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Online pawning clicks with consumers

New pawning websites target middle- to high-end customers for quick cash at high interest rates

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By Erin Chan Ding, Special to Tribune Newspapers

August 17, 2012

Joanne Forde-Bennet needed a couple of thousand dollars.

She moved six months ago to the Rocky Mountains from the New York City metro area, because she had found a job after being unemployed for three years.

But that meant being away from her three kids, who range in age from 8 to 15. She hadn't seen them in five weeks, and on top of that, the tuition bill for her master's degree studies in human resources management had come due.

Though Forde-Bennet did not have copious amounts of cash available, she did have a necklace and rings. And she had access to the Internet.

So she pawned her jewelry online, using some \$1,800 she received on two separate loans to buy a plane ticket to see her kids and to pay for her education.

It was the first time she had pawned anything online, and she said that despite an interest rate on her loan of about 6 percent each month, she felt it was necessary to proceed with the loan.

"I would say that if you wanted this money to go to Nordstrom to go buy Manolo Blahnik (shoes) or a Prada bag, to hell with it, but my education is priceless and seeing my kids is worth every penny in the world," said Forde-Bennet, who used a website called Pawngo. "For what I used the funds for, I considered it to be important and beneficial to me in many, many ways."

Reality shows like "Pawn Stars" on The History Channel and "Hardcore Pawn" on truTV have raised the profile of the ancient business of pawning, which dates back 3,000 years, but they often focus on the idiosyncratic things that pawnbrokers purchase from customers. In the last year or so online sites like Pawngo and Pawntique have arisen, centering on the lending side

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of the business and targeting middle-class and even affluent customers.

The rise of online pawning has made the practice more appealing to people who need cash immediately but prefer the discreet nature of a few clicks on the Internet to the potential embarrassment of being discovered inside of a brick-and-mortar pawnshop. Online pawning also appeals to men and women who are accustomed to making online purchases and have the luxury goods to put up as collateral for a few thousand dollars in loans, but because of circumstances like a short sale or foreclosure that has battered their credit, feel they would be unable to secure a loan any other way.

Todd Hills, CEO and founder of Colorado-based Pawngo, who owned about 30 brick-and-mortar pawn stores for more than two decades before selling them and starting his online business, said the demographic of online pawn users creates "a completely different culture" from the environment in retail shops.

"They're not there just to get some gas money for the week until the next paycheck," Hills said. "Our customers, you know, they're borrowing money to kind of get through an unexpected life situation. You know, something that came up that is out of the budget and is usually a pretty decent-sized problem."

Robert Thomas describes himself as "very upper-class" but said his credit had been hammered after he was forced to short sell a house for \$720,000 after purchasing it for \$1.5 million. A few months ago, he found himself in need of cash to help his daughter replace the engine of her car.

After several days of Internet research, a series of phone calls and a provisional offer from Pawngo, Thomas sent the company his Rolex watch as collateral. Within a day, Thomas said, Pawngo had appraised the watch and wired him a \$4,300 loan.

"I think everybody hates to find themselves a little short on cash once in a while," said Thomas, a California resident. "I was trying to be somewhat discreet, and I thought, 'Why not? Why don't I just check it out?'"

Thomas said that because he paid a part of the principal down early on his six-month loan, he expects to get his watch back after parting with about \$300 to \$400 in interest. Now that he's done it, he said, he feels a lot more comfortable with the process.

Hills, of Pawngo, as well as Thomas Persing, managing partner at Pawntique, say the assets of their customers are insured from the time they put them into a Fedex box to the time they are returned.

Hills said Pawngo charges a monthly 3 to 6 percent interest rate on three- to six-month loans while Persing said Pawntique charges monthly 4 to 8 percent interest rates on what are typically three-month loans.

Both companies say they have experienced rapid growth. Hills said Pawngo, which began in June 2011, is on track for revenues of \$8 million this year, compared with \$1.2 million last year. He added that the company receives 2,000 loan requests per week.

Persing said that in the second quarter of 2012, Pawntique, which began doing business in September 2011, made 27 small business loans totaling close to \$400,000 compared with eight loans totaling \$120,000 in the fourth quarter of 2011.

Pawntique's consumer loans, he added, more than doubled in that same period, from about \$50,000 to more than \$125,000.

Still, some financial experts advise approaching online pawning sites with caution or not using them at all.

"My concern, from a consumer protection point of view, is that this kind of business perpetuates, rather than corrects, the conditions that might lead a person to this kind of last-resort lending," said Eleanor Blayney, a certified financial planner and president of Directions for Women, which educates women in the management of personal finances.

She analogized pawning to "helping" an alcoholic stave off withdrawal symptoms by offering him or her another drink, saying that "people who would be interested in online pawning are those who have not managed their finances, be it from bad financial behavior or hard economic times. Getting money at a 72 percent annual rate is not in any way going to help them get out of their financial problems, in my opinion."

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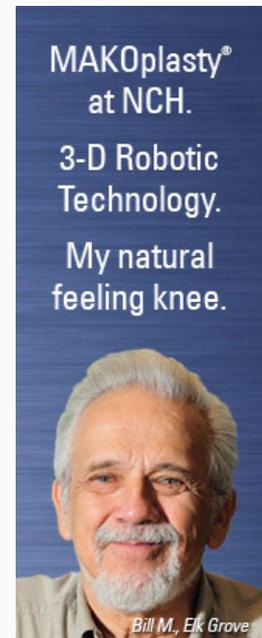
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Persing said he emphasizes that Pawntique is a short-term solution "and should not be considered a long-term lending solution to anybody.

"If you can get a loan from the bank, obviously the interest rate will be much less. I will tell customers, 'Don't look at us for a year. That's asinine.'"

How online pawning works

You contact an online pawning site by phone or through the website. You describe the item or items you wish to pawn for a loan. In general, your item should be worth at least twice the loan amount you would like. The online pawn site will request photos of the item and will make a provisional offer. The pawn site sends a shipping label so you can send the item or items. Once received, the pawn site's staff will appraise the item. The site will then wire the money to your bank account or mail a check for the amount of the loan. Once the loan and the interest have been paid off, the site will return the item. If you default on the loan, the site will keep the item.

Advantages: Quick turnaround time — money is usually received within 24 to 48 hours. Usually no credit checks. Convenient because it can be done at home.

Disadvantages: Interest is charged monthly and can climb very high. A 6 percent monthly interest rate, for example, works out to 72 percent a year.

Tips: Do a lot of research. Read reviews. Make a lot of phone calls to ensure you know exactly how the online pawn site works. Make sure the site you use has insurance that will cover your item during shipping and during the entire time it is in the company's possession. Draw out a timeline to ensure that you will have a means to pay back the loan and interest.

Also: Check out the site with organizations like the Better Business Bureau and review consumer protection alerts on government sites like ftc.gov, usa.gov and fbi.gov. Try to determine if you are eligible for other means of financing, like a bank loan or a home equity line of credit. Certified financial planner Eleanor Blayney recommends checking out the National Foundation for Credit Counseling at nfcc.org for reasonably priced advice.

— Erin Chan Ding

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