis' association with pawnshops was so widespread that the term "Lombard" became synonymous with pawnshops. The "House of Lombard" became a "medieval bank and pawnbroker in England."

> "Pawning priestly vestments and insignificant church accouterments was as commonplace as the poor in England pawning their Sunday church suit on Monday and picking it up on Saturday."

In the East, Japanese monks became pawnbrokers and moneylenders at the end of the 12th century. "Collateralized lending" was a tradition in ancient China and has returned to modern China, though during Mao's rule, the Communist Party controlled all finance, including pawnshops.

Medieval scholars claimed that Europe's pawnbrokers concealed "their usury under the show of trade," but even members of royal families would pawn their finery to secure quick cash for important projects. In the 1490s, Queen Isabella II of Spain was ready to pawn her possessions to finance Christopher Columbus' voyage of discovery. The inscription on one statue commemorating his quest quotes her as saying, "I will assume the undertaking for my Crown of Castile, and am ready to pawn my jewels to defray the expense of it, if the funds in the treasury shall be found to be inadequate." This did not become necessary.

> "The pawn industry doesn't care about your credit score."

During the 18th century, U.S. pawnbrokers, many of them Quakers, also took on the role of shipping agents. A century later, prominent businessmen, including J.P. Morgan and Cornelius Vanderbilt, extended their operations into pawnbroking. When the 1893 financial panic hit, few service agencies were available to help poor people. Often, pawnshops were their only means of getting quick cash. Then, Morgan and other big businessmen went into the pawn business, claiming that their motivation was to provide cheaper interest rates than those charged by existing pawnbrokers. However, their real incentive was purely financial, not charitable. They wanted to compete for the hard-won dollars of the underclass. To win this business, they portrayed traditional pawnbrokers – the "working man's only resource" – as monsters. The Robber Barons should have been more respectful toward pawnbroking. After all, this ancient business represents "the roots of modern banking and the oldest form of consumer credit."

"Pop! Goes the Weasel"

The venerable nursery rhyme *Pop! Goes the Weasel* helps illustrate the influence of pawnbroking on Western culture. In early times, "pop" meant "pawn." The "weasel" stands for "weasel and stoat," which in initial-switching street talk means "coat." Back then, poor people would pawn ("pop") their suits or coats for quick cash. As the rhyme says, "That's the way the money goes. Pop! Goes the weasel."

Modern Times

Banks and financial institutions are always quick to portray pawnbrokers as contemptible bloodsuckers, a characterization that many people believe is accurate. One reason for this opinion is that people value the personal items they pawn more dearly than the typical pawnbroker does. Of course, the borrowers are not responsible for selling the items if they become "dead pawn": that is, if the borrowers don't redeem them. Many times, such items decline in value over time, go out of fashion or become unsaleable. Thus, the pawnbroker assumes substantial risk. But most customers don't think about that. Pawnbrokers do not want to keep their borrowers' collateral for several good reasons:

- **"Market values fluctuate"** – The collateral's value may decline so that it is worth a smaller amount when loan period ends.
- **"The credit business is more lucrative"** – Fees and interest bring higher profits than selling the collateral.
- **"Retail space is expensive"** – Renting the larger amount of space necessary to display and sell collateral that isn't redeemed is more expensive than maintaining the smaller amount of storage room needed to secure items until customers redeem them, if they do.
- **"Buy low, sell high works for stocks, not collateral"** – Most collateral does not go up in value; indeed, quite the opposite. As a result, the pawnbroker has more motivation to hope that customers will pick up their collateral than to sell their items as dead pawn.

The Pawnbroking Premise

Pawnbroking is a straightforward business. Pawnbrokers provide loans based on a "collateral value and finance charge" that indemnifies them against some risk, while "charging a fee the market can bear" – 10% interest per month on "average across varying state interest rates." Basically, pawnbrokers lend cash and people pawn their belongings to guarantee the loans. If the customer does not reclaim the collateral within the loan period (typically "three to six months"), the pawnshop hasn't made a penny (indeed, so far it has lost the cost of storage and the use of its cash) and will not make any money unless it sells the item, so the pawnbroker takes a major risk.

> "Money helps make things happen easier than pretty prose."

This often stands in stark contrast to the way banks and other financial service companies handle loans. All lenders charge interest, but in different ways. In some cases, the lender "shares the risk and rewards of the transaction with the borrower." In other cases, the borrower takes a risk, and part of the risk moves to a third indemnifying party, yet the lender gets an outsized share of the rewards. When lenders are truly at risk of incurring a loss on a loan, they deserve compensation for tendering the loan. That is only just. By this standard, pawnbroker transactions clearly are fair.

> "Sutton and Robertsons in London, which will lend up to one million pounds, has seen a huge rise in professional men and women bringing in diamond rings, watches and other jewelry in return for quick cash."

Look at how credit card companies handle things. They initially offer the "short-term lure" of low interest rates on borrowed money. The consumer's temptation to spend the maximum amount is implicit in the transaction. The credit card company benefits if the borrower falls into "spiraling credit card debt." The terms of the credit available weigh heavily against the borrower. For example, the "minimum payment system" does not fully reveal the true costs of repaying a loan. The card companies can charge extreme interest rates if a payment comes in late. Numerous fees ("late payment" and "over-limit") apply. With pawnbrokers, borrowers know exactly what they are getting into, but not with credit card companies.

> "There are thieving pawnbrokers, just like there are thieves on Wall Street."

Credit card companies make their maximum profits when customers pay only the minimum amounts to discharge their loans. So, if a customer borrows $500 on a credit card at 18% and pays only 3% on the remaining balance each month, it will take a full 74 months – more than six years – to pay off the entire loan. The interest paid during this time will be $298.24. Now compare the same $500 loan from a pawnbroker at 10% interest. If the customer pays the loan off in three months, he or she will have paid $150 in interest. Since pawnshops extend only short-term loans, the customer cannot take numerous years to pay off the loan. A pawn loan is not a "long-term product." The terms – and thus the effects – are clear and easy for the customer to understand. This certainly is not the case with credit card companies.

A Good Deal for Customers

Despite their reputations, pawnshops offer a financial service that is attractive because it has:

- **"No paperwork"** – Banks and other financial institutions insist on mountains of paperwork before they lend anyone a penny. Not pawnshops. With them, no onerous paper trail exists indicating that you borrowed money.
- **"No credit checks"** – The average FICO score is inscrutable. Such credit scoring represents the "ultimate arm-twisting torture device" if you are in financial trouble and your score is down. However, pawnshops are not worried about your credit rating. It simply is not a factor to them.
- **"No credit reporting"** – If you are in trouble financially and secure an additional mainstream loan, the new debt – which lending institutions report immediately to the credit bureaus – can bury you even deeper in a financial hole because your new, larger debt-to-income ratio can hurt your credit rating. It also can provoke other creditors to increase your rates on their loans. With pawnbrokers, you completely bypass this insidious system.
- **Clear terms "upfront with no hidden fees"** – Other lenders, particularly credit cards, can raise their interest rates arbitrarily and often their terms are confusing. In contrast, customers quite easily can understand their transactions with pawnbrokers: Fail to pay the pawnbroker's ticket on time and you lose your merchandise. Nothing could be simpler.
- **"Fast service"** – Pawnbrokers try to get you in and out of their shops quickly, with money in your hand.
- **"Discretion"** – Many people don't want others to know that they must take out quick-money loans and, in many cases, the person they are least interested in informing is their banker. They don't want the banker to worry that their other loans may be at risk.

Pawnshops: More Important Than Ever

Today, people cannot survive without credit. Obviously, the pawnbroking industry does not exist to provide mainstream consumer credit, but it plays a vital role in "short-term, high-interest, high-risk lending." Without this essential service, many poor people, as well as others in temporary need of immediate cash, would be in big trouble. In the current tough economy, with "noncollaterized credit" disappearing, the pawn industry is experiencing major growth. Indeed, because banks and other financial institutions are "slashing credit lines, adjusting interest rates [and] denying formerly qualified customers," pawnshops now play an increasingly important role in supplying essential cash to people who are having financial trouble and need to squeeze by until brighter days arrive.

Risk Takers

Since pawnshops do not get even a penny from their transactions until the collateral is redeemed or sold, they assume a major portion of the loan's risk. In contrast, despite their recent profits, most banks and other lending institutions remain extremely uncomfortable taking on any risks with their loan transactions. Not pawnshops. All they do is lend you money – and hold your merchandise against the hope that you will pay back the loan. If not, maybe they will be able to sell your pawned item – and maybe they won't. Seen in this light, the typical pawnshop is the ultimate risk-taking enterprise.

About the Author

Steve Krupnik, a pawnbroker for three decades, is the founder and past president of the Indiana Pawnbrokers Association and a past board member of the National Pawnbrokers Association. He received that organization's 1999 "Pawnbroker of the Year" award.