

Pawns in the Game

Although critics fault pawnshops for exploiting the vulnerable, they also serve as a source of quick cash for those without other alternatives

Pamela Gizzarelli, the owner of Reliable Jewelry & Loan, one of Rhode Island's oldest pawnshops, doesn't resemble the pawnbroker in Dostoevsky's *Crime and Punishment*. She is not withered, nor does she have "sharp malignant eyes and a sharp little nose." The matriarch of Reliable Jewelry, a family business founded in Olneyville in 1922 and now located at Westminster and Cranston streets, not far from Central High School, is 50ish, animated, and friendly. When I stopped in, Gizzarelli emerged from her office in a tracksuit outfit, seeming more likely to battle for a parking spot at Garden City than haggle over the loan for a hocked guitar. Her nephew, Anthony Flori, Reliable's vice president, a genial fast talker, could be a car salesman or a pizza parlor owner, were it not for the 9mm Glock pistol displayed on his shoulder.

Empire Loan is located a few blocks away, on Broad Street. In addition to its Providence location, Empire has a flagship in Boston, and outlets in Worcester and New Bedford. Like Reliable Jewelry & Loan, Empire Loan is a family business. Although not part of the family, district manager Jeff Keithline, who fits the stereotype of the pawnshop operator even less than the folks at Reliable, has worked in the field for 20 years. A 50-year-old father of three, Keithline's politics are liberal and he's ever willing to spin a theory on American politics, culture, and society. You might call him the thinking man's pawnbroker — he suggested that I Google "Bentham" and "usury" for an article on pawnshops by the 18th-century British philosopher Jeremy Bentham. Empire is only one of Keithline's gigs. An accomplished bass player and songwriter who has played and recorded with Tom Waits and Steppenwolf, he got into the pawn business when a Boston shop hired him in the early '80s because of his expertise in judging the value of guitars and other instruments. The display cases in Empire Loan's windows don't contain watches or rings. Rather, they feature enlarged dictionary definitions of the words "pawn," "loan," and "value."

Most of Rhode Island's 15 pawnshops are in Providence, but there are also stores in Warwick, West Warwick, East Providence, Pawtucket, and Woonsocket. Dan Baldelli, the father of Tampa Devil Rays centerfielder Rocco Baldelli, owns a combination coffee shop-pawnshop-check-cashing outlet in Woonsocket. Pawnshops are typically located in high traffic, low-income areas. You won't find one in Barrington or Wayland Square. Empire Loan is on a busy stretch of Broad Street, in between a liquor store and the Salvation Army, just west of downtown. The nearby businesses (Castillo Appliances, Mekong Seafood, New Asiana Market) indicate the diverse neighborhood. "We reflect the demographics of the neighborhood, and the city of Providence pretty accurately," Keithline says.

A few miles to the north of Empire Loan is Providence Pawn on North Main Street. The store lies a few blocks east of the Bonanza Bus terminal, not far from the Pawtucket-Providence line. This once-thriving commercial district now has its share of deserted storefronts. Providence Pawn's clientele comes not from the comfortable homes of the East Side, but the nearby Camp Street neighborhood, the North End, and Wanskuck. As is the case with most pawnshops, the

end of the month is a busy time for loans at Providence Pawn. When government checks dry up, and the rent and other bills come due, customers come in to pawn their jewelry, power tools, and stereo equipment.

Not everyone who pawns something is poor or hopeless, but pawnshops require a steady stream of people on the economic fringes to stay in business. Because of this, Amanda, a pawnshop patron during her days as a drug addict, takes a dim view of the business. "When I walk by a pawnbroker, I don't see just commerce," she says. "I see someone profiting from broken lives." There are plenty of sad tales associated with pawnshops — stories of family heirlooms pawned for \$50, never claimed, ultimately swallowed, and sold at a tidy profit by the pawnbroker. No one puts a gun to anyone's head, of course, demanding that they pledge their jewelry for a cash loan, but the pawnshop represents commerce at its most raw.

The current trend in the pawnshop industry is creating a clean, well-lit mainstream retail environment — computerized stores with high quality merchandise. Still, pawnshops retain an underworld image of steel cages, darkened rooms, and gnarled men in fingerless gloves, counting greasy wads of bills.

Many people don't understand how a pawnshop works, nor have they ever visited one. A pawn transaction is not complicated — the customer leaves an item of value as security against repayment of a cash loan. For a \$30 loan, I pawned a new (still in the box) Toshiba DVD/VCR at Reliable Jewelry & Loan. Returning with my pawn ticket a month later, I paid \$31.50 to get the thing back. This amount represented the loan principal, plus a five percent monthly interest charge. To extend the loan, I could have paid only the interest, leaving the pawned item to be redeemed at a future date.

Although Reliable's loans range from \$15 to \$10,000, most are between \$30 and \$250, with \$50 representing a fairly typical loan. To get my \$30, however, I had to leave an item worth substantially more than that. My pawned DVD/VCR retails for at least \$100. A pawnshop loan usually represents half or less of the pledged item's resale value. Due to their rapid rate of depreciation, electronic goods tend to fetch particularly low amounts. I could have gotten more money by selling the DVD/VCR outright, rather than pawning it, but then, of course, the item would no longer be mine, and Reliable Jewelry & Loan would have immediately put it up for sale.

A pawnshop must hold an item until the period of the loan expires, and then provide notice if the merchandise remains unclaimed. Like many area pawnbrokers, Reliable Jewelry & Loan places a small advertisement listing expired pawn ticket numbers every month in the "legal notices" section of the Providence Journal. The law satisfied, the store will keep the merchandise for another 60 to 90 days and then try to sell it. At most pawnshops, if a customer returns during this "grace period" after the expiration of the loan, but before the item is put up for sale, they will likely have to pay additional interest, storage, or insurance charges. Most pawnshop pledges are redeemed. As a general industry-wide rule, about two-thirds of loans are repaid.

The usual pawnshop customer is on the economic margins of society. People on unemployment, SSI, and disability, as well as the marginally employed and working poor, are much more likely

to use pawnshops than the middle class. John Caskey, an economics professor at Swarthmore College, and author of *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor* (Russell Sage Foundation, 1994), notes, "People requiring immediate cash loans typically have a history of living from paycheck to paycheck, juggling payments and being late on some." Some pawnshop customers are drawn from the roughly 10 million US households that don't have bank accounts, although having a bank account does not mean that there is money in it, or that a person can obtain a loan. Pawnshop customers usually have bad credit or no credit, and may need immediate money for rent, food, cash-only car repairs, or a night out. There may also be a personal element. "Some people don't like to go to family or friends for money, preferring to keep such loans as business transactions, despite the high financial cost of doing so," Caskey says. He notes that pawnshop customers, in addition to having poor credit and little income, tend to be disproportionately Latino or African-American and have low levels of education.

Security is a major issue in the pawn business. A buzzer typically admits customers through the front door. At Providence Pawn on North Main Street, the guys behind the counter are armed, and for cash transactions, you slide your ticket through the window of a separate bulletproof booth within the store. At Reliable, two of the most prominent things are the gun on Flori's shoulder and the video monitor in Gizzarelli's office. At Empire, the workers handling the cash sit, like bank tellers, behind a protective glass wall (and as in many banks, the workers are exclusively female). This level of security is not surprising given how pawnshops must keep a substantial amount of cash on the premises. Furthermore, their inventory is generally portable and easy to resell. Perhaps because of this level of security, the shops report few incidents. Flori says he has never had to draw his gun. "There are problems in the neighborhood," he says, "but nothing within these doors, and not with our customers."

The pawnbrokers with whom I spoke were adamant that they don't deal in stolen merchandise. They concur that this isn't just a matter of honesty — it doesn't make good business sense to have hot items. Gizzarelli is particularly peeved at the perception that pawnbrokers sit in cages, trafficking in stolen goods. She says she wouldn't be able to stay in business if this was so. If the merchandise was recovered, "The thief wouldn't pay us, and the owner sure wouldn't, so we'd be out." Pawnshops require that customers be at least 18 and have proper ID to pawn or sell something. In obtaining my loan at Reliable Jewelry, I had to produce my driver's license (whose number was recorded) and make a thumbprint. Pawnshops keep a record of all transactions and report these to law enforcement. Alex Martinez, manager of Providence Pawn on North Main Street, says he has a good relationship with the police, occasionally getting calls asking him to be on the lookout for watches, TVs, or tools recently reported stolen.

Unlike banks, pawnshops make not only loans, but also sales. Their inventory comes from unredeemed pledges and merchandise bought outright from customers. Pawnbrokers track the daily price of silver and gold and are aware of the going rate for everything from diamond rings to saxophones. They are not interested in items of purely sentimental value, but if an item can be sold to a customer, most pawnshops will pay something for it.

Providence Pawn has a good selection of jewelry (the staple of any pawnbroker) as well as TVs, musical instruments, power tools, and bargain priced CDs, DVDs, and VHS tapes. The story is the same over at Reliable Jewelry & Loan, although Gizzarelli and Flori will take on such

esoteric items as Hummel figurines. Reliable keeps a full bookcase of price guides to properly gauge the value of antique silverware, classic baseball cards, and a variety of other stuff. In addition to its Westminster Street store, Reliable rents a space at the Taunton Antique Center to sell collectibles and vintage items. The advent of eBay has proved a boon to the pawnshop owner. Alex Martinez, manager of Providence Pawn, lists much of his store's inventory online, and he says this has become common in the business.

Empire Loan, which also serves as a Western Union agent, is a slightly different operation than Providence Pawn and Reliable Jewelry & Loan. While these stores are glad to add to their stock of merchandise (at the right price, of course), Empire's inventory is composed chiefly of jewelry, and the store rarely buy miscellaneous items. Empire also goes to some lengths to get pawners to redeem their pledges, notifying customers by certified mail when the term of their loan has expired. "'We want your money, not your stuff,' is the motto around here," says Empire Loan's Jeff Keithline. Because Empire deals principally in jewelry, and actively encourage borrowers to return, more than 90 percent of the store's pledges are redeemed.

In addition to regular borrowers and sellers, pawnshops have regular buyers, people who come in every few days looking for deals on everything from electric guitars to DVDs. There are some decent bargains to be had in pawnshops, but no real steals; pawnbrokers are shrewd judges of value, after all. Keithline says buyers and sellers sometimes overlap — a number of the people who have purchased items at Empire have also been pawners. Ideally, he says, "I want them to use our business to get through a rough patch, so that they can come back and buy something." Not everyone is so sanguine, though, about pawnbrokers' inventories or the ethics of the trade. Amanda, the former drug addict who used to frequent pawnshops in times of desperation, says, "The item you see for sale is probably the last thing of value that someone owned; that's why they pawned it. They got only a fraction of what it's worth, and if they're in bad shape, they won't come back, and will never see it again."

Simple economic necessity brings people into pawnshops for a loan. Keithline notes that a number of his customers are single female heads of households. "These are people on the frontline, trying to help their families, and they're not in a position where they can pick up the phone and call their parents when they need financial help," he says. Maria, a woman of about 50, is a regular customer at Empire Loan. On average, she comes in once a week to pawn jewelry. At any given time, she or her husband may need quick money for car repairs or other reasons. Maria has five children, the oldest being 32, the youngest 14. While she is hardly affluent, she is by no means down and out. The pawnshop functions for her more like an ATM than a last gasp shot for a few dollars. She sometimes redeems her pledge in as little as a few days, and is then back a short time later with something else to pawn. "Always the same jewelry, back and forth" she says.

Maria is typical in that she is a regular. Most pawnshop customers are repeat visitors: they've pawned before and will pawn again, regardless of whether previous items have been redeemed. The clients are thus somewhat stable in their instability. There are, of course, people who are completely desperate — addicts, drunks, transients, and various others. While pawnshops can make a quick buck by selling unredeemed pledges, their bread and butter is the habitual customer

who keeps returning to pay interest, redeem loans, and pawn additional items. Some regulars come in year after year to pay the interest on a pawned item.

Not everyone who pawns stuff is struggling to get by, and not all loans are for small amounts. Reliable Jewelry & Loan makes loans against pledges of such big-ticket items as motorcycles and Jet Skis. A customer might come in after boating season, pawn an outboard motor, and then return to pick it up in the spring. Particularly for people with limited storage space or poor security, leaving an item with a pawnbroker may make sense beyond the immediate amount received as a loan. Reliable also occasionally writes pawn tickets for Realtors and car dealers who, on their way to an auction, might drop off a Rolex to have more cash. "Sit here long enough and you'll see not only a homeless guy, but someone get out of a Mercedes as well," says Reliable Jewelry's Anthony Flori. Empire's Keithline notes that while many pawnshop customers are low-income, it's not unheard of for a middle-class person who has suffered a job loss, or some other financial setback, to come in and pledge some diamonds to pay the private school tuition.

Unlike their cousins in the instant-cash business, payday loan, and check-cashing operations, pawnshops have a long history. Pawnbrokers existed in China as many as 3000 years ago, as well as in ancient Greece and Rome. References to securing loans with personal property can also be found in the Old Testament. As a formal institution, pawnbroking dates to 1198, when the Bavarian town of Freising established a municipal bank that loaned money against pledges. The use of the three pawn balls — the universal symbol of the pawnbroker — first came into common use in 18th-century Britain. The three balls apparently derive from the 15th-century Medici, the dominant banking family of the time, whose coat of arms featured three blue discs. The Lombard goldsmiths, the first major British moneylenders, popularized the symbol in England.

Pawnshops found their way to these shores before the advent of American independence. In the United States, the private pawnbroker has been the norm, but there is a long tradition of public pawnbrokers and charitable church-sponsored pawnshops. Although more common in Europe, public "remedial loan societies" have also been found in the US. The most notable is the Provident Loan Society of New York, a not-for-profit organization founded in 1893 by a number of New York City financiers and business leaders, including Cornelius Vanderbilt and J.P. Morgan. It still operates, serving 100,000 customers annually, accepting diamond and gold jewelry to guarantee loans.

While there are pawnbrokers throughout the US, the South and the Central Mountain states generally have more pawnshops per capita than the Northeast. According to Swarthmore's John Caskey, this variation is primarily due to variances in pawnshop regulations. Some states, for example, have very high ceilings on pawnshop interest rates, and this, naturally, is a boon to owners and leads more people into the business. According to Rhode Island law, the maximum allowable monthly interest rate that a pawnshop can charge is five percent. This is low compared to many states, some of which allow rates of 20 percent per month, not including various additional fees, penalties, and charges. Alabama, with a little more than four times Rhode Island's population, is host to nearly 450 pawnshops, 30 times the number in the Ocean State.

If there is one thread that unites Providence pawnbrokers Pamela Gizzarelli, Jeff Keithline, and Alex Martinez, it is the feeling that the pawnshop business has been unfairly maligned. All three regard the pawnbroker as provider of a legitimate service — instant cash loans — rather than as a predatory or exploitative enterprise. The National Pawnbrokers Association (NPA), not surprisingly, takes the same view. The Dallas-based NPA holds a yearly convention, has a legal defense fund, and publishes *National Pawnbroker* magazine, among other activities. The Web site (www.nationalpawnbrokers.org) features the current price of silver and gold, and offers a number of items for sale — including books, videos (the titles include *Diamond Essentials* and *Motivating Your Staff*), golf shirts, and CJ Bear, a stuffed animal named after one of the organization's founders.

Having talked to several pawnbrokers, I can say that none of them appeared miserly, greedy, or wicked. Nor do they see themselves as exploiters of society's most vulnerable. They may not be bad as individuals, but is the pawnshop business inherently unethical? Most pawnshop loans are for 90 days. Pawn a gold watch for \$50 and it will cost \$57.50 to get it back three months later. This doesn't seem so bad until you realize that the interest rate on the loan amounts annually to 60 percent (this assumes the pawner returns when the loan is due). If not, there will be additional interest, storage, or insurance charges before the merchandise can be redeemed. Pawn loans go unpaid about a third of the time, allowing a pawnshop to keep a pledged item. This is bad news for the borrower, as the replacement cost of the pawned ring, guitar, or belt sander will be several times the amount of cash they received as a loan.

The economics of the business don't favor the pawner, and they have little leverage in negotiating with the pawnbroker. Furthermore, customers tend to be much less financially sophisticated than pawnshop owners. Many do not understand how high the interest rates really are, and instead of focusing on the terms of repaying the loan, they usually look almost exclusively at the amount of cash they will receive for their goods.

But what's the alternative? Jeff Keithline puts it like this: "Okay, it costs someone \$15 to borrow a \$100 for three months, but is that worse than them just selling their stuff to whoever will take it?" Most middle-class people are borrowing all the time with their various credit cards, even if only for convenience's sake. But what if someone can't obtain a credit card without putting down a cash reserve, or has defaulted on their payments? Furthermore, credit cards can't be used for such things as rent, off-the-books services, or to satisfy a personal debt. The pawnshop is the natural outlet for the person who needs money in a hurry and can't get it elsewhere. "We're here for people who need us the most," says Alex Martinez of Providence Pawn. "Where are you going to go when you need a loan or you want to sell something right away?"

Pawnshops exist because banks don't make loans to people with bad credit or no credit, or to those with few assets or guarantees of future income. The idea of a person on welfare or unemployment — or even one working in a low-wage job — walking into the Citizens Bank branch across the street from Reliable Jewelry & Loan, and seeking a \$250 loan to make the rent or fix a transmission is fairly ridiculous.

Ellen Frank, senior economic analyst at the Poverty Institute at Rhode Island College, notes that changes in banking regulation have resulted in ever-larger financial institutions and the rapid

decline of community-based banks. Many of these institutions were established, with significant government support, to help those of moderate income participate more fully in the economy. According to Frank, however, "In the 1980s, a lot of low-income people lost their banks, and check-cashing and payday loan outlets filled the breach." These operations, like pawnshops, serve as fringe banks — providing some of the services of traditional banks, but charging heavily to do so, finding their customers in those shut out of the world of mainstream financial institutions.

Jeff Keithline notes that there is no such thing as bad credit in the pawn business. The pawned item is the security, and if the loan is not repaid, the pawner remains welcome to come back and put up something else to guarantee their next loan. It might be harsh, but the pawner knows what they are facing.

This is somewhat different from credit card companies that aggressively hawk cards with low introductory rates, and then raise these after six months to annual rates of 20 percent or more. Or furniture stores that proclaim no money down, no payments for 12 months, and so on, and then, at the first late payment, hit the purchaser with an avalanche of finance charges and late fees. Pawnshops seek your business with the flashing neon sign and the three balls logo, but credit card companies are much more aggressive, enticing customers to borrow with direct mail campaigns that promise all kinds of goodies. Extricating yourself from the balance on a passel of department store and bank credit cards is not like walking away from the pawned guitar or Cartier watch. Personal bankruptcy remains on someone's credit record for seven years, and once you have bad credit, the interest rates for a car loan or mortgage are murderous.

In many ways, the person who pawns their gold ring or big-screen TV is a throwback. They are backing a loan with collateral. The middle-class person does no such thing — they finance the vacation, holiday spending, or new living room set with plastic, on the expectation they will earn the money to repay the amount borrowed. Not nearly everyone does, as the record current rate of personal bankruptcies attests. As Keithline puts it, "Everyone spends more than they make — the people of modest means are no different than the middle class." For people at the low end of the economic spectrum, the difference is that the pawnshop may be the only [legal] avenue to obtain the \$150 needed to pay the rent. "This is the whole American thing right here" Keithline says, spreading his arms to indicate Empire Loan and the city surrounding it.

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