CLEARFIELD CITY COUNCIL
AGENDA AND SUMMARY REPORT
February 23, 2016 – POLICY SESSION

Meetings of the City Council of Clearfield City may be conducted via electronic means pursuant to Utah Code Ann. § 52-4-207 as amended. In such circumstances, contact will be established and maintained via electronic means and the meetings will be conducted pursuant to the Electronic Meetings Policy established by the City Council for electronic meetings.

Executive Conference Room
55 South State Street
Third Floor
Clearfield, Utah

6:00 P.M. WORK SESSION

Discussion on General Plan Amendments
Discussion on Weber Basin Water Overage
Discussion on the Public Works Phase 2 Architectural Design Project
Discussion on the SR193 Water Leak

(Any items not fully addressed prior to the Policy Session will be addressed in a Work Session immediately following the Policy Session)

City Council Chambers
55 South State Street
Third Floor
Clearfield, Utah

7:00 P.M. POLICY SESSION

CALL TO ORDER:	Mayor Shepherd
OPENING CEREMONY:	Councilmember Phipps
APPROVAL OF MINUTES:	January 26, 2016 – Work Session
	February 9, 2016 – Policy Session

PUBLIC HEARINGS:

1. PUBLIC HEARING TO RECEIVE COMMENT FOR THE PROPOSED ZONING TEXT AMENDMENT TO TITLE 11, CHAPTER 13 – PAWN AND SECONDHAND ESTABLISHMENTS

   BACKGROUND: The Planning Commission has recommended approval of a Zoning Text Amendment which would regulate the proximity of pawn or secondhand businesses to other such businesses (at least one mile) and to non-depository lending establishments (at least 880 feet).

   RECOMMENDATION: Receive public comment.

SCHEDULED ITEMS:

2. CITIZEN COMMENTS

3. CONSIDER APPROVAL OF AND CONSENT TO THE MAYOR'S PROPOSED APPOINTMENT OF ALICIA CLARK AS AN ALTERNATE MEMBER TO THE CITY'S PARKS AND RECREATION COMMISSION

BACKGROUND: The Parks and Recreation Commission amended its bylaws to allow for an alternate member on the Commission to ensure a quorum at its meetings. Residents were recently asked to submit letters of interest and interviews were conducted by the City Council during the work session on Tuesday, January 19, 2016.

RECOMMENDATION: Approve and consent to the Mayor's appointment of Alicia Clark as an Alternate Member to the Parks and Recreation Commission and authorize the Mayor's signature to any necessary documents.

4. CONSIDER APPROVAL OF THE FINAL SUBDIVISION PLAT FOR THE ANITA WHITE SUBDIVISION LOCATED AT 591 SOUTH STATE STREET (TIN: 12-003-0037)

BACKGROUND: Anita White has requested a two lot subdivision located at 591 South State Street (TIN: 12-003-0037). The property is approximately 0.658 acres and is zoned C-2 (Commercial). The parcel currently has two uses on the property with three buildings. A commercial building is located on the southern portion closest to the intersection of State Street and 500 East. The northern portion of the property is occupied with Ms. White's home and garage. The subdivision will create two lots to separate the commercial use from the residential use. The Planning Commission recommended approval of the final subdivision plat during its meeting on Wednesday, February 3, 2016.

RECOMMENDATION: Approve the Final Subdivision Plat for the Anita White Subdivision located at 591 South State Street (TIN: 12-003-0037) and authorize the Mayor's signature to any necessary documents.

5. CONSIDER APPROVAL OF ORDINANCE 2016-02 AUTHORIZING THE PROPOSED ZONING TEXT AMENDMENT TO TITLE 11, CHAPTER 13 – PAWN AND SECONDHAND ESTABLISHMENTS

RECOMMENDATION: Approve Ordinance 2016-02 authorizing the proposed Zoning Text Amendment to Title 11, Chapter 13 – Pawn and Secondhand Establishments and authorize the Mayor's signature to any necessary documents.

6. CONSIDER APPROVAL OF A PERFORMANCE CONTRACT WITH ALEX BOYÉ FOR THE 2016 FOURTH OF JULY CELEBRATION

BACKGROUND: Alex Boyé has been selected as the musical act for this year's Fourth of July Celebration at Fisher Park. This contract sets forth the terms and conditions of his performance.

RECOMMENDATION: Approve the performance contract with Alex Boyé for the 2016 Fourth of July celebration, and authorize the Mayor's signature to any necessary documents.

7. CONSIDER APPROVAL OF RESOLUTION 2016R-06 AUTHORIZING AN INTERLOCAL AGREEMENT FOR UTILITY SERVICES AT LAYTON FARMS STORAGE

BACKGROUND: Layton Farms Storage is located at approximately 1500 North 2200 West in Layton, on the eastern boundary of Clearfield City. The property is approximately 8.02 acres in size and is adjacent to a C-2 (Commercial) zoning district, and R-1-8 and R-1-0 (Residential) zoning districts. Clearfield City has received a request to provide culinary water to this property until such time as Layton City's water system can provide the service. This requires execution of an agreement between Clearfield City, Layton City and the developer.

RECOMMENDATION: Approve Resolution 2016R-06 authorizing an Interlocal Agreement for utility services at Layton Farms Storage and authorize the Mayor's signature to any necessary documents.

8. CONSIDER APPROVAL OF RESOLUTION 2016R-07 EXPRESSING SUPPORT OF LEGISLATION TO TAX AND REGULATE ELECTRONIC CIGARETTES

BACKGROUND: SAEV (Students Against Electronic Vaping) Coalition shared a visual presentation during the City Council meeting on Tuesday, February 9, 2016, which provided information regarding electronic cigarettes and vaping specific to youth. The Coalition announced legislation defining the products as a tobacco product and allowing it to be taxed and regulated as such was being sponsored by Representative Paul Ray during the current legislative session. SAEV has requested support for the legislation from the Council.

RECOMMENDATION: Approve Resolution 2016R-07 expressing support of legislation to tax and regulate electronic cigarettes and authorize the Mayor's signature to any necessary documentation.

COMMUNICATION ITEMS:

Mayor's Report
City Councils' Reports
City Manager's Report
Staffs' Reports

*****COUNCIL MEETING ADJOURN*****

Dated this 18th day of February, 2016.

/s/Nancy R. Dean, City Recorder

The City of Clearfield, in accordance with the 'Americans with Disabilities Act' provides accommodations and auxiliary communicative aids and services for all those citizens needing assistance. Persons requesting these accommodations for City sponsored public meetings, service programs or events should call Nancy Dean at 525-2714, giving her 48-hour notice.

CLEARFIELD CITY COUNCIL MEETING MINUTES
6:00 P.M. WORK SESSION
January 26, 2016

PRESIDING:	Mark Shepherd	Mayor
PRESENT:	Keri Benson	Councilmember
	Kent Bush	Councilmember
	Nike Peterson	Councilmember
	Vern Phipps	Councilmember
	Bruce Young	Councilmember
STAFF PRESENT:	Adam Lenhard	City Manager
	JJ Allen	Assistant City Manager
	Stuart Williams	City Attorney
	Scott Hodge	Public Works Director
	Greg Krusi	Police Chief
	Eric Howes	Community Services Director
	Summer Palmer	Administrative Services Director
	Rich Knapp	Finance Manager
	Stacy Millgate	CDBG Coordinator
	Nancy Dean	City Recorder
	Kim Read	Deputy City Recorder

VISITORS: Kathryn Murray, Nathan Wimmer.

Mayor Shepherd called the meeting to order at 6:07 p.m.

PARKS AND RECREATION COMMISSION INTERVIEW

The Council interviewed Nathan Wimmer for consideration to fill one of the vacancies on the Parks and Recreation Commission.

DISCUSSION ON CDBG PROGRAMMING

Stacy Millgate, CDBG Coordinator, distributed a handout reflecting the estimated funding allocation the City would receive and possible programming of funds. It also reflected suggested projects for consideration by the Council and she reviewed it with the Council pointing out the following:

- The three public service agencies requesting funding were
    - Family Connection Center
    - Davis Community Learning Center
    - Safe Harbor
- These were estimated figures specific for funding because HUD had not actually approved the amount for the funding yet.
- Funds had been designated for administering the CDBG program.

Ms. Millgate reported there would be an anticipated remaining balance of approximately $153,616 which would need to be allocated for programming and requested direction from the Council. She reminded the Council in the past the balance of the funding had been designated for an infrastructure project in a low income area. She referred to the handout which had some new projects suggested by staff and reviewed those with the Council:

- Purchase a building lot for a newly constructed home.
- Provide Emergency Home Repairs, partnering with Davis County.
- Provide a Housing Rehab Program.

Adam Lenhard, City Manager, explained an Emergency Home Repair program was currently administered by Davis County and if a Clearfield resident was to call and request those services they would be denied. He continued in order to avoid that circumstance the City would need to partner and contribute to the program. He expressed his opinion the administrative cost of ten percent would be worth the expense. A discussion took place regarding if a cap was in place and what discretion or criteria was used to determine the worthiness of the request. Ms. Millgate mentioned the City could put restrictions in place and the County would administer the program accordingly.

Mayor Shepherd stated he would like to see the City implement a Housing Rehab program which would improve the look and marketability of houses in Clearfield. He explained the program could be implemented similarly to the Down Payment Assistance Program in that the homeowner would have to obligate matching funds. He continued there would also need to be a residency requirement for a designated time frame after improvements were made. A discussion took place regarding what types of improvements would be allowed and what improvements would best benefit the house.

Councilmember Young mentioned he had previous experience in working with a home weatherization/repair service. He explained an audit would take place once a request for service was received to determine the return of the investment. He continued the audit ensured the requested service was the most efficient use of funds and shared a specific example in which a request was made for window replacement but insulation was of greater need.

Councilmember Peterson expressed concern whether the City had enough time to establish and implement a new program but added there was value in the City partnering with Davis County allowing them to administer the Emergency Home Repair program.

JJ Allen, Assistant City Manager, pointed out the proposed program was similar in nature to the Facade and Site Improvement offered to commercial properties on North Main last year. He mentioned West Valley City had a similar program and the City could pattern after it. Councilmember Young reminded the Council the Facade and Site Improvement program had an application time frame and each request had been rated to determine the amount of grant funding the recipient would receive and whether or not the City would want to do that with the proposed new program. Mayor Shepherd believed the City would want something like that and indicated the City would have to communicate specifics with the County.

DRAFT

Councilmember Young inquired whether the City could specify it would only be willing to complete aesthetic improvements with CDBG funds. Ms. Millgate responded those types of improvements could be done in conjunction with other improvements/repairs, such as insulation or windows.

Councilmember Peterson expressed concern about how far the funds could go or how many residents would benefit if requests for windows or driveways were allowed.

Councilmember Young expressed concern about how many low or moderate income residents had the resources for their portion of the grant match. Mr. Allen suggested the City could target a specific area/neighborhood within the City.

Mayor Shepherd explained how CDBG funds could be used to purchase a building lot for a newly constructed home and partner with a charity to construct a home for a low-income family and shared Layton City's example of a similar program.

Mr. Allen clarified the question was whether the Council desired to fund an infrastructure project with the remaining balance of funds or if it desired to implement new programming. He pointed out if the Council chose not to fund the infrastructure project, funding for that project would have to be recognized from another source. Mr. Lenhard commented there were numerous projects within the City which could be completed with CDBG funds and emphasized the infrastructure projects completed in the past had positively contributed to the neighborhoods.

Councilmember Young expressed his opinion CDBG funding made infrastructure projects more costly to complete and stated it was his desire to approve projects which would have a direct impact on neighborhoods. Councilmember Benson liked the idea of focusing on neighborhood improvements. Councilmember Phipps was supportive of all three proposed new projects and suggested a balance of all three would be beneficial.

Ms. Millgate requested specific direction on how to divide the remaining balance of $153,616 and a discussion took place. Mayor Shepherd requested Ms. Millgate assemble some specific numbers for each program based on the discussion and present that to the Council at a later date.

DISCUSSION ON APPOINTMENTS TO THE PARKS AND RECREATION COMMISSION

Nancy Dean reminded the Council it had previously interviewed Alicia Clark, Thomas Mayer and Connie Dooley for consideration to the Parks and Recreation Commission and a discussion took place.

Eric Howes, Community Services Director, explained the Parks and Recreation Commission had determined at its last meeting it would be in the best interest of the Commission to add an alternate position; however, doing so would require amending its bylaws. He continued if the Council was in agreement with the proposal, three appointments could be made to fill the current vacancies during the upcoming policy session and then when the bylaws were amended, an appointment could be made for the alternate position. The Council discussed the candidates and possible appointments to the Commission.

The Council expressed agreement for amending the bylaws to include an alternate position to ensure a quorum would be in attendance at all meetings. Mr. Howes commented the amendment would be a solution regarding absences of Commission members and pointed out since there were four candidates, the Council would only need to determine whom it would like to appoint to the alternate position.

Mayor Shepherd announced he would be recommending the appointment of Thomas Mayer, Nathan Wimmer and Connie Dooley as members of the Parks & Recreation Commission during the policy session and Alicia Clark as an alternate member to be appointed once the bylaws were amended.

The meeting adjourned at 6:58 p.m.

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CLEARFIELD CITY COUNCIL MEETING MINUTES
7:00 P.M. POLICY SESSION
February 9, 2016

PRESIDING:	Kent Bush	Mayor Pro Tem
PRESENT:	Keri Benson	Councilmember
	Nike Peterson	Councilmember
	Vern Phipps	Councilmember
	Bruce Young	Councilmember
EXCUSED:	Mark Shepherd	Mayor
STAFF PRESENT:	Adam Lenhard	City Manager
	JJ Allen	Assistant City Manager
	Stuart Williams	City Attorney
	Scott Hodge	Public Works Director
	Greg Krusi	Police Chief
	Spencer Brimley	Development Services Manager
	Eric Howes	Community Services Director
	Curtis Dickson	Community Services Deputy Dir.
	Summer Palmer	Administrative Services Director
	Rich Knapp	Finance Manager
	Nancy Dean	City Recorder
	Kim Read	Deputy City Recorder

VISITORS: Carson Robb – SAEV, Clint Bisbee – SAEV, Connie Kearl, Bob Bercher, Juliane Berglund - SAEV, Cade Hyde – SAEV, Boy Scout Troop 156, McGyver Clark – SAEV, Boy Scout Troop 151

Mayor Pro Tem Bush called the meeting to order at 7:00 p.m.

Mayor Pro Tem Bush informed the citizens present that if they would like to comment during Citizen Comments there were forms to fill out by the door.

Councilmember Peterson conducted the Opening Ceremony.

APPROVAL OF THE MINUTES FROM THE JANUARY 12, 2016 WORK SESSION, THE JANUARY 19, 2016 WORK SESSION AND THE JANUARY 26, 2016 POLICY SESSION

Councilmember Young moved to approve the minutes from the January 12, 2016 work session, the January 19, 2016 work session and the January 26, 2016 policy session as written, seconded by Councilmember Peterson. The motion carried upon the following vote: Voting AYE – Councilmembers Benson, Peterson, Phipps and Young. Voting NO – None.

DRAFT

PRESENTATION BY STUDENTS AGAINST ELECTRONIC VAPING (SAEV) COALITION

Students from area high schools shared a presentation with the Council on behalf of the SAEV Coalition.

Cade Hyde introduced other members of the Coalition and distributed a sample resolution and announced the group was requesting the City's support of a bill, to be sponsored during the current legislative session by Representative Paul Ray, which would define electronic cigarettes (e-cigarettes) as a tobacco product. The definition would then require the same restriction as any other tobacco product related to advertising, online sales, and how the product could be sold in stores.

Clint Bisbee pointed out there was currently only sales tax applicable to e-cigarette purchases and suggested increasing the tax to be equal with other tobacco products. He stated statistics reflected an increase would discourage students and young people from purchasing e-cigarettes.

Mr. Hyde referred to the sample resolution and requested the Council adopt a resolution of support. Mr. Bisbee mentioned during last year's legislative session Representative Oda had voted against a similar bill and requested the community reach out and encourage his support of the bill this year.

Carson Robb shared some of his personal experiences associated with his service on a local youth court which supported how easily young people can obtain that type of product because it was not regulated. He shared some of the flavors such as bubble gum and root beer which he believed illustrated the products were being targeted toward young people. Mr. Hyde pointed out how the items had been targeted to youth as well as how accessible the products were and how easily it could be obtained via internet sales.

McGyver Clark shared some statistics specific to Davis County and Utah in regards to e-cigarettes and expressed his opinion the product needed to be regulated.

Mr. Hyde pointed out how the popularity of smoking cigarettes had changed during some of the councilmembers' generation and suggested the product was just a new way for tobacco companies to encourage tobacco use.

Mayor Pro Tem Bush asked if the Coalition knew the status of Representative Ray's bill. Mr. Bisbee responded the bill was currently scheduled to be numbered.

Councilmember Phipps stated he had recently read an article regarding e-cigarettes and shared some statistics. He expressed appreciation to the students for their enthusiasm and presentation.

Councilmember Peterson expressed appreciation to the students and inquired if the Coalition had reached out to Representative Brad Wilson as well. They indicated they had but encouraged the Council to follow up with him as well.

Councilmember Benson asked what the Coalition had done to reach out to their peers to educate them on the negative impact of e-cigarettes. Mr. Bisbee responded it had set up a booth during

the lunch hour at Davis High to educate students about the negative use of e-cigarettes. He continued there was also a video on Davis Schools' Facebook page about SAEV. He announced it also had a website, saevutah.com as well as using other social media. He stated the goup communicated through technology and had participants statewide.

Councilmember Young stated the Coalition had presented great arguments and complimented the participants for their research.

CITIZEN COMMENTS

There were no citizen comments.

APPROVAL OF A GROUND LESSOR'S CONSENT AGREEMENT FOR PROPERTY LOCATED AT 888 SOUTH UNIVERSITY PARK BOULEVARD

JJ Allen, Assistant City Manager, explained there were two parcels of property; one owned by the City and the other owned by the CDRA, which were leased to the building located at 888 South University for a parking lot. He explained the owner of the building had recently applied for some financing in the form of a line of credit using the property as collateral. He stated the financial institution KeyBank was requiring the Ground Lessor Consent Agreement to be in place in the event the owner of the building defaulted, the bank could then become the lessee of the parking lot property. He reminded the Council that staff had reviewed the item during a previous work session and pointed out the same agreement would come before the CDRA Board for approval.

Councilmember Phipps moved to approve the Ground Lessor's Consent Agreement for property located at 888 South University Park Boulevard and authorize the Mayor's signature to any necessary documents, seconded by Benson. The motion carried upon the following vote: Voting AYE – Councilmembers Benson, Peterson, Phipps and Young. Voting NO – None.

COMMUNICATION ITEMS

Mayor Pro-Tem Bush

1. Announced he had attended Local Official's Day at the State Legislature.
2. Complimented staff for the information presented during the budget kick-off meeting which took place on Friday, January 29, 2016.
3. Reported he had attended a Safer Sidewalk meeting with residents residing along 300 North.
4. Informed the Council that he attended the Newly Elected Officials training on Saturday, February 6, 2016, presented by the Utah League of Cities and Towns in Salt Lake.
5. Reported that same evening he had attending the 419th Fighter Division Banquet at the Davis Conference Center.

Councilmember Benson

1. Stated she would be meeting with Job Corps on Wednesday, February 10, 2016.
2. Announced the first meeting for the 'We've Got Talent' contest. The contest would be part of the festivities planned for the Fourth of July celebration. She stated auditions would begin in June.

Councilmember Peterson

1. Expressed appreciation for the opportunity to attend the Utah League of Cities and Towns training.
2. Also mentioned the budget kick-off meeting and expressed appreciation to staff.
3. Announced Clearfield City had its first Costplay photo shoot evening which allowed local business to come together within the community. She stated it had been successful.
4. Stated she was looking forward to having lunch with Job Corps and meeting some of the students at the facility.

Councilmember Phipps

1. Also complimented staff for the budget kick-off meeting which took place on Friday, January 29, 2016.
2. Announced he had attended his first Wasatch Integrated Waste meeting. He informed the Council that the facility would soon be installing a conveyer belt which would screen out yard waste and other non-combustibles items which impacted the ability of the furnaces. He also indicated staff would also be pulling recyclables off the conveyer. He mentioned the improvements would potentially extend the life of the landfill from twenty years to twenty-seven. He announced the facility had recently signed a long term nine year agreement with HAFB to purchase the steam generated by the Burn Plant. He informed the Scouts in attendance that tours were conducted at the facility. Mayor Pro Tem Bush mentioned the North Davis Sewer District also conducted tours of that facility and reported on some of its processes.

Councilmember Young

1. Reported he had also attended an Awards Banquet at Hill Air Force Base (HAFB). He stated it was great to connect with civilians and military members within the community.
2. Informed the Council that he had visited Connect Utah and stated it was an excellent venue to direct local businesses to when requesting ways to network and mentioned the Buy Local First campaign.

STAFF REPORTS

Nancy Dean, City Recorder – Reviewed the Council's calendar:

- No meeting was scheduled for Tuesday, February 16, 2016
- Announced neighborhood meetings were in the process of being planned
- Stated the next meeting was scheduled for Tuesday, February 23, 2016.

There being no further business to come before the Council, **Councilmember Phipps moved to adjourn as the City Council and reconvene as the Community Development and Renewal Agency (CDRA) at 7:29 p.m., seconded by Councilmember Benson. The motion carried upon the following vote: Voting AYE – Councilmembers Benson, Peterson, Phipps and Young. Voting NO – None.**

The minutes for the CDRA are in a separate location

DRAFT

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City Council
STAFF REPORT

TO: **Mayor Shepherd, City Council, and Executive Staff**

FROM: **Spencer W. Brimley**
Development Services Manager
Spencer.Brimley@clearfieldcity.org (801) 525-2785

MEETING DATE: **February 23, 2016**

SUBJECT: Public Hearing, Discussion and Possible Action on **ZTA 1509-0006**, a proposed amendment to the Clearfield Land Use Ordinance Title 11 for Pawn and Secondhand Establishments.

RECOMMENDATION

Move to approve of **ZTA 1509-0006,** a request by Clearfield City for a proposed text amendment to the Clearfield City Land Use Ordinance Title 11 Chapter 13 for Pawn and Secondhand Businesses, based on findings and discussion in the Staff Report.

The Planning Commission at their meeting on Wednesday, February 3, 2016 recommended that the City Council approve the proposed changes to title 11 Chapter 13 for Pawn and Secondhand businesses. Imposing proximity requirements for businesses defined as Pawn and Non-Depository Lending Establishments.

ANALYSIS

History

October 2014 – New pawn business is approved by Planning Commission. Residents attend public hearing to voice concerns over the location of a new pawn business adjacent to residential as well as concerns of an increase in crime and negative impacts to the neighborhood.

September 2015 – The City Council, in response to comments from the October 2014 hearing, passes **Ordinance 2015-17.** This enacts a temporary land use regulation prohibiting for six months the approval of new applications for Pawn and Secondhand Businesses pursuant to Utah Code Annotated 10-9a-504. Council directs staff to perform necessary research regarding concerns with Pawn and Secondhand Businesses. This directive came following the concerns from the meeting in October of 2014, but due to staff turnover and other matters was not addressed until September 2015.

November 2015 – Staff work session with the Planning Commission for information pertaining to increased regulation of Pawn and Secondhand Business. The Planning Commission requests that staff perform additional analysis regarding the issue before bringing it back to the Commission for further discussion.

January 2016 – Staff holds second work session with Planning Commission for Pawn and Secondhand business ordinance changes. Staff engaged in a discussion with the Planning Commission about potential regulations that would be proposed to address community concerns. From this meeting a proposal of proximity restrictions was identified. Staff research was supportive of distance requirements for Pawn and other Non-Depository Lending Establishments.

February 2016 – Staff presented formal recommendations to the Planning Commission for imposing proximity requirements for all pawn and Non-Depository Lending Establishments. The Commission unanimously recommended approval of the proposed language for Title 11 Chapter 13 or the Land Use Ordinance for the regulation of Pawn and Secondhand Businesses. Information regarding the Planning Commission recommendation and staff research was presented at a City Council work Session on February 9, 2016. No questions or concerns were voiced in this meeting.

Research and Analysis

Pawn and secondhand businesses, outside of the C-2 zone, are not permitted as a conditional use or as a permitted use within the City. Staff's review of ordinances from several municipalities within Utah provides a broader framework and context for the regulation of these types of businesses. The ordinances serve as a guide for consistent application of regulations for pawn and secondhand businesses. Staff was also able to locate and review regulations for several municipalities outside of the State who have implemented regulations to further mitigate perceived or potential impacts of these types of businesses. Staff has also attached to this report supporting documentation for pawn and secondhand businesses to be regulated in a similar fashion as Non-Depository Lending Establishments. Research supports the connection of these two types of businesses as institutions that focus on loans and alternative financing options and not as retail business.

Staff obtained information from Clearfield City Police Department ("CPD") to evaluate impacts from the current pawnshops within the City. After a careful review of the CPD data, staff concludes there is no significant disproportionate burden on the CPD, and that there is a good working relationship between the current pawnshops and the CPD. It appears that Clearfield City does not currently have a "problem" with pawn or secondhand businesses (except perhaps perception).

This is not to say that the failure to regulate the location of future pawn and secondhand business may not become an issue for the City in the future. The academic and secondary legal research studied by staff established support for the position that over time, and without any attention or regulation, negative impacts can go unnoticed and cause a long-term negative economic impact, which may be mitigated by taking timely and appropriate measures. Staff believes that amending the City's Land Use Ordinance to be more consistent with regulations both locally and nationally can eliminate clustering and minimize or avoid the associated long-term negative economic impacts. The State of Utah's regulations are different for Pawn and Secondhand Businesses and Non-Depository Lending Establishments ("NDLEs"). However, from a municipal perspective the nature and operation of these businesses is quite similar and should be regulated in the same manner at the local level. Both pawn shops and NDLEs operate as lending institutions, providing non-traditional loans to those who may not qualify for traditional financing. These uses serve as an alternative means for an individual to obtain cash. From a local perspective there is little difference other than what they are making loans on and the terms associated with each loan. Staff believes it is consistent for pawn shops and NDLEs

to be regulated similarly, within Clearfield City and the information within the attached reports supports the proposed proximity requirement.

Records indicate there are approximately 10 non-depository lending establishments and three pawn and secondhand businesses located within the city limits. The proposed changes include a separation requirement of this specific use from the same type of business use and a separation from other specified uses. This is to discourage clustering of these uses, which is a land use development pattern that is not supported by the City's General Plan (see "Master Plan" discussion below). If the proposed regulation as recommended by the Planning Commission is adopted by the Council, it would limit the number of additional pawnshops within the City to no more than three (3). This number takes into consideration the likelihood that all other pawnshops, currently in operation would remain. Additionally, the regulation would regulate the distance that a pawn shop could be to NDLE with in the City.

Master Plan
The proposed changes conform to the City's General Plan, specifically the Land Use Guidelines which include "*improving the image of the community and fostering a positive, healthy living environment" and "increasing the livability and aesthetics of the City."* A revision to the Land Use Ordinance that improves effectiveness of the regulation of uses is consistent with these guidelines. It is also consistent with the policy under the Land Use Element which states, "*Continue to update the City's Land Use Ordinance as necessary to maintain consistency with this General Plan."*

Proposed changes
Consistent with the approach taken by other municipalities, the Planning Commission is recommending that the proposal to regulate the proximity of pawn or secondhand businesses to other pawn or businesses identified as non-depository lending establishments, as defined in Clearfield City Code to the City Council. The purpose of the new regulation would be to avoid clustering of this type of use (together with NDLEs) within the City. Given this information, staff is proposing to amend the supplementary regulations (Title 11 Chapter 13) of the Clearfield City Land Use Ordinance as outlined below.

DRAFT ORDINANCE LANGUAGE: 11-13-35 – Pawn and Secondhand Businesses

A. Pawn and Secondhand Businesses:

1. *No pawn or secondhand business shall be located within one mile (5,280 feet) of any other pawn or secondhand business. The distance shall be measured in a straight line between the closest property lines of the lots upon which they are located.*
2. *A pawn or secondhand business shall not be located within eight hundred eighty feet (880') from any non-depository lending establishment.*

It is anticipated that as the City strives to adopt development standards that encourage positively perceived development patterns, encourage long-term residency, and contribute to a healthier economy for the Community, that the goals of both the General Plan and the Strategic Plan are better accomplished. Staff is able to conclude that the research conducted supports the proposed regulations and provides a basis for the City Council to approve this request.

FINDINGS

Zoning Ordinance Text Amendment
Clearfield Land Use Ordinance Section 11-6-3 establishes the following findings the Planning Commission shall make to approve Zoning Ordinance Text Amendments. The findings and staff's evaluation are outlined below:

	Review Consideration	Staff Analysis
1)	The proposed amendment is in accordance with the General Plan and Map; or	A stated policy of the Land Use Element is to "Continue to update the City's Land Use Ordinance as necessary to maintain consistency with this General Plan". Land Use Guidelines include improving aesthetics and community image. The proposal to enact a distance requirement between all pawn or secondhand businesses and NDLEs to reduce clustering and mitigate future negative economic impacts caused by the clustering of theses specific businesses accomplishes the purposes outlined in the City's General Plan.
2)	Changed conditions make the proposed amendment necessary to fulfill the purposes of this Title.	N/A

Attachments:

1. Clearfield Police Call data
2. Pawn/NDLE graphics
3. Pawnshop Research
    a. Pawn strongly correlated with property crime
    b. Pawnbroking in the USA; A profile of Customers
    c. Where have all the Hot Goods Gone
    d. Does Fringe Banking Exacerbate neighborhood crime rates

Clearfield City Police Department
Calls for Service Comparison Report
***Prepared for the Development Services* Department**

The following information was obtained from the Clearfield Police Department Crystal Reports. The reports reflect the number of calls for service recorded in Spillman (department records management system). The reports reflect the number of calls for service from January 1, 2014 to October 31, 2015.

Pawn Shops

American Pawn (two locations – same owner) 683 S State & 699 S State
Total calls for service: 13
Calls associated with criminal activity: 4

Pawn Depot
Total calls for service: 3
Calls associated with criminal activity: 1

Instant Cash and Pawn
Total calls for service: 4
Calls associated with criminal activity: 2

Payday Lending (or similar businesses)

Loyal Loans
Total calls for service: 4
Calls associated with criminal activity: 2

QC Financial
Total calls for service: 13
Calls associated with criminal activity: 1

Security Finance
Total calls for service: 5
Calls associated with criminal activity: 3

Titlemax of Utah
Total calls for service: 3
Calls associated with criminal activity: 1

USA Cash Services
Total calls for service: 8
Calls associated with criminal activity: 3

Utah Title Loans Inc.
Total calls for service: 3
Calls associated with criminal activity: 0

Grocery Stores

Kent's Market
Total calls for service: 130
Calls associated with criminal activity: 35

Winegars
Total calls for service: 63
Calls associated with criminal activity: 30

Thrift Stores

Dollar General
Total calls for service: 47
Calls associated with criminal activity: 22

Family Dollar
Total calls for service: 18
Calls associated with criminal activity: 6

Convenience Stores

7-Eleven (712 S State)
Total calls for service: 45
Calls associated with criminal activity: 16

7-Eleven (976 W 1700 S)
Total calls for service: 25
Calls associated with criminal activity: 6

Conoco (641 N Main)
Total calls for service: 43
Calls associated with criminal activity: 21

Falcon Landing (680 N Main)
Total calls for service: 22
Calls associated with criminal activity: 7

Freeport Chevron (1716 S Main)
Total calls for service: 47
Calls associated with criminal activity: 13

JP's Texaco (1350 E 700 S)
Total calls for service: 38
Calls associated with criminal activity: 4

RB's One Stop (14 E 1700 S)
Total calls for service: 25
Calls associated with criminal activity: 3

Shell (310 N Main)
Total calls for service: 18
Calls associated with criminal activity: 9

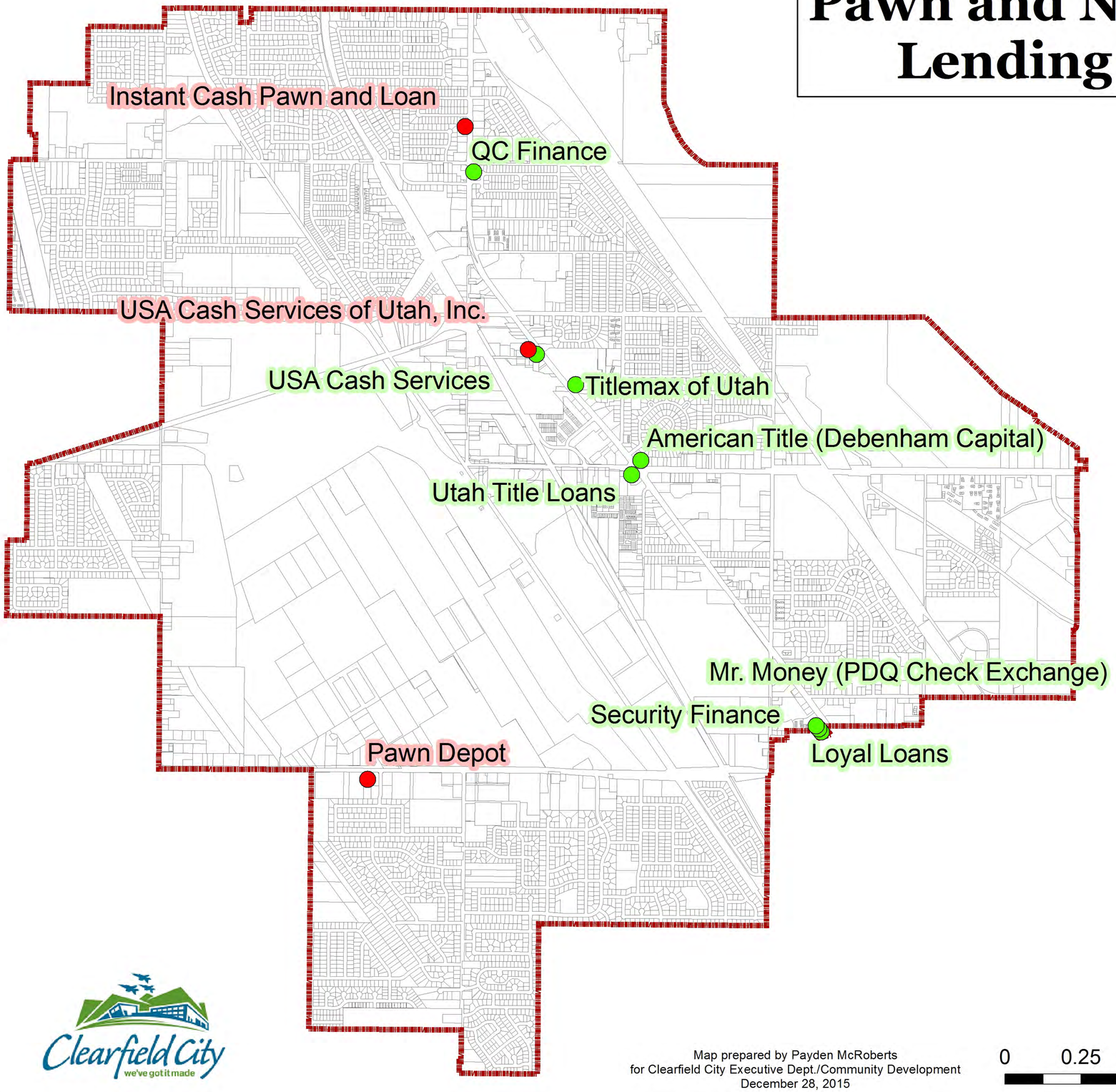
Maverik (390 E 1700 S)
Total calls for service: 73
Calls associated with criminal activity: 29

Maverik (709 S State)
Total calls for service: 110
Calls associated with criminal activity: 31

Maverik (985 W 300 N)
Total calls for service: 87
Calls associated with criminal activity: 28

Maverik (1510 E 700 S)
Total calls for service: 56
Calls associated with criminal activity: 25

Pawn and Nondepository Lending Locations



Legend

Sites at Issue

Type of Site

- Pawn Shop/Secondhand Business
- Nondepository Lending Establishment

Clearfield City
we've got it made

Map prepared by Payden McRoberts
for Clearfield City Executive Dept./Community Development
December 28, 2015

0 0.25 0.5 1 Miles

N W E S

University of California Transportation Center
University of California

Title:
Protecting Against Transit Crime: The Importance of the Built Environment

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Abstract:
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In this chapter, we want to argue that planners and policy makers need to often scratch beyond the surface of official numbers and crime statistics. At the same time, relying on one theory to understand a complex urban phenomenon, such as crime, may often prove inadequate. In our case, we found two seemingly antithetical theories useful, but still needing validation with empirical data: compositional theories that cast attention on offenders, and ecological theories that focus on the context of crime. We discovered that to understand a problem that is largely invisible to authorities, we had to rely not only on crime reports but also extensive fieldwork, to combine quantitative and qualitative techniques, and go from the macro to the micro, from census data to first-hand observation, and surveys of riders.

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PROTECTING AGAINST TRANSIT CRIME: THE IMPORTANCE OF THE BUILT ENVIRONMENT

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This chapter deals with an important citizen right: the ability to walk from home or work to the transit stop, or wait at a bus stop or on a station platform without the fear of being victimized. Crime and fear of crime unfortunately affect many aspects of everyday life in our cities. Transit crime is a rather persistent but underreported trend that scares and intimidates riders – particularly women. The majority of incidents represent public nuisance crimes. The majority of the victims are captive transit riders, frequently immigrant and poor. In Los Angeles some of the victims are even afraid to report transit crimes to the authorities lest they expose their illegal-resident status.

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Horst Rittel and Mel Webber have once proclaimed that planning deals with "wicked" problems (1973). There is nothing more wicked than crime. We would argue that our field could better conceptualize wicked problems if it integrates and utilizes knowledge from other fields. For our research we relied extensively on criminological studies to understand what causes transit crime. But understanding the roots of a problem is only a first, albeit necessary step towards mitigation. Planning is an applied profession and planners are not content to only theorize and understand the roots of urban problems; they also want to do something about them. Our findings that show a linkage between social and physical characteristics of neighborhoods and transit crime point to the need for a multi-pronged approach for the mitigation of transit crime. Some of the "prongs" may be well outside the reach of planning, as planners and transportation authorities cannot necessarily deal with all the social variables that affect transit crime. However, the design of the built environment, the mix of land uses, the physical characteristics of place have also an effect on crime—and these characteristics can be tackled by planners.

This chapter represents a synthesis of our work on transit crime (Loukaitou-Sideris, 1999; Loukaitou-Sideris, Liggett, and Iseki, 2001; 2002; Liggett, Loukaitou-Sideris, and Iseki, 2001; 2003). We first summarize the theoretical context of our studies, referring to two types of criminological theories that seek to explain the incidence of crime. We give particular emphasis to ecological theories which examine the link between the physical

environment and crime, but we also discuss the crime implications of the different sociodemographic characteristics of station neighborhoods. Following this brief theoretical overview we present our empirical findings about the effect of the built environment on crime at transit stops and stations in Los Angeles. We end the chapter by discussing policy recommendations and suggestions for safer transit stops and stations.

Compositional Versus Ecological Theories

Many studies have documented transit crime, but most have focused their attention on the social variables of crime: the sociodemographic characteristics of offenders and victims and the social context of transit stop or station neighborhoods. With few exceptions (Block and Block 2000; Block and Davis 1996; Loukaitou-Sideris and Banerjee 2000; our other papers), researchers have ignored the spatial environment (type of land uses, urban form attributes) in the immediate vicinity of transit stops and stations. This is not consistent with recent developments in criminology which have increasingly become aware of the importance of place as a setting for crime. A place is a very small area, a street corner, an intersection, a bus stop, or a transit station. Criminologists have noticed that crime often tends to concentrate heavily and disproportionately in a few places, or "hot spots." Such observations have led to arguments for reorientation of crime prevention efforts and a focus on the environmental context of crime instead of the socio-demographic characteristics of the offenders.

This debate underlines two distinct approaches in crime research studies (see Table 1). So-called compositional or non-ecological studies stress the importance of the offenders' sociodemographic characteristics. Therefore, these studies seek to identify relationships between a neighborhood's crime level and the characteristics of race and ethnicity, age and gender, poverty levels, and social mobility of inhabitants. In contrast, ecological studies focus on physical attributes as covariates of crime. For such studies, it is the location and physical context of crime – not the sociodemographic characteristics of the offenders—that acquire significance. Of particular interest are place characteristics (land uses, built-form condition, visibility levels), as well as a site's access characteristics.

Clearly, the two approaches of crime research lead to different types of crime prevention strategies. Compositional studies target the potential offenders. They advocate social and educational services to tackle teenage delinquency and recidivism. They argue for changes in the system of policing (e.g., community policing) and reformulation of the criminal justice and penal systems to address crime. In contrast, ecological studies focus on the manipulation of physical and environmental characteristics for the mitigation of crime. Implicit in such studies is the belief that the redesign or transformation of certain place characteristics can lead to lower levels of crime. These efforts are called "situational" because they link criminal activities to the specific physical attributes of hot spots. Ecological studies lead to crime prevention efforts that use environmental design as a tool for "designing out" crime. Before such design efforts and prevention policies are implemented, however, the different physical attributes that can encourage or discourage crime must be clearly understood. Our research falls primarily in the ecological category and is intended to identify and objectively measure environmental variables specifically associated with bus stops and stations, which affect the spatial concentration of transit crime.

Table 1: Crime Studies

Ecological	Compositional
• Importance of physical and ecological attributes	• Importance of socio-demographic attributes (age, ethnicity, gender, class, social mobility)
• Study of the environmental context	• Study of offenders
↓	↓
Crime Prevention Strategies	
• Target: Environmental Context ("designing out crime")	• Target: Potential offenders
• Situational crime prevention	• Social/educational services
• Crime Prevention Through Environmental Design (CPTED)	• Policing
	• Criminal Justice

Environment and Crime

We have drawn from a stream of research that has been concerned with identifying the physical factors that form the 'environmental backcloth' and which may generate opportunities for crime (Brantingham and Brantingham, 1993; Perkins et al, 1992; Taylor et al, 1980). The literature has shown that certain physical attributes such as 'negative' land uses, street layouts that create multiple escape routes, environmental disrepair and desolation, and physical features that block visibility and natural surveillance can encourage higher incidence of crime.

According to researchers the design of the built environment can affect crime through its effect on the degree of access, ease of entrance and exit, and surveillability (Greenberg and Rohe, 1984). For example, alleys and mid-block connections increase the number of escape routes, open a block or a neighborhood to exploration, and aggravate the criminal risk for residential or commercial establishments (Brantingham and Brantingham, 1993).

The type of surrounding land uses has been found to have a major effect on the incidence of crime. As early as 1929, Shaw and McKay had noted that commercial and industrial areas were prominent features of neighborhoods with high residential delinquency (Shaw and McKay, 1929). A much later study that examined the relationship between land use and crime in the District of Columbia found that the commercial and transitional areas tended to be more attractive targets for criminals, followed by industrial areas, with residential areas considered as the least attractive. Multifamily housing areas are typically found to be more susceptible to crime than single-family housing (Rhodes and Conly, 1981). The percentage of lots zoned for

commercial use was a significant predictor of increased risk of high robbery rates in Washington, DC (Harrell and Jouvis, 1994, in Taylor and Harrell, 1996).

Specific commercial uses are more likely to generate crime than others, especially if there is a high concentration of them in a limited area. The presence of a great number of liquor stores, bars, and taverns can have a negative effect on neighborhood crime (Block and Block, 1995). Consumption of alcohol frequently affects aggression and increases willingness to take risks, thus facilitating criminal behavior (Fagan, 1990). Patrons of establishments in which cash transactions take place (pawnshops, check-cashing facilities, ATMs) are likely targets. Areas with vacant lots or buildings, public parks, and schools often attract youth and gang-related crime (Perkins et al, 1992).

In addition to access opportunities and 'negative' land uses, the level of physical disrepair and deterioration in an area seems to be related to crime incidence. Skogan (1990) and Wilson and Kelling (1982) have argued that physical incivilities (trash, graffiti, abandoned buildings, disrepair, unkempt lots) and social incivilities (rowdy behavior, drug dealing, public drunkenness, prostitution, panhandling, and loitering) result in higher crime and resident fear. The relationship of physical incivilities to crime is expressed in the 'broken window' thesis, popularized by Wilson and Kelling (1982). A broken window left unrepaired implies that social control is weak in an area. Potential offenders are more likely to act if they believe that no one is in control. Most relevant studies have measured *perceived* incivilities and have not developed objective measures of physical incivilities (Perkins et al, 1992).

Offenders want to avoid the risk of being seen while committing a crime. The possibility of surveillance by shop owners, managers, employees, guards, or caretakers has been found to have a strong effect in reducing crime (Brantingham and Brantingham, 1993). Surveillance is dependent on visibility, which in turn is determined by good lighting at night, unobstructed lines of sight through windows, and from neighboring buildings and streets (Rand, 1983). Thus, the presence of physical features that increase the visibility of a site (such as open storefronts, unobstructed windows, and well-lit areas) and the absence of features that can block views (for example, blank walls, thick vegetation) can help ameliorate crime.

The relationship between density and crime has been quite ambiguous. Jacobs's (1961) prescription of 'eyes on the street' as a deterrent to criminal activity has been questioned by researchers who argued that high levels of activity do no necessarily imply adequate surveillance (Mayhew, 1981). Some studies even found levels of pedestrian and vehicular traffic to be negatively related to the incidence of certain crimes (Duffala, 1976; Pablant and Baxter, 1975). In a study of the ten most dangerous bus stops in Los Angeles we found that certain types of crime were more likely to happen in desolate areas, whereas other types of crime typically took place in situations of high density when the potential offender could easily hide in the crowd (Loukaitou-Sideris, 1999).

In spite of the considerable number of theoretical and empirical studies in which the link between physical environment and crime has been investigated, most studies have not shown which environmental variables affect which types of crimes. For classification purposes the Federal Bureau of Investigation (FBI) has classified crime into two major categories: Type 1 crime (criminal homicide, forcible rape, robbery, aggravated assault, larceny theft, burglary, grand auto theft, arson), and Type 2 crime (crime of less serious nature against people and their property, such as petty theft, disorderly conduct, vagrancy, non-aggravated assaults, drug violations, vandalism, etc). Some types of crime in the Type 2 category are characterized as public nuisance crime. Although of a less serious nature, public nuisance crime can be very intimidating for transit riders. Such incidents (public drinking, obscene language, disorderly conduct) made up most of the crime reported in our bus stop studies while vandalism was the most frequent crime at the transit stations. In our study, we sought to identify the particular variables that are relevant for serious crime, as well as the variables which seem to encourage public nuisance crime.

Few researchers have measured the physical environment directly and objectively, preferring instead to utilize subjective perception surveys (Perkins et al, 1993). Yet some have argued that crime indicators can be better predicted by objective measures of the environment rather than by studies of social perception (Gifford, 1993). In our studies we have sought to measure different environmental attributes around transit stops and stations in Los Angeles using objective measures of crime indicators. We have focused on two types of public transportation most relevant to the Los Angeles region – bus and light rail.

Transit Crime in Los Angeles

The Setting: Bus Stops and Light Rail Stations. Bus stop crime in Los Angeles is highly concentrated spatially, with the vast majority of crime incidents committed in the downtown area and its adjacent neighborhoods to the west. To explore the impact of environmental characteristics on bus stop crime, we focused on a sample of 100 intersections with bus stops in both downtown Los Angeles and in the adjoining neighborhoods of Pico Union and Westlake. The map displayed in Figure 1 shows crime and ridership levels for the bus stops in our sample, which were located in downtown Los Angeles. The high-crime bus stops were concentrated along certain main streets in what is considered the old historic core and skidrow areas of downtown, as well as along a major artery in the outlying Pico Union neighborhood.

Our crime database consisted of 2,805 bus stop crimes (crimes against people who were waiting for a bus or who had just come off a bus). The data was collected by the Los Angeles Metropolitan Transportation Authority (MTA) and the Los Angeles Police Department from 1994 to 1998. About three-fourths of the crime incidents were Type 2 crimes while just 577 were Type 1 crimes. Ridership was based on data also obtained from the MTA and was calculated as the daily average numbers of passenger boardings and alightings per bus stop. Crime data at each bus stop were normalized by ridership (i.e. crimes per rider). Ridership ranged from a minimum of 158 riders per day

to a maximum of almost 13,000. Over eighty percent of the bus stops had less than 5,000 riders per day, while only two had more than 10,000 daily riders.

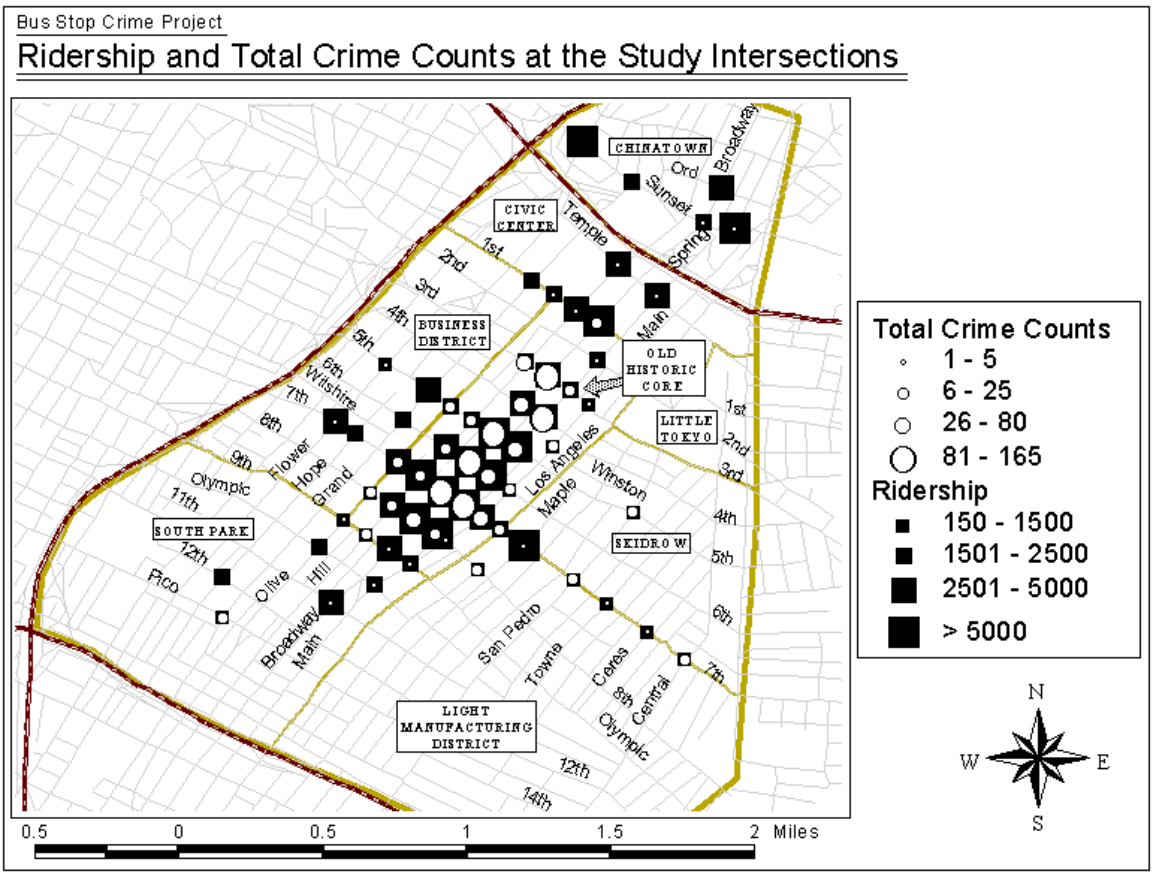


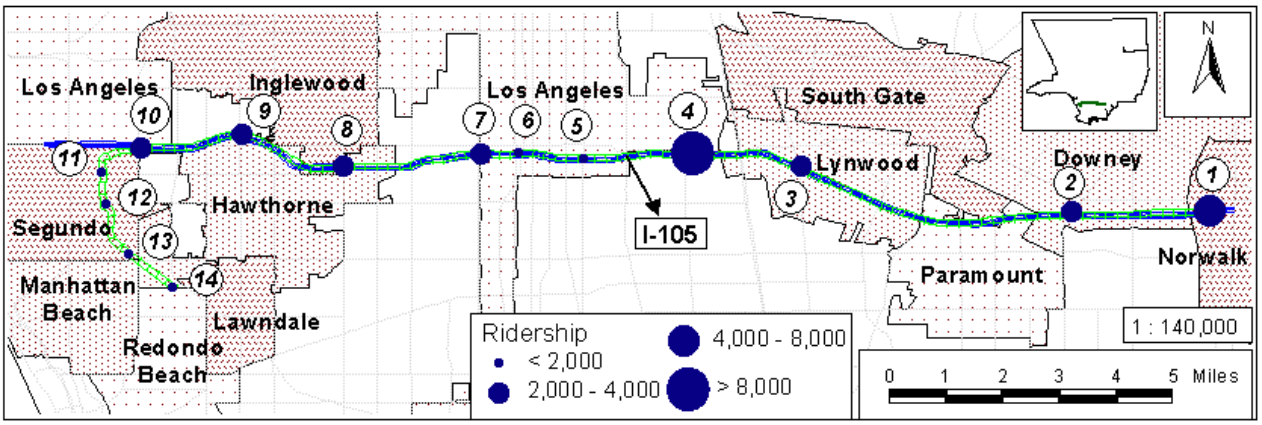
Figure 1

We used the Los Angeles Green Line as a case study to explore how the different physical and social characteristics at the station and neighborhood affect station crime. The Green Line is a light-rail line that runs for 19.6 miles from Norwalk to El Segundo in Los Angeles County (see Figure 2). The line has fourteen stations and twenty-four separate parking lots and had an average weekday ridership of 26,894 passengers in 1999. This is a small and simple light-rail system that started operating in August 1995. The Green Line represents a good case to study the relationship between different socio-spatial variables and the incidence of crime since the fourteen station neighborhoods vary significantly in terms of their surrounding land uses and environmental conditions. The station neighborhoods also vary in regard to their sociodemographic characteristics. Neighborhoods at the western end of the line are more affluent than the inner-city neighborhoods in the middle. Neighborhoods at the eastern end can be characterized as middle class. They are ethnically more heterogeneous than the neighborhoods at the western end, which are primarily white.

We obtained crime data for the Green Line from the Transit Services Bureau of the Los Angeles County Sheriff's Department from 1998 onward and ridership data for

all Green Line stations from the Los Angeles County Metropolitan Transportation Authority (MTA). Sixty-eight percent of crimes at the transit stations fell into the Type 2 category and consisted primarily of vandalism. Most of the serious crime at stations

Figure 2: Location of Green Line Stations with Ridership Levels



took place in the park-and-ride lots (motor vehicle theft and burglary/theft from vehicles) followed by crimes on the platform (robbery and assault against persons). There was no reported homicide and only one rape.

The Unit of Analysis: Place vs. Space. Criminologists discuss the link between place and space, and argue that certain criminogenic factors may be rooted in either place or space attributes. They define places as "points in space" (for example, an intersection, a building, a park), and spaces as "two-dimensional areas that contain the events, specific situations, and special attributes characteristic of places" (Block and Block, 1995, page 146). While operationally the scale of our data collection for the two types of studies differed, we collected data both at the space level, the neighborhood surrounding the bus stop or transit station, and at the place level, the immediate bus stop or transit station environment. For the bus stop studies, a place represented the intersection where the bus stop was located, while the space was defined as a 150-foot radius around the intersection (basically ½ block in either direction). The space (or neighborhood) for the transit station studies was considered to be ¼ mile radius around the station. In both types of studies we conducted a systematic and detailed fieldwork analysis and photographic documentation of the environment around the transit station or stop and compiled an inventory of environmental data and attributes that other studies have shown to be related to crime incidence.

The Effect of Physical Characteristics on Crime. The environmental inventory data were collected by researchers who visited each transit site and mapped and recorded information concerning physical conditions. Data were collected for three groups of physical characteristics: (a) urban form characteristics around transit stops, such as land uses, the overall condition of the surrounding neighborhood, and the concentration of

undesirable places (e.g., bars, liquor stores, pawnshops, etc.); (b) stop or station characteristics, such as the existence of bus shelters or the layout of the station platform, the degree of formal or informal surveillance, the visibility and lighting at bus stops or station platforms and park-and-ride lots; and (c) street characteristics, such as on-street parking and pedestrian and vehicular traffic levels. Table 2 lists the environmental variables measured for each study. Correlation studies led to a number of conclusions about the relationship of certain physical attributes and bus stop or transit station crime, summarized in Tables 3 and 4.

Our analysis revealed that certain urban form and bus stop characteristics influence transit crime. For example, crime rates were higher at bus stops in areas with alleys and mid-block passages (corroborating the idea that crime is high where there are avenues for escape) and near multi-family housing, liquor stores, check-cashing establishments, vacant buildings, and buildings marked by graffiti and litter. For violent (Type 1) crimes in particular, we found that the location of check-cashing establishments near bus stops and the presence of alleys had the strongest positive correlation with crime rates.

Table 2: Environmental Indicators Measured

Bus Stops

Urban Form Characteristics

Factors Facilitating Escape
- Alley/Mid-block Connection

Land Use
- Single-family Residential
- Multi-family Residential
- Small/Open-Air Commercial
- Small/Closed Front Commercial
- Liquor Stores
- Check Cashing Establishments
- Adult Movie Theatres
- Adult Book Stores
- Surface Parking Lot
- Parking Structure

Condition
- Vacant Lots
- Vacant Buildings
- Run-down Establishments
- Graffiti-litter

Street Characteristics
- Street Vehicle Traffic
- On-street Parking

Bus Stop Characteristics
- Visibility
- Lighting
- Public Phones
- Bus Shelters
- Visible Caretaker/Guard
- Police Substation
- Pedestrian Presence

Transit Stations

Urban Form Characteristics

Land Use
- Single-family Residential
- Multi-family Residential
- Mixed Use
- Office (low, medium, or high rise)
- Retail neighborhood
- Retail "Big Box"
- Industrial (light or heavy)
- Vacant Land
- Surface Parking Lot
- Parking Structure
- Open Space (e.g. parks)
- Specific Land Use
  - Liquor Stores, Pawn Shops,
  - Check Cashing Establishments,
  - Parks, Schools,
  - Restaurants, Cafes,
  - Hotels, Motels,
  - Banks/ATMs, Civiv Buildings

Condition
- Density
- Vacant Buildings
- Building Stock Condition (Poor, Average, Good)
- Neighborhood Condition (Blighted, Average, Well-kept)
- Dynamics of Neighborhood (Decaying, Stable, Prosperous)
- Sense of Safety (Good, Average, Poor)

Street Characteristics
- Street Vehicle Traffic
- Pedestrian Traffic (adjacent to station)

Station Characteristics

Park N Ride Lots
- Distance from Platform
- Lighting
- Fencing
- Security Guards
- Pedestrian Presence
- Utilization
- Linkage to Platform
- Graffiti-Litter

Platform
- Type (Street Level, Overpass, Underpass)
- Lighting
- Security Guards/Police Officers
- Pedestrian Presence
- Linkage to Street
- Graffiti-Litter
- Visibility from Surroundings
- Hiding Places

Table 3: Environmental Variables Related to Bus Stop Crime

Variables Associated with Higher Crime Rates	Variables Associated with Lower Crime Rates
1- Liquor Stores and Other Undesirable Establishments 2- Vacant Buildings and Lots 3- Rundown Buildings 4- Level of Litter	1- Large/Closed Front Commercial 2- Visibility 3- Bus Shelters 4- Street Traffic 5- Pedestrian Presence

Table 4: Environmental Variables Related to Station Crime

Variables Associated with Higher Crime Rates	Variables Associated with Lower Crime Rates
1- Large Park-and-Ride Lots 2- Underpass Station Design 3- Poor Visibility 4- Residential/Retail Land Use 5- Liquor Stores and Other Undesirable Establishments 6- Graffiti & Litter 7- Deteriorating Buildings	1- Office/Industrial Land Use 2- Well-kept Neighborhood 3- Good Building Stock

Positive environmental factors included good visibility from surrounding establishments and the presence of bus shelters. Pedestrian presence was negatively correlated with bus stop crime rates, indicating lower levels of crime where there were more "eyes on the street" (Jacobs, 1961). Street characteristics such as on-street parking and vehicle traffic seemed to also affect crime rates. Bus stop intersections with on-street parking tended to have higher crime rates (perhaps due to obstruction of visibility), while heavy vehicular traffic was associated with lower crime rates (perhaps similar to pedestrian presence). Photographs in Figure 3 show environments typically associated with high-and-low crime bus stops.

(a) Low Crime bus Stop

(b) High Crime Bus Stop

Figure 3: Typical Low- and High-Crime Bus Stops

Our analysis of transit station crime data showed that Type 1 crime was mostly concentrated at either the park-and-ride lots (60 percent) or on station platforms (about 20 percent). Type 2 crimes were predominantly in the access routes to the platform from the parking lot or from the street (i.e. stairs, elevators, or escalators). Ninety percent of Type 2 crimes were vandalism, and half of these incidents took place in the access routes.

At park-and-ride lots, a significant correlation was found between the number of parking spaces and crime. Parking lots with litter tended to also concentrate more vandalism. Parking lots appeared to be quite void of pedestrians, and this desolateness seemed to facilitate criminal activity. Dark and desolate parking areas under the freeway projected a feeling of lack of safety (see Figure 4).

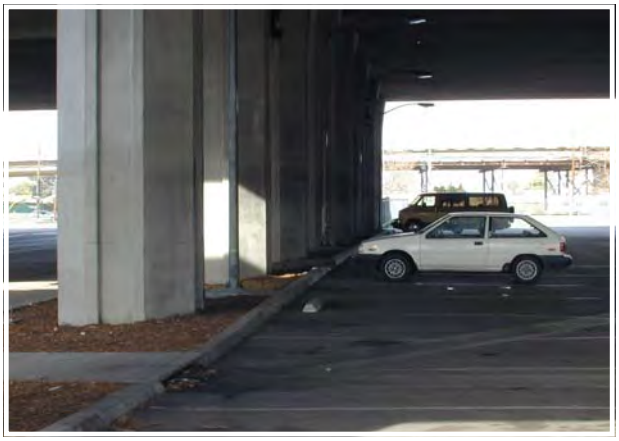


Figure 4: Parking Lot in Wilmington Station

Figure 5: Underpass Platform at Lakewood Station

With regard to station design underpass stations tended to have higher crime rates than overpass stations, presumably because of less visibility. A careful examination of the physical environment showed a number of hiding places (under stairways, behind pillars) in the dark underpass stations (see Figure 5). The five stations with the highest platform crime had also minimal visibility from their surroundings (Figure 6), as they were separated from the adjacent neighborhood fabric by a high-speed freeway and interchange ramps. Unlike many light-rail systems that are well integrated in their surroundings, the location of many Green Line platforms in the midst of a freeway negates the potential for natural surveillance from the adjacent neighborhood and increases the level of platform noise.

Crime was higher at stations surrounded by residential land uses and lower at stations with primarily office and industrial uses. This can be explained by the fact that office and industrial areas were also characterized by lower densities than residential areas. Station neighborhoods with significant retail facilities had higher Type 2 crime. As in the case of bus stops, we found that ‘negative’ land uses such as liquor stores, bars and check cashing establishments had a strong positive correlation with Type 2 crimes (see Figure 7). In fact, the highest level of Type 2 crimes was observed in a station that had the highest number of pawnshops and check cashing establishments.

Figure 6: Platform at Long Beach Station

Figure 7: Bar in Vicinity of Long Beach Station

Our fieldwork seemed to support the "broken window" thesis (Wilson and Kelling 1982), that there is a relationship between physical and social incivilities and crime. Station neighborhoods that were considered "decaying" – with littered sidewalks, abundance of graffiti, and deteriorating buildings – also had high numbers of Type 2 crime. In contrast, station neighborhoods considered "prosperous," "well-kept," and with good building stock had low crime levels.

The Effect of Sociodemographic Characteristics on Crime

As noted earlier, many researchers have hypothesized that the compositional characteristics of the neighborhood surrounding a transit station (its density, income levels, age and race composition, education level, and unemployment levels of residents) have a likely correlation with transit crime. While we were primarily interested in the effect of environmental characteristics on crime, we recognized the validity of the compositional approach. We therefore investigated the sociodemographic composition of the station neighborhoods and used these factors as controls in multivariate analysis in order to explore relationships of the environmental characteristics with crime.

Table 5: Sociodemographic Variables Related to Station Crime

Variables Associated with Higher Crime Rates	Variables Associated with Lower Crime Rates
1- High Population Density 2- More Persons per Household 3- Younger Population 4- Population with less than High School Education	1- Owner Occupied Units 2- High Income Households 3- White Neighborhoods 4- Population College Educated

Based on 1997 census block group data, we found that station neighborhoods differed significantly in terms of the population living within a half-mile radius of a station. Analysis showed that certain sociodemographic characteristics of the neighborhoods adjacent to the station seem to be related to station crime (Table 5). We

found higher Type 2 crime in station neighborhoods with larger populations (Figure 8), more persons per household, a younger population, and a higher percentage of the population with less than a high school education. Type 2 crime counts were lower at stations where there was a higher percentage of owner-occupied units and a higher percentage of high-income households.

We found more serious crimes against persons in areas with more persons per household, more low-income families (Figure 9), a larger percentage of the population younger than 18, and more population with less than a high school education. There were fewer serious crimes against persons in predominantly white neighborhoods, in areas where more of the population was college educated, and where there was a high percentage of owner-occupied housing.

Figure 8: Type 2 Crime and Population Density

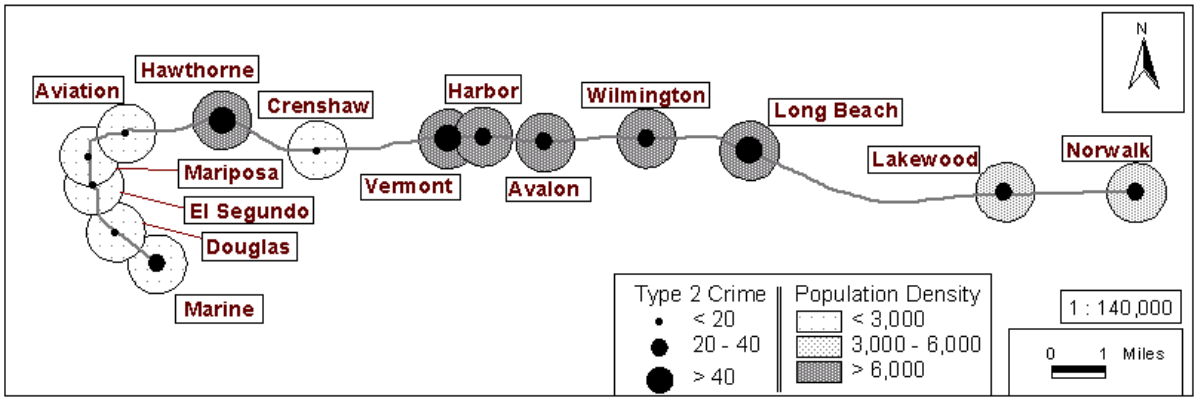
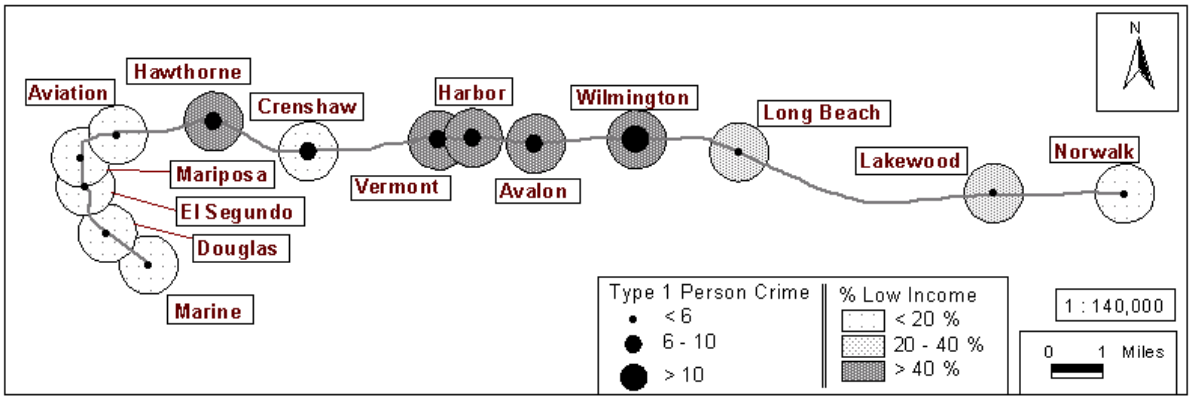


Figure 9: Crime Against Persons and Income



For our bus stop studies the scale of the neighborhood (half a block around the intersection) and the general lack of residential population in downtown precluded a serious analysis of the effects of socioeconomic data. We noted, however, the high concentrations of bus stop crime in localized corridors and used location dummy variables as controls in multi-variate analysis to account for potential sociodemographic effects. We found a very high concentration of the incidence of bus stop crime in one

central zone of downtown Los Angeles that coincided with the city's old historic core. A second (but lighter) concentration extended eastward from the old historic core to the Skidrow District. Downtown Los Angeles has been described as highly polarized (Davis, 1991; Soja, 1991). The spatial contrast between the new and prosperous office district (where we noted low levels of bus stop crime per capita) and the old, decaying part of downtown (where we noted high levels of bus stop crime per capita) is indeed sharp. The two high-crime districts (old Historic Core and Skidrow) also have very high concentrations of dirty streets and alleys, vacant buildings, and negative land uses. After controlling for place we still found that specific environmental variables were related to crime rates – liquor stores and other undesirable facilities and litter result in higher crime rates, whereas visibility and the presence of pedestrians lead to lower crime rates.

Policy Recommendations: How Can We Make Transit Stops and Stations Safer?

Our research gives a clear indication that a combination of social and physical variables at a transit station or stop and its immediate neighborhood affect crime. Most crimes tend to occur in dangerous places. Why these places have a higher crime potential than others can be partly explained by their social and compositional characteristics. But within these dangerous locales that concentrate many hot spots of crime, some spaces are more dangerous than others. At the same time, different types of crime occur under different environmental conditions. At bus stops, serious crimes tend to happen in more isolated situations, while pickpockets seek crowding. At stations, crime at the platforms against people was strongly related to ridership – the busiest stations tended to concentrate the most serious crime.

The design and layout of the physical environment can be conducive to crime or can reduce opportunities for criminal actions. For example, we found many instances of bus stops in the historic core (an area with high crime potential) that were crime ridden, while other bus stops in the same area and along the same bus route were mostly unscathed. On the basis of our findings, it can be concluded that the presence or absence of certain environmental characteristics in the environment of a transit stop can affect the incidence of crime.

While transit authorities cannot deal with many of the social variables that affect crime, our studies pinpoint a number of design and policy implications to tackle the physical variables. For one, the security of transit passengers should extend from the bus stop or station platform (place) to the public environment that surrounds the transit stop (space). Good visibility and pedestrian presence are important variables in reducing crime. Every effort should be made to site bus stops away from desolate spaces, empty lots, and vacant buildings and in front of establishments that offer opportunities for natural surveillance. The placement of bus stops near undesirable establishments (liquor stores, bars, adult bookstores and movie theatres) and near facilities that favor many cash transactions (pawnshops, check-cashing establishments) should be avoided. Sometimes, this may simply mean moving a bus stop a few yards up and down a street or at the opposite corner.

In discussions with MTA representatives about the findings of this research, we discovered that in many cases bus stops were purposely placed near empty lots or vacant buildings as there was less opposition from property owners. We found, however, the MTA very receptive to our recommendations and one immediate action taken was the allocation of $500,000 in local transportation funds for bus stop safety improvements which included bus stop relocations as well as physical improvements such as shelters and lighting.

Although on-street location of light-rail stations provides opportunities for more visibility from surrounding establishments (Walker 1992), the location of light-rail lines in the freeway median makes this option less viable. Still, appropriate station and parking lot design that eliminates entrapment spots and hiding places and increases visibility through design and adequate lighting can create "defensible space" (Newman 1972), a station environment whose physical attributes contribute to its better security.

A security analysis report was prepared prior to the opening of the Green Line (AEGIR Systems Inc. 1991). This report recognized that security measures needed to be implemented for three areas most at risk: station plaza areas under freeway overcrossings; along routes used by passengers between station plaza areas and parking lots; and in the parking lots adjacent to the stations (all areas we found also to be most at risk). Emphasis in this report was placed, however, on policing these areas rather than on crime prevention through environmental design (CPTED). With the current strain on police resources, it becomes imperative to examine CPTED tools, as complementary to policing. This assertion is supported by our empirical findings that show that certain elements in the design of the built environment can facilitate or discourage crime.

For light-rail stations, the security of park-and-ride lots and of the routes connecting them to the station is very significant. Our studies showed that smaller, well-lit lots that were well integrated to the surrounding urban fabric scored well in terms of security. Increased police patrolling of the lot, possibly paid from parking revenue, could help in the reduction of park-and-ride crime. Also, the incorporation of convenience stores and ticket machines in the parking lot could increase pedestrian presence and reduce car thefts.

Because crime tends to be concentrated disproportionately in specific dangerous locales, a regular security audit by transit authorities will reveal the hot spots of crime at the bus stops or transit stations. This audit could be used to guide a targeted deployment of security personnel to the most dangerous spots during the most dangerous times. For bus stops, specifically, bicycle and foot patrolling by police should reduce opportunities for crime.

The upkeep, good maintenance, and cleanliness of the public environment surrounding the bus stop or station are of paramount importance for the safety of transit passengers. Incidents of vandalism that plague transit systems can be reduced through the use of graffiti and vandal-resistant materials. City agencies should strive to keep the environment free of graffiti and litter, thus sending the message that someone other than the criminal is in control of the transit stop environment.

Finally we hope our research brings a message to transportation authorities that planning and design of a transit system needs to extend beyond the system itself to incorporate the public environments of the transit stop, park-and-ride, overheads and underpasses, and sidewalks leading to the bus stop or station platform. Transit stops and stations are important settings for the many citizens who spend time at them waiting for buses and trains. They should be safe and comfortable. Good planning and design can definitely increase the odds that the trip to home or work will be a safe one.

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Pawnbroking In The U.S.: A Profile Of Customers

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Prologue

I was asked to survey the past 25 years in banking. Instead, I have given you a highly selective glance backward and forward. . . .The only anomaly in this mosaic is the failure of finance to reach underserved parts of our community. This we leave as a challenge for the next 25 years.

Stuart I. Greenbaum*
"Twenty-Five Years of Banking Research"

Presented at the Annual Meeting
Financial Management Association
1995

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INTRODUCTION

This report was prepared by the staff of the Credit Research Center (CRC), School of Business, Georgetown University, Washington, D.C. CRC was founded at Purdue University in 1974. The Center relocated its offices to Georgetown University in 1997. Throughout the past 25 years the objective of CRC's research has been to improve understanding of the financial markets that serve consumers' credit needs, with emphasis on the costs and benefits to consumers of public policies and business practices.

This study is consistent with that basic objective. Pawnbroking represents a small, but rapidly growing segment of the consumer credit industry. Legislation continues to be introduced that affects pawnshops and their customers. Yet, there have been very few significant studies and no large data bases developed to provide a foundation for evaluating the effects on consumers of these regulations.

To address this gap in our understanding of this segment of the consumer credit industry, the staff of CRC developed a methodology to study the operations of pawnshops and the characteristics of their customers. The staff developed three different questionnaires to be used in a survey of pawnshop customers. Funding for the project was provided by the National Pawnbrokers Association and by the unrestricted funds of CRC.

Dr. Michael E. Staten, Director of CRC, appointed an Advisory Panel (listed on page ii) to review and critique the methodology and the questionnaires. Members of the Panel also arranged for CRC researchers to visit pawnshops and to gain the cooperation of pawnshop owners and managers for administering the questionnaires to their customers. CRC researchers attended an annual meeting of the National Pawnbrokers Association and talked with many owners of pawnshops. The CRC research staff assumed final responsibility for the design of the project and its conclusions.

The remainder of this monograph is divided into three parts. The first part of Chapter 1 reviews the long history of pawnbroking. The primary purpose of this discussion is to show the economic forces that determine the scope of the market for pawnshops, the fundamentals of pawn transactions, the basic skills required to be a successful pawnbroker, and the effects on pawnbrokers' customers of various types of government regulation. The next section explains the rapid growth of pawnshops in the United States over the past decade. A description of how a modern pawnshop operates is followed by a detailed analysis of the effects of government regulation on revenues, costs and customers.

Chapter 2 is the empirical heart of this study. At the outset, it explains the objectives and design of the survey and how the questionnaires were administered to consumers patronizing the pawnshops. The remainder of this chapter provides an in-depth analysis of the characteristics of consumers who borrow at pawnshops

and compares them to a "control group" of other consumers who were only shopping at pawnshops, and had never borrowed from pawnshops. Where possible and appropriate, pawnshop borrowers were also compared to the general population.

The data for this analysis were obtained from 1,820 questionnaires completed by consumers at nine different pawnshops in six different states. This is the largest, most comprehensive sample of pawnshop customers ever assembled. Although this is *not* a random, national sample, the data are sufficiently comprehensive to provide considerable insight into the characteristics of consumers who use pawnshops for borrowing or shopping. Bivariate statistical analysis is used to compare borrowers and shoppers along many dimensions: demographic characteristics, employment characteristics, income, lifestyle, financial accounts, borrowing activities and pawnshop history. These are the "real people" affected by the government regulations examined in Chapter 1.

Chapter 3 concludes the report by posing the basic question of public policy. Should public policies be designed to allow pawnshops to expand their services, especially in markets where they are currently under-represented, in order to serve the type of consumer identified in Chapter 2? This research is designed to assist policymakers in reaching a rational conclusion in the best interests of consumers.

CHAPTER 1

PAWNBROKING: AN ANCIENT ART IN MODERN AMERICA

The basic purpose of this chapter is to identify the economic forces that created pawnbroking and determine the viability of the industry, since those same forces still drive the industry in modern times. The first section of this chapter traces the history of pawnbroking. As will be seen later in the chapter, the practices and procedures that were developed centuries ago still characterize the industry today. After a brief description of the pawnbroking business in the United States, the next section describes in some detail how modern pawnshops operate. Their operating procedures reflect the nature of their customers and the requirements of state and local legislation. (Chapter 2 provides a detailed description of their customers that is drawn from an extensive survey of pawn customers in nine states). The next section of this chapter explains the cost structure of pawnshops in order to analyze the effects of government regulation upon the ability of pawnshops to serve their customers. The final section draws together the lessons from history, the operating procedures of pawnshops and the resulting cost structure in order to draw conclusions about public policies needed to assure consumers of continued access to this source of credit in a competitive market.

A. Pawnshops in Europe

Pawnbroking is the oldest form of consumer lending. Pawnbroking existed in China 2,000 to 3,000 years ago. The merchants of ancient Babylon loaned money on crops, gold, silver, and jewelry. Doubtful legend has it that Queen Isabella pawned her jewels to raise funds for Christopher Columbus's first journey to America. Throughout the ages, every nation and culture has found pawnbroking to be an important economic function.

1. Pawnbroking in the Middle Ages

A fairly substantial volume of literature is available relating to pawnshops in the Middle Ages. Analysis of these historical records provides insights that are directly relevant to the industry today and its regulation. The adage that "those who have not learned from history are doomed to repeat it" is as relevant to the pawnshop business as to most other forms of human endeavor.

Pawnbroking became a well-organized business during the Middle Ages. Its growth was fostered by the strictures of the Catholic Church against the taking of interest. Strictly speaking, the taking of *any* interest for a loan of money was a sin.

> Thou shalt not lend upon usury to thy brother, usury of money, usury of victuals, usury of anything that is lent upon usury. Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury. (Deuteronomy, XIII: 19-20).

Not surprisingly, the market's response to this limitation was to find ways around the biblical dictum. One means of meeting the demand for credit while not lending on "usury" was to redefine the charge assessed for borrowing. By 1509, 87 *monti di pietà* had been established in Italy with papal approval to make small loans. When their charges were challenged as violating the biblical injunction against the taking of interest, defenders of the *monti* responded that "they ought more properly to be described as contributions to defray the costs of operation, especially the salaries of the officials of the *monti*."[1]

Thus, through a combination of charges and adroit labeling of the charges, the medieval pawnbrokers largely escaped being viewed as sinners. Most of the medieval pawnbrokers in Europe were Italians from Northern Italy. While they subsequently spread throughout Europe, some of the best evidence about their operations relates to Belgium. Initially, they opened in small towns throughout Belgium, but found those markets for their services too small for them to survive. (This is not unlike the experience in the U.S.). Eventually, they settled in the major cities of that day. These early entrepreneurs who had loan offices, pawnshops or "tables de prét" were called "Lombards" or "cahorsins."[2]

In order to operate, these pawnshops needed licenses that were obtainable from the local prince, king, duke or count. The granting of licenses was a source of revenue and favorable treatment for the grantors. For example, "count, Guy de Dampierre, who was hard-pressed by the needs of an empty treasury"[3] granted a Lombard the first charter in Flanders in1281 in return for a payment of 1,400 livers. Understandably, the noble granting a license received very favorable terms when he or she applied for a loan. The Lombards found they had to offer very low interest rates and that it was difficult to gain repayment as agreed. Moreover, if the loan was not repaid it was difficult to sell the collateral at a reasonable price. A crown is unique and does not have a ready market.

In some cases, the licenses also had to be approved by the municipal council. When Lombards opened in Bruges, the municipal council received an annual license fee. Not only did a license permit a Lombard to operate, but also the general practice was to restrict the number of licensees in order to control competition. (Under a number of state laws in the U.S. licenses must be obtained to open a pawnshop and licenses are limited by some cities for similar reasons).

Although they were making loans in return for payments that appeared very similar to "interest," the Lombards were accepted as a better alternative to "clandestine usurers."[4] Indeed, they were given "personal residence," a favor not accorded to moneylenders. They were given full civil rights, but not political rights. Nonetheless, the more affluent citizens were offended by the lending of money, especially to consumers.

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[1] Benjamin Nelson, *The Idea of Usury*. Chicago: University of Chicago Press, 1969, p. 22.
[2] Raymond de Roover, *Credit in Mediaeval Bruges*. Cambridge, MA: The Mediaeval Academy of America, 1948, p. 99.
[3] *Ibid., p. 100.*
[4] *Ibid*., p. 103.

The other Italians in Bruges and elsewhere "did not care to associate with them,"[5] and the Lombards located their shops in remote parts of Bruges so that "customers could find their way to the pawnshop without being recognized."[6] (Some citizens in the U.S. hold a similar aversion to pawnshops).

Another reason for locating away from more traveled areas was the need for large and secure storage space for the items pawned. The Lombards accepted "all kinds of pledges ranging from jewelry and plate to more bulky articles such as clothing, kitchenware, kettles, tubs, bedding and furniture." The fragment of an account book records that, of 80 loans, 46 were secured by "articles of clothing and apparel, 9 by tools and agricultural implements, 9 by jewelry, 7 by arms and armor (sword, dagger, cross bow, etc.)" and the rest by miscellaneous items.[7] (A similar range of items pawned is found in the U.S. today, although there is a greater emphasis on jewelry, less on swords and daggers).

During this period, Lombards were required to keep items pawned for at least one year. Therefore, in fixing the amount to loan on an item pledged, they had to estimate what its market value would be at least a year later if it were forfeited for nonpayment. The expected future value was a function of the uniqueness of the item and the time that it would take to sell it. Thus, the estimate of future value was more accurate for an axe or a shovel than for a jeweled tiara, and the former could be sold much more quickly than the latter. The longer it took a Lombard to sell a tiara, the lower his return on the defaulted loan. (Today, most pawnbrokers also prefer to accept less costly and standard items, such as TV sets, VCRs and jewelry that is easy to appraise and sell if needed).

If the pawn did not sell for enough to cover the loan, the Lombard could not seek to recover the shortage from the borrower. Nor could the borrower seek the pawnbroker's gain on the sale, since that was implicitly part of the charge for the service. An early document shows that "the Lombards of Shuys, the seaport of Bruges, lent up to 60 percent of the estimated market value of a pledge of silverware."[8]

As is the case today, Lombards generally tried to avoid accepting stolen property. According to a city ordinance of Bruges of March 11, 1409, "a money-lender who knowingly or unknowingly accepted stolen goods as pledges was not entitled to any compensation, if they were claimed by the rightful owners."[9]

A broad range of citizens, from royalty to the working poor, patronized Lombards, although the majority might be described as the "working poor." "With the exception of a broker and a goldsmith, the pawners were all craftsmen or peasants, many of them poor weavers, spinners, and shoemakers."[10] As noted above, the Lombards did not encourage the royalty to pawn their crowns and jewels. (While today there are some

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[5] *Ibid.*, p. 108.
[6] *Ibid.*, p. 113.
[7] *Ibid.*, p. 121.
[8] *Ibid.*, p. 133.
[9] *Ibid.*, pp. 133-34.
[10] *Ibid.*, p. 121.

very wealthy persons who pawn jewelry and fur coats, most customers are analogous to the working poor in Bruges, as will be seen in Chapter 2).

While moneylenders were not supposed to charge any interest for their loans, pawnbrokers were able to charge the equivalent of interest, in part because there were two parts to each transaction: a grant of money and the storage of a pledge. It was difficult to identify the purpose of any charge, and the charge made for forbearance was often assigned some label other than "interest." Even so, by 1306, the Lombards were permitted to lend at an annual rate equivalent to 43 1/3 percent per year.[11] Borrowers made payments weekly or, less likely, monthly.

As has been true for centuries, borrowers and other public interest groups challenged the "high" interest being charged by the Lombards.[12]

> Because the rate was so high, the pawnbroker was, of course, very unpopular among numerous classes of borrowers. For the common people of the Middle Ages, the pawnshop was at the same time a terror and a necessity. They naively believed—and the friars confirmed them in this belief—that the greed of the Lombards was the source of all evils and that the legal rate of 2*d* a pound could be reduced by a legislative fiat.

In response to these pressures, Mary of Burgundy cut the rate in half on April 21, 1477. However, as has been true for centuries, the reduction proved to be unenforceable. The Lombards either found ways around the limit, or left the business, leaving consumers without a source of small, short-term loans other than clandestine usurers.

2. Public ownership of pawnshops

Rather than accept the economic realities of a private market for small loans, most countries in Europe decided that the public sector could provide small loans at lower rates. Those efforts provide an interesting insight into the economics of pawnbroking. Municipalities in France and the Low Countries established monts-de-piété, or "funds of pity."[13] These government lenders superseded the Lombards in the beginning of the 17th century. They quickly found that making small loans was more costly than making large loans. Since public pressure forced them to charge much lower rates than the Lombards, they had to make up for the lower interest income by reducing the ratio of the amount lent to the market value of the pawn.

The incentive to lower the loan-to-value ratio was greatly enhanced in Antwerp by a regulation providing that if the sale of a pledge by the bank did not bring in the amount loaned, the loss was borne by the appraiser who made the loan. Appraisers were "required to furnish a bond, secured either by cash or by real estate. The surplus from the

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[11] *Ibid*., p. 105.
[12] *Ibid*., p. 129.
[13] "The Latin word *mons* (literally mountain, pile, or heap) was used frequently in mediaeval times to mean an accumulation of funds." Louis M. Robinson and Rolf Nugent, *Regulation of the Small Loan Business*. New York: Russell Sage Foundation, 1935, p. 23.

sale may be claimed by the holder of the ticket within two years from the date of the sale."[14] Since the right to the surplus was evidently not widely publicized, not many consumers showed up to lay claim to the "profit." More recently, similar incentives to under-value the pawn were provided by the Mexican national pawnshop, Nacional Monte de Piedad de Animas. "If the pawn is not redeemed and is thus put up for sale, it must sell within three months or the appraiser who approved the loan and accepted the pawn is charged for it. If the appraiser . . . extends too high a loan, he is charged for the difference between the amount of the loan extended and the sale price of the pawn."[15]

In more recent times, the mont-de-piété in Paris was lending on automobiles and had constructed a large garage for this purpose. It was charging only two percent interest, but was lending "an average of 20 percent of the value of the car."[16] Reducing the loan-to-value ratio to offset low rate ceilings had two countervailing effects. The profit on the sale of unredeemed pawns was critical to the survival of the public pawnshops, but it also increased the incentive of borrowers to redeem their pledges. In this extreme case, consumers obviously had a great incentive to repay their loans and redeem their cars. Consumers who could not do so subsidized those who did. It appears very likely that those who were providing the subsidies were less affluent that those who benefited from them.

In addition to their economic problems, the early monts-de-piété were plagued with mismanagement and fraud, and they never recovered from these blows. "In 1750 four-fifths of the initial capital had been lost and interest payments were in arrears for thirty-five years."[17] Municipally owned pawnshops still exist in many European countries, but not in the United Kingdom. In the U.S., the Ohio legislature passed a law in 1911 providing for the establishment of municipal pawn offices. The maximum interest rate was set at "six percent p.a. with an extra charge not over four percent p.a. for storage and insurance."[18] There is no evidence that the law was put into effect.

In summary, a review of the origins and history of pawnbroking reveals the basic economic principles governing the operations of pawnshops.

- The "market niche" of pawnshops was fairly narrow. For the most part, their customers were the "working class poor," who did not have alternative sources of immediately available small, short-term loans other than clandestine usurers. To attract a sufficient volume of customers, pawnshops located in large cities, but in areas of the city where they could build large and safe storage facilities for the pawned items and provide some anonymity for their customers.

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[14] Samuel W. Levine, *The Business of Pawnbroking*. New York: D. Halpern Company, `1913, p. 29.
[15] Jarret C. Oeltien, "Pawnbroking: Coming to America, Observations of Statutory Non-Uniformity and a Call for Uniform Legislation," *Buffalo Law Review*, 38 (1990), p. 225. Cited from Condon, "The Bank of Pity," *Holiday*, March 1963, p. 56.
[16] Levine, *Op. cit.*, p. 28.
[17] De Roover, *op. cit.* , pp. 130-131.
[18] R. Cornelius Raby, *The Regulation of Pawnbroking*. New York: Russell Sage Foundation, 1914, p. 13.

- Possibly the most critical element to the success of a pawnshop was the ability of management to estimate the future value of an item pawned if it should not be redeemed. The expected future value was a function of the expected demand for the product in the future and the likelihood that it could be sold quickly when default occurred.

- Efforts to restrict the amount of interest that pawnshops could charge and to replace private pawnshops with public facilities revealed the interaction of the terms under which pawnshop loans are made. Faced with the biblical injunctions against usury, pawnshops developed different labels for "interest" or, quite legitimately, charged separately for the loan, per se, and for the storage of the pawn. Without an adequate return, however labeled, pawnshops could not survive. When government-operated pawnshops replaced private shops, the mandated low interest rates could not be avoided by adjusting labels. Instead, the municipal pawnshops dramatically reduced the loan-to-value ratios. As a result, consumers who could not redeem their pawns subsidized those who were able to repay their loans.

- Finally, it is apparent that pawnbrokers suffered the stigma that afflicts many types of lenders even today. The religious prohibitions against usury—the taking of any interest—has colored the public's (and by extension) politicians' attitudes towards banks, finance companies and pawnshops that extend credit to consumers. Further, the negative attitudes tend to be greater, the smaller the average size of loan, the less affluent the borrower and the higher the finance charge.

B. Pawnbroking in the United States

Pawnshops operated in the U.S. at least in the early 1800s, if not before. As in Europe, they were the "poor man's bank," and provided small, short-term loans quickly. A list of items pawned on April 1, 1835 by Simpson's Hockshop includes the following items pawned and the amounts loaned—*in 1835 dollars.*[19]

Six linen sheets	$4.50
One vest	.25
One hat in box	.25
Cloak	1.00
One lace	.50
One parasol	.37 ½
Earrings	1.50
Gold watch & chain	12.00
One telescope	2.00

During the same period Simpson's also made loans on many marriage and prenuptial agreements. "When such loans were made, the nuptial agreement itself was pledged as side collateral together with a note from the husband-to-be which was signed by his future father-in-law."[20]

[19] Simpson, *et al*, *Op. cit*., p. 29.
[20] *Ibid*.

In those days pawnshops were almost always family-owed businesses. As with the Lombards in Bruges, a key factor in the success of a pawnshop was the lender's ability to appraise the value of the collateral. After he had received some training, a son wishing to enter his father's business was given $200 and sent out into the secondhand market to buy and sell at a profit. If he did well, he was next given $500 to further test his ability to buy low and sell high. "If he could not turn out a profit, he was not fit for the business."[21]

It is difficult to determine the exact number of pawnshops in the U.S., because there are entities that resemble pawnshops in some respects that should not be considered as pawnshops. There are buy/sell shops that buy items from consumers, promise to hold them for a short period—say a month—during which time consumers may repurchase them at a higher price. After that period, the shops may sell the goods and keep the proceeds. These firms are often not licensed or regulated by the state and may operate only on weekends or travel from place to place. More recently, firms have opened offices to make loans secured by automobile titles. However, unlike pawnshops, they do not take possession of the vehicles unless the borrower defaults. A further difference from pawnshops is that their loans are typically much larger, and they are often not licensed or regulated by the state. While they sometimes call themselves "auto pawn" or similar labels, they are not pawnshops in the traditional sense.

1. Growth of pawnshops

However pawnshops are defined, it is evident that their number has grown rapidly over the past decade. John Caskey has estimated that in 1988 "there were approximately 6,900 pawnshops in the United States, more than twice the number of savings and loans or about one pawnshop for every two commercial banks."[22] Just recently, it was estimated that there were 13,000 pawnshops in the U.S., less than 700 of which are owned by public companies. Sole proprietors operate most of the rest of the pawnshops, often as family businesses.[23] These data suggest that the number of pawnshops has almost doubled in the past ten years. The factors that help to explain this dramatic growth may be classified as affecting either the demand for or supply of pawnshop services.

a. Demand for pawnshop services

While the demand for pawnshop services obviously arises from consumers who borrow from pawnshops, only scattered studies of the characteristics of these consumers are available. Caskey has provided information drawn from interviews with managers of pawnshops and the annual reports of pawnshops, as well as some informal discussions with pawnshop customers.[24] However, the survey by the Credit Research Center (CRC) is the first to provide data on customers provided by interviews with hundreds of the

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[21] *Ibid.*, p. 30.
[22] John P. Caskey, "Pawnbroking in America: The Economics of a Forgotten Credit Market," *Journal of Money, Credit, and Banking*, 23 (February 1991), p. 87.
[23] PawnMart, Inc., *Prospectus*, March 17, 1998, p. 22.
[24] John P. Caskey, *Fringe Banking*. New York: Russell Sage Foundation, 1994, pp. 69-73.

customers themselves. Knowledge of the characteristics of the pawnshop customers is critical to an understanding of increases in the demand for pawnshop services and to predict the impact on pawnshop customers of changes in laws and regulations affecting the revenues and costs of pawnshops.

In examining the growth in the numbers of pawnshops during the 1980s, Caskey attributed the increased demand for pawnshop services largely to "an increase in the number of Americans who do not use mainstream financial institutions because of poverty and the effects of bank deregulation."[25] Let us consider bank deregulation first.

Bank deregulation

The 1980 statute that removed the ceiling on rates that banks could pay on their savings accounts enabled them to compete more effectively with money market funds. To offset their higher cost of funds some banks discouraged small checking and savings accounts by assessing service charges and other fees. Consumers who dropped their deposit accounts were affected in two ways. First, loss of their checking accounts made it less convenient to pay bills, and they probably switched to cash payments or money orders. Second, some consumers undoubtedly had used deposit accounts as "reserve funds" to meet short-term financial needs. If they were discouraged from having deposit accounts, their "reserve funds" became cash stored in cookie jars or jewelry, VCRs and other household items that could be pawned.

Probably a more important factor that leads many consumers to favor alternative lenders is consumers' discomfort or even fear of banks. This disconnect with banks is evidently greatest among minorities and recent immigrants. In his talk cited in the Prologue of the monograph, Stuart I. Greenbaum provides a striking example:

> As part of a consulting assignment for a bank seeking to make inroads in the African-American community, a group of MBA students observed a shabby currency exchange across the street for a branch of a major Chicago bank. The bank branch charged approximately half the price of the currency exchange for check cashing –no tie-ins were required. On a number of peak check-cashing days, the currency exchange was observed with lengthy queues whereas the bank was idle.

In an extensive study of Little Village, a principally Hispanic community on the southwest side of Chicago, the researchers found "some support to the view that Little Village residents may prefer to avoid using the formal financial sector, though other explanations are certainly possible."[26]

Further evidence of some consumers' discomfort with banks is provided by the latest Survey of Consumer Finances. Asked why they did not have checking accounts,

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[25] Caskey, (1991), *op. cit.*, p. 97.

[26] Phillip Bond and Robert Townsend, "Formal and Informal Financing in a Chicago Ethnic Neighborhood," *Economic Perspectives*, (Federal Reserve Bank of Chicago), July/August 1996, p. 12.

22.8 of respondents cited "Do not like dealing with banks." Their decision was less affected by high minimum balance requirements (8.6 percent) and high service charges (7.9 percent). Multiple responses were permitted.[27]

Increased poverty

The percentage of people below the poverty level rose to 13.1 percent in 1988 from 11.4 percent in 1978. The percentage has continued to grow from a revised figure of 13.0 percent in 1988 to 14.5 percent in 1994.[28] In a more recent paper Caskey shows that the socioeconomic characteristics closely associated with poverty levels – income, age, educational attainment and race – are very reliable predictors of whether or not households have deposit accounts. For example, the 1989 Survey of Consumer Finances showed that only 69.8 percent of households where the head of household had at most an eighth-grade education had a deposit account in 1989. Caskey's econometric model predicted a frequency of 65.9 percent.[29]

In summary, ". . . the relevant measure of poverty to financial markets is not household income; rather, it is the household's ability to maintain financial savings. . . A family's ability to maintain savings depends on its income level as well as its structure, stability of income, special needs, and lifestyle choices."[30] Put another way, it appears from Caskey's macro studies that families do not have savings accounts because they do not have savings. Therefore, it is very likely that the characteristics of customers of pawnshops are similar to those of consumers who do not have financial savings. One of the purposes of the consumer survey analyzed in the next chapter is to test that premise.

Has there been a decline in financial savings that would help to explain the growth of pawnshops? As possible evidence, Caskey points out that the median household net worth among families with incomes of $10,000 or less (in 1989 prices) fell from $3,800 in 1983 to $2,300 in 1989.[31] It seems reasonable that this decline in the net worth of low-income families contributed to the growth of pawnshops during this period. However, since 1989, median net worth of households with median incomes of less than $10,000 (in 1995 dollars) have *risen* from $1,600 in 1989 to $3,300 in 1992 and $4,800 in 1995. Over the same period the median net worth of households with incomes ranging from $10,000 to $24,999 rose 17.2 percent.[32] Since this was a period of rapid expansion in the number of pawnshops, there must be other reasons for their growth.

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[27] Arthur B. Kennickell, Martha Starr-McCluer, and Annika E. Sundén, "Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, 83 (January, 1997 p. 7).

[28] However, these data are flawed, since the measure of income excludes all means-tested government cash transfers, the value of Medicare, regular-price school lunches and other public assistance programs and means-tested government noncash transfers, such as food stamps, rent subsidies, and free or reduced-price school lunches.

[29] John Caskey, "Check-Cashing Outlets, Pawnshops, and the Poor," Paper presented at the 1994 conference of the Allied Social Science Association, p. 16.

[30] Caskey, (1994), *op. cit.*, p. 6.

[31] Caskey, "Who has a Bank Account and Who Doesn't", *Eastern Economic Journal*, 20 (Winter 1994), p. 71.

[32] Kennickell, *op. cit.*, p. 6.

Even consumers who *do* have deposit accounts are very unlikely to be able to obtain small, short-term loans from these institutions. Well before deregulation and increasing poverty, banks, major finance companies and credit unions did not commonly provide small, short-term loans to consumers. For the interest rates that they charge, they could not and cannot draft the loan documents, check credit reports, appraise the collateral, if any, and lend a depositor $75 for one month within 15 minutes. Some other institution was needed to supply that type of service, and that institution was the pawnshop.[33]

b. Supply of pawnshop services

Let us turn to the factors that increased the supply of pawnshop services during the late 1980's and the 1990's. Possibly the most important factor contributing to the growth in the number of pawnshops in the United States during these years was liberalization of state laws regulating pawnshops. Essentially, the demand for pawn services had always existed (and was growing), but state laws prevented private industry from supplying the services to meet that demand. As will be explained more fully later in this chapter, laws restricting the interest rates that pawnshops may charge or increasing their costs of providing services will limit the number of pawnshops in a state and restrict their supply of pawn services. Relaxation of these laws allows new firms to enter the business and existing firms to open new offices.

Evidence to support the link between increased rate ceilings and the growth in the number of pawnshops comes from two types of studies: longitudinal and cross-section. Indiana provides an excellent example of the first type of study. In 1984, there were only 28 pawnshops in the state.[34] Rate ceilings were subsequently increased and other regulations modified. In 1998, there are 148 licensed and operating pawnshops in Indiana. While other factors, such as a growing economy, undoubtedly played a role in the increase in the number of pawnshops, the change in the rate ceiling was dominant. Other states also had strong economies, but with restrictions on pawnshops' rate ceilings, did not greatly increase the number of pawnshops.

A cross-section analysis of the effects of rate ceilings provides further evidence of the association of rate ceilings and the supply of pawnshop services. Caskey and Zikmund [35] employed a cross-section regression analysis of 1987-88 data from 28 states, setting the number of pawnshops per million consumers as the dependent variable. The explanatory variables tested were the interest rate ceiling, the existence of a state law requiring that any surplus from the sale of collateral be returned to the borrower, the percentage of persons in the state below the national poverty level and the percent of people 25 years of age and older with at least four years of high school education. They found a positive relationship between the frequency of pawnshops and the interest rate

[33] Another source is the illegal lender, the 6-for-5 lender who lends $5 at the beginning of the week and expects to be repaid $6 at the end of the week – or else.
[34] Caskey, o*p. cit*. (1991), p. 97.
[35] John P. Caskey and Brian J. Zikmund, "Pawnshops: The Consumer's Lender of Last Resort," *Economic Review*, Federal Reserve Bank of Kansas City, March/April 1990, p. 10.

and poverty levels, but a negative relationship with the educational variable at "reasonably high levels of confidence."[36] These results support the earlier discussion relating the growth in the number of pawnshops over the past decade to the relaxation of rate ceilings and other impediments to their operations.

An increased supply of pawnshop services is especially important to consumers in small cities and rural areas. To pawn a television set, microwave or other large household items, a consumer probably must drive to the pawnshop. Yet if the average loan is about $75, it hardly pays consumers to drive long distances into a city to pawn such items.[37] On a broader basis, the increased supply of pawnshops improves competition that benefits all consumers.

Another important factor explaining the growth in the numbers of pawnshops was the emergence of pawnshop chains from the mid-l980's through the early 1990's. Cash America International was incorporated in 1984 and was listed on the New York Stock Exchange on August 24, 1990. U.S. Pawn was first incorporated in 1980 as Successful Enterprises, Inc., but acquired its first pawnshops in 1988 and is now traded over the counter. EZ Corp., with its pawnshops operating as EZ Pawn, was incorporated in May 1989, and is now traded over the counter. First Cash was incorporated in April 1991 and is now traded over the counter.

These chains grew both by acquiring existing pawnbrokers and by opening new offices. In this process, the chains improved the image of the industry by making pawn services more attractive and more efficient. At the same time, they challenged family-owned pawnshops to modernize as well. They located their stores in convenient locations and made them clean, inviting and brightly lit with adequate parking. Management invested heavily in training personnel. In part, the "modernization" of pawnshops by the chains drew customers from other pawnshops, but in part they also brought new borrowers into pawnshops.

The chains realized significant economies of scale. Whereas small pawnshops had to rely on the judgment of their managers to appraise the loan value of a wide variety of consumer products, the chains built central data banks accessible by computers in the shops to assist in appraisals. For example, the chains can provide managers with estimates of the loan value of diamonds of a certain quality and weight. If one pawnshop has a glut of men's watches, they can be shipped to other shops with shortages. Finally, chains benefit from economies of scale in complying with state regulations. While data

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[36] *Ibid.*, p. 13. With INT = interest rate; POV = poverty rate; ED = high school education, and SUR = surplus rule, the authors' results from the regression were:

$$\text{Pawnshops per million capita} = \underset{(62.7)}{11.5} + \underset{(115.8)}{429.8}\text{INT} + \underset{(56.6)}{203.7}\text{POV} - \underset{(7.8)}{166.6}\text{ED} + 7.9\text{SUR}$$

Standard errors in parentheses. $R^2 = 0.78$.

[37] See Caskey, *op. cit.*, p. 92.

are not available to document the savings for pawnshops, scale economies have been found among commercial banks for compliance with consumer credit regulations.[38]

As the size of stores grew and chains developed, it became essential to develop sophisticated computer systems to keep track of transactions. For example, CompuPawn, one of several firms providing software programs to pawnshops, was developed in 1983 at the Happy Hocker, South Florida's largest pawnshop for its own use. It was made available to other pawnshops in 1985. Such systems provide current data critical to management. They also reduce the cost of providing services and enhance the image of the pawnbrokers with their customers.

A recent development that may further spur the continued growth of pawnbroking is a proposal to franchise pawnshops in smaller markets. Cash America has already franchised several shops, and PawnMart has announced a franchise strategy for secondary markets "designed to allow future franchisees to benefit from the Company's targeted database marketing system . . . computer software and information system, as well as the Company's standardized operating procedures."[39]

As with any other profession, pawnbrokers also recognized a need to share information to work together to gain favorable legislation. The National Pawnbrokers Association is also of fairly recent origin. From its founding in 1988, its membership has grown from 50 to more than 3,000. It provides members with a variety of educational programs and an opportunity for exchanging information and provides further evidence of the increasing professionalism of the pawn industry.

2. Location of pawnshops

As noted in the previous section, there is a wide difference in the distribution of pawnshops *among* the states. To illustrate, in 1988, in relation to each one million state residents, there were only five pawnshops in Indiana, 2.1 shops in New Jersey and 3.1 pawnshops in Pennsylvania. In contrast, for each one million residents there were 113.1 pawnshops in Oklahoma and 75.7 shops in Texas.[40]

Over time, there have been changes in the location of pawnshops *within* states. In earlier years, pawnshops were typically located where customers were concentrated within cities. Recall the locations of pawnshops in Bruges and other medieval cities. It was easy for consumers needing a small short-term loan to carry vests, cloaks, parasols or earrings to the pawnshops in New York. However, it is a greater challenge to carry a microwave, lawnmower or TV set to a pawnshop. Because of the change in the nature of items pawned and the greater availability of transportation, today's pawnshops are more likely to be along highways in strip malls with ample parking. Thus, part of the growth

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[38] Gregory E. Elliehausen and Robert D. Kurtz, *Scale Economies in Compliance Costs for Consumer Credit Regulations: The Truth in Lending and Equal Credit Opportunity Laws*. Washington, D.C.: Federal Reserve Board, 1985.
[39] PawnMart, *op. cit.*, p. 23.
[40] John P. Caskey and Brian J. Zikmund, *op. cit.*, p. 10.

in the number of pawnshops is attributable to the opening of shops outside of the inner cities.

To illustrate the variety of pawnshop locations, we quote from the report of John B. Lynch, the young recent college graduate who administered the questionnaires that provided the data for Chapter 2.

> The A store required that most of its customers drive to the store. Surrounded by strip malls, gas stations and busy intersections, the shop did not serve a specific neighborhood.
>
> While B was located near fast food establishments and other roadside type businesses, a large number of the store's customers walked. Within a city block of this pawnshop was the edge of a neighborhood of low-income housing that stretched for several blocks.
>
> C was extremely close to the interstate. There did not appear to be a neighborhood of any kind within a mile of this store. Anyone shopping here had either driven or gotten a ride.
>
> D was located far enough away from the downtown area that farmland lay only a mile away. Most people drove to this pawnshop.
>
> E is located in the heart of the downtown district. On a personal note, I have never been in an area of such poverty in this country in my life. Half the downtown buildings were abandoned and/or boarded up.
>
> F is surrounded by typical busy roadside establishments, but within walking distance to lower middle class residences. Some of the employees said that there was a lot of crack sold in the area despite its middle class appearance. A former employee at this store was shot to death this past fall during a robbery of the shop.
>
> G is located on the outskirts of the town. A vast majority of customers drive to the shop.
>
> H is located in the heart of the downtown wedged between an upscale restaurant and a dentist's office. Almost all the customers walked in.
>
> I was by far the most rural location of any pawnshop visited. It was surrounded by fields on all sides. Everyone drove, given that this shop was three miles outside of town.

3. The pawn transaction

Pawnshops vary widely in their appearance. While modern pawnshops are attractive with friendly personnel, there are still some pawnshops that are not inviting and may remind a consumer of the 1965 movie, "The Pawnbroker." They may be dirty and

cluttered and surrounded by barbed wire, with armed guards and guard dogs. As time passes, these pawnshops are becoming anachronisms. At some point in the future, it may be desirable to preserve one as an historical reminder of the old days.

Most pawnshops have a retail section to sell pawned items that have not been redeemed, as well as merchandise purchased for sale or transferred from other shops. In some cases merchandise may be purchased to provide a wider choice for shoppers. The profit margin on purchased merchandise is typically much less than that on items that were pawned but not redeemed and the turnover less than that of competing retailers. Thus, pawnshops are unlike other lenders in that they have two businesses under one roof. As will be seen in the next chapter, the patrons that are there only to shop are unlikely to seek to borrow.

That said, let us focus on the pawn transaction. When a consumer enters the pawnshop, employees often greet him or her by name. As will be seen in the next chapter, many consumers are steady customers of a pawnshop, using it essentially as a source of ready cash several times during a year. The consumer presents the item to be pawned. If it is a video camera, for example, the clerk will ask the customer to show how it works. There are two purposes to this exercise. It tests whether the camera works and whether the customer knows how it works. A customer who does not know how to operate an appliance raises questions of ownership.

If the pawn is jewelry, the clerk has a "wand" to test whether the gem is really a diamond and other means of ascertaining the quality of gold, silver and jewels. The clerk may be able to access an on-line database that will provide the loan value and market value of the proposed pawn. In other cases, the employee must rely on experience. What is the loan value of a set of bongo drums, a leather jacket, a set of tools, a bow and arrow? In setting the amount to lend, the clerk will also consider whether this is a long-time, repeat borrower and whether he or she commonly redeems items pawned. This information is readily available on the shop's computer system. In such cases, the manager may grant a higher loan-to-value than normal, and may even lend more than the value of the item.

Once the parties have agreed on the loan, the clerk takes the item pawned and gives the consumer the agreed amount of cash and a pawn ticket (Exhibit 1). The entire transaction may take no more than ten minutes. The consumer wants small amounts of cash quickly, perhaps over his or her lunch hour. There are no credit checks, and nothing appears on the credit record of a pawner if an item is not redeemed.

Exhibit 1

Pawnshop Ticket

NORTH COUNTY LOAN & JEWELRY CO.
8950 West Florissant · Jennings, Missouri 63136
(314) 388-4444

DOE, JOHN — D 37867

101 ELM ST SAINT LOUIS, MO 63136 — 8/26/97 — 09:39 — 9/26/97

SS - 111 11 1111 — State — 6/12/66 — W — 5 11|80 — M

CRAFTSMAN LAWNMOWERS (B ROOM)

AMOUNT FINANCED	$ 50.00
FINANCE CHARGE	$ 9.00
TOTAL OF PAYMENTS	$ 59.00
ANNUAL PERCENTAGE RATE	219.0 %

PAYMENT SCHEDULE
TOTAL OF PAYMENTS is due on Maturity Date shown above

PREPAYMENT: If you pay off early

1 Repayment Date	2 Repayment Date	3 Repayment Date
9/26/97	10/26/97	11/26/97
Pay 59.00	Pay 68.00	Pay 77.00

Interest Charge + Storage & Security Charge + Finance Charge
1.00+ 8.00= 9.00

FORFEITURE DATE 11/27/97

X _____ X _____ NOTICE: See Reverse Side

NORTH COUNTY LOAN & JEWELRY CO.
8950 West Florissant · Jennings, Missouri 63136
(314) 388-4444

DOE, JANE — D 37868

101 ELM ST SAINT LOUIS, MO 63136 — 8/26/97 — 09:42 — 9/26/97

SS - 222 22 2222 — State — 1/03/87 — W — 5 06|25 — F

14K LADIES WATERFALL RING Y/G 5.8 1 STONE MISSING

AMOUNT FINANCED	$ 60.00
FINANCE CHARGE	$ 9.00
TOTAL OF PAYMENTS	$ 69.00
ANNUAL PERCENTAGE RATE	182.5 %

PAYMENT SCHEDULE
TOTAL OF PAYMENTS is due on Maturity Date shown above

PREPAYMENT: If you pay off early

1 Repayment Date	2 Repayment Date	3 Repayment Date
9/26/97	10/26/97	11/26/97
Pay 69.00	Pay 78.00	Pay 87.00

Interest Charge + Storage & Security Charge + Finance Charge
1.20+ 7.80= 9.00

FORFEITURE DATE 11/27/97

X _____ X _____ NOTICE: See Reverse Side

Since pawnshops are subject to truth-in-lending requirements, note on the first ticket, as an example, that John Doe received $50 in return for pawning a Craftsman lawnmower. If the loan is repaid at the end of one month, the consumer must pay $59 to redeem the lawnmower. The additional $9 is the "finance charge," which is calculated as an annual rate of 219 percent. While the finance charge is comprised of $1.00 of interest and $8.00 for storage, the two charges must be combined for purposes of disclosure. While the loan is for one month, there is a three-month redemption period. If the customer repays the loan in two or three months, he obviously must pay more for lengthening the repayment period. Not infrequently, a consumer will obtain a "payday loan," needing the cash to meet an urgent bill coming due before payday, and then repay the loan within a few days. The dollar finance charge is reduced if the loan is prepaid. In this case, the exhibit shows that the consumer will forfeit the lawnmower if he does not redeem it within three months. However, if he makes added interest payments, he may delay redemption.

In many states, the manager must send a copy of the ticket or a description of the item pawned and its serial number to the local police department to check against its records of stolen goods. Often the pawnbroker is required to hold the pawned item for a minimum number of days so that the police have time to recover it. In some cities, the data are transmitted electronically, while in others the police departments do not have computerized files capable of crosschecking theft reports with pawn tickets. Some statutes provide that the pawnshops must obtain the thumbprints of pawners. In addition, most pawnshops have video surveillance cameras that will provide pictures of the individual pawning stolen items. As one manager commented, "Anybody who brings in a stolen article is really very stupid." On the previous day a young man had brought in a bicycle to pawn. Since it was evident that it was much too big for him to ride, the manager called the police, while the would-be pawner fled on foot.

A wide variety of items is pawned. A short survey of members of the National Association of Pawnbrokers in the summer of 1997 produced data on 1,207,160 loans from pawnbrokers in 28 states. The average size of loan was $70.31, with the average size reported by individual pawnbrokers ranging from $260 to $35. The most frequent type of pawn was jewelry, with TVs, radios, speakers, etc., the second most common type of pawn. Guns, hunting equipment and tools followed in popularity.

As in the case of medieval pawnbrokers, today's pawnbrokers must place all items pawned in secure storage. Jewels, guns and other valuables are stored in vaults or other secure facilities. The pawnshop is liable for the replacement value (not the loan value) of any pawn that is lost, stolen or damaged. Since loans are made and repaid only in cash, the shop must have an extensive security system to protect both the employees and the items pawned.

With such a wide variety of items pawned, managing a pawnshop requires intensive training and some fairly unusual skills and great caution. Some idea of the hazards faced by pawnbrokers may be gained from excerpts from the publications of the national and state pawnbroking associations. Pawnbrokers are cautioned to note any defects in the item pawned on the pawn ticket in order to avoid disputes with the

customer when he or she redeems the item. Note that the pawn ticket for the ring in Exhibit 1 notes that one stone is missing. Similarly, if a stone looks like a ruby, but is not a ruby, that would be noted on the pawn ticket as well.

Pawnbrokers must learn to distinguish between a real Rolex and an imitation. Every item pawned must be carefully checked. "Why did the customer leave that tape in the VCR? Was it to help you check it? No, actually the last time he used the VCR, it would not eject the tape and the repair shop said it would cost about $100 for a new loading mechanism."[41] "The loose 1.00-carat diamond that the pawner hands you to evaluate for a loan may be real. But if you set it down or if the customer picks it up one more time to 'check it' or to say 'good-bye' to it, it may not be the same stone when he is done."[42] Buy a few pieces of gold marked as 18K and then find out that it is below 10K in quality, "and do this several times a week and you have lost money . . . maybe a lot of money."[43]

If all goes well, the consumer will return to redeem the pawn. In the survey cited above, respondents indicated that about two-thirds of items were redeemed, although redemption rates ranged from 90 percent to six percent. Even though they anticipate a profit when they sell forfeited items, most pawnbrokers prefer that customers redeem their pawns and return for more loans.

Historical records and discussions with pawnbrokers reveal the long-term relationships that they build up with many of their customers. For example, Simpson's, one of the oldest pawnshops in New York had built up a long-term relationship with free-lance photographers:

> When spot news popped anywhere in the city, Grandpa and the men working in the hockshop knew about it hours before reporters had the chance to write the story. This was because the free-lance newspaper photographers kept their cameras and other equipment in our place . . . He also instructed his clerks to hand the men their equipment without getting any payment on it.[44]

A pawnbroker with a shop near an Indian reservation where raising sheep for wool provides the main source of income explained how in the early part of each season, the women would come in to pawn their turquoise jewelry to raise the cash to finance the ranch. Each fall they would return with cash from the shearing to redeem the jewelry.[45] Pawn records reveal consumers who bring in the same watch, necklace, guitar or other valuable several times during a year. Each item is a household's "cash reserve," and the management readily accepts the pawn—not only because that transaction will be

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[41] Ric Blum, "Is It What It Appears to Be," *National Pawnbroker*, Fall, 1996, p. 14.
[42] *Ibid*., p. 15.
[43] Richard J. Budig, "Some Basic Tips on Evaluating the Worth of Gold," *National Pawnbroker*, Fall, 1996, p. 36.
[44] Simpson, *op. cit*., p. 43.
[45] Oddly, the government agency supervising the reservation forced the pawnshop to move from its convenient location within the reservation to the edge of the reservation. Thus, the native Americans had to drive many more miles to get to their "bank."

profitable, but also because the consumer will return to pawn again and provide referrals to other customers.

4. Effects of regulation on revenues, costs and consumers

We have seen that states with restrictive regulation of pawnshops have fewer pawnshops per capita than those that are less restrictive and that, when restrictions are lessened, the number of pawnshops increases. What is the mechanism for this association between various types of legislation and the availability of pawn services? More important, how are consumers affected—both current and potential consumers?

a. Cash loans vs. pawnshop loans

Let us first review the effect of rate ceilings on cash loans provided by finance companies, commercial banks and credit unions. The effect of rate ceilings on the availability of cash credit from these financial institutions has been described as follows:

> Restrictive rate ceilings on cash credit force lenders to deny credit to consumers who pose a high risk or desire only small amounts of credit.. . . Not only do ceilings ration consumers out of the legal market, but also they drive smaller lenders from the market and thereby diminish competition.[46]

> . . . economists have generally criticized these regulations [usury ceilings] as detrimental to low-income consumers because financial institutions under binding rate ceilings tend to allocate credit to only the most credit-worthy borrowers, who generally belong to middle-or high-income groups.[47]

> I know of no economist of any standing . . .who has favored a legal limit on the rate of interest that borrowers could pay or lenders receive—though there must have been some.[48]

This economic rationale for higher rates based on borrower risk does not apply to pawnshop loans. The reason is simple. The credit risk has been eliminated because the loan is secured by a pledge of an asset placed in the inventory of the pawnshop. The risk is not with the borrower, but with the ultimate market value of the item pledged if the loan is not repaid.

This difference between the allocation of credit risk has an interesting implication regarding which consumers pay for the credit losses. In the case of cash loans, the lender charges the interest rate appropriate to each risk class. Assume that a group of consumers might be charged 25 percent. The lender obviously does not know which of these consumers will default; if he did, he would not lend to them. When they default, the

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[46] Michael E. Staten and Robert W. Johnson, *The Case for Deregulating Interest Rates on Consumer Credit*. West Lafayette, IN: Credit Research Center, 1995, p. 49.
[47] Caskey, o*p. cit*., (1991), p. 95, citing Harold C. Nathan, "Economic Analysis of Usury Laws," *Journal of Bank Research* 10 (Winter 1980), pp. 200-11.
[48] Milton Friedman, "Defense of Usury," *Newsweek*, October 25, 1970, p. 139.

consumers who *do* pay their debts bear the costs of the defaulters' credit losses by paying the 25 percent rate. In the case of pawnshop loans, consumers who default lose their collateral. If the loan-to-value ratios are optimal, *they* bear the cost of their default by sacrificing the difference between the market value of their collateral and their loan. Hence, consumers who do not default pay their interest, redeem their collateral and do not subsidize defaulting consumers, as in the case of cash loans.[49]

b. Effects of a reduction in interest rate ceiling

To understand how rate ceilings affect pawnshops and their customers, consider the following hypothetical and greatly simplified cost/revenue example for a pawnshop. Assume that a pawnshop makes four loans per month at an average of $72 per loan (line 1 of Exhibit 2). With an expected market value of $120, the loan-to-value ratio is 60 percent. At the end of each month, three loans are repaid and the items pledged are redeemed. Since the interest rate is 18 percent per month, each of the three loans yields $12.96 for a total of $38.88 for the three loans at the end of the month. The fourth loan is not repaid, and the item is promptly sold for $120. The recorded profit on the sale is $48, or 40 percent of the sales price. The handling costs *per* loan (customer service, storage and insurance costs, etc) are $10, a conservative estimate. The net return is $46.88, which provides a gross monthly yield of 16.3 percent on the initial outlay of $288 (4 x $72). Assume that this is the yield necessary to provide the required return to the owners after all other costs and taxes are taken into account. These assumptions are reflected in the first line of Exhibit 2.

Now assume that the legislature decides to "protect" consumers by reducing the allowable monthly percentage rate from 18 percent to 12 percent. The total interest earned on the three repaid loans drops from $38.88 to $25.92 (line #2). Ultimately, the firm's monthly gross yield drops from the needed 16.3 percent to 11.8 percent. Under our assumption, that gross yield is not enough to warrant staying in business.

Exhibit 2

Cost/Revenue Model of Pawnshop – 1

Mo.	No. of Loans	$ per Loan	Total $ Loans	No. Redeem	Interest **18%/** mo.	Sales	Profit 40%	Cost/ Loan	Total Cost	Net $ Return	Monthly % Return
1	4	72	288	3	38.88	120	48	10	40	46.88	16.3
					12%						
2	4	72	288	3	25.92	120	48	10	40	33.92	11.8
3	4	106.7	426.8	3	38.41	177.8	71.13	10	40	69.55	16.3

Rather than immediately close his door, what can the owner do? He would not elect to serve only those customers who pose a low credit risk, as would be the reaction

[49] Steve Alexander, Senior Vice President, Fleet Bank, and a member of the Advisory Council, Credit Research Center contributed this interesting analysis.

of a bank, finance company or credit union. As we have seen, that is not the issue. The pledging of a suitable pawn has eliminated the credit risk. One approach is to deny loans to customers seeking only very small loans. By emphasizing jewelry, rather than simple tools and CD players, the pawnbroker might raise his average loan from $72 to $106.70. Over time, he may also reduce his storage costs. It takes much less space to store necklaces than bongo drums. With this approach, he will restore his required 16.3 percent gross yield, as shown in line 3 in Exhibit 2.

This tactic is nice in theory, but difficult in practice. The pawnbroker is currently accommodating customers who have average cash needs of $72, and the pawns required to support those needs. Possibly they have a greater need, but not the household items required to obtain a larger loan. But they do not have an *average* need of $106.70. Obviously, some pawnshops can survive in this state, but survivors will gravitate to locations where there are enough consumers with enough higher-value items to pawn to generate an average loan of $106.70.

Another way of trying to adjust to the reduction in the rate ceiling is to lend less in relation to the value of the items pawned. This tactic may enable the pawnshop to stay in business, since competitors are faced with the same restriction on their revenues. Let us examine the limits on this alternative by referring to Exhibit 3. As in Exhibit 2, it is assumed that at the end of each month three of the four loans are repaid and the pawns redeemed. The unredeemed pawn is sold for $120.

Since the items pawned are still the same items used in Exhibit 2, the pawnshop owner cannot simply raise their selling price when they are not redeemed. If it were that easy, he would have done so when the rate ceiling was 18 percent. No, to widen the margin on the sale of unredeemed pledges, the owner must reduce the amount loaned. With a gross margin of 40 percent and a rate ceiling of only 12 percent, the gross yield was 11.8 percent (the top line in Exhibit 3). As noted earlier, the owner needs a gross yield of 16.3 percent to survive.

Exhibit 3

Cost/Revenue Model of Pawnshop - 2

No. of Loans	$ per Loan	Total $ Loans	Interest 12%/mo.	Profit %	Sales	$ Profit Margin	Total Cost	Net $ Return	Monthly % Return
4	72.0	288.0	25.92	0.40	120.0	48.0	40	33.92	0.118
4	70.8	283.2	25.49	0.41	120.0	49.2	40	34.69	0.122
4	69.6	278.4	25.06	0.42	120.0	50.4	40	35.46	0.127
4	68.4	273.6	24.62	0.43	120.0	51.6	40	36.22	0.132
4	67.2	268.8	24.19	0.44	120.0	52.8	40	36.99	0.138
4	66.0	264.0	23.76	0.45	120.0	540	40	37.76	0.143
4	64.8	259.2	23.33	0.46	120.0	55.2	40	38.53	0.149
4	63.6	254.4	22.90	0.47	120.0	56.4	40	39.30	0.154
4	**62.4**	**249.6**	**22.46**	**0.48**	**120.0**	**57.6**	**40**	**40.06**	**0.161**
4	61.2	244.8	22.03	0.49	120.0	58.8	40	40.83	0.167
4	60.0	240.0	21.60	0.50	120.0	60.0	40	41.60	0.173
4	58.8	235.2	21.17	0.51	120.0	61.2	40	42.37	0.180
4	57.6	230.4	20.74	0.52	120.0	62.4	40	43.14	0.187
4	56.4	225.6	20.30	0.53	120.0	63.6	40	43.90	0.195
4	55.2	220.8	19.87	0.54	120.0	64.8	40	44.67	0.202
4	**54.0**	**216.0**	**19.44**	**0.55**	**120.0**	**66.0**	**40**	**45.44**	**0.210**

Exhibit 2 shows that the pawnshop owner has an array of choices to improve the monthly rate of return. Let us test the results of a strategy of cutting the loan-to-value ratio in order to raise the gross margin on the sale of unredeemed pawns from 40 percent to, say 48 percent. The results of this approach are shown in the bold-faced line about midway in the table. Since the owner cannot increase the selling price of redeemed pawns, he reduces the loan per item to $62.40. Whereas on average consumers previously received $72 on items pawned, under the new protective rate ceiling they will now receive an average of $62.40—a loan-to-value ratio of 52 percent, down from 60 percent.

As a result, total loans would be $249.60 (4 x $62.40). The one item not redeemed would, as before, be sold for $120. Given the lower amount of the loan, the gross dollar return on the sale would be $57.60 ($120 - $62.40), yielding a gross margin of 48 percent (57.60/120). The total gross dollar return for the month on the *three* loans that were repaid is then the interest ($22.46)[50] plus the profit on the sale of the one item ($57.60), or ($80.06.) After deducting the handling costs of $40 ($10 per loan), the pawnshop has a *net* return of $40.06. The shop's net investment at the beginning of the month was $62.40 per loan, or a total of $249.60. Hence, the net monthly return under that strategy is 16.1 percent.

The last line in bold face in the exhibit shows that if the owner were to set a ratio of loan to value of only 45 percent, he could obtain a rate of return of 21 percent. While

[50] ($62.40 x 3) x .12 = $22.46

the pawnshop owner might be delighted to generate a gross yield of 21 percent, a *competitive* market will not permit it. If he offers an average loan of only $54 to gain a gross margin of 55 percent when competitors are offering average loans of $62.40 for a gross margin of 48 percent, he will not survive for long. The key modifier here is "competitive" and the rate ceiling will surely have reduced the number of competitors. The critical issue of competition will be discussed later.

Moreover, his decision concerning the loan-to-value ratio is more complex than might appear. As he lowers his loan-to-value ratio, he increases the probability that borrowers will redeem their collateral. But, as more borrowers redeem their collateral, his gross profit from sales are lowered. In other words, the model shown in Exhibit 3 assumes that as the loan-to-value ratio is reduced, the redemption percentage of 75 percent is unchanged. In actual practice, the redemption ratio is a function of the loan-to-value ratio and will increase as that ratio is reduced. In an extreme case, as in the public pawnshops in France, where loan-to-value ratios may be only 20 percent, redemption ratios must be very high. As suggested, it is likely that only those consumers who are unable to redeem their pawns must be seriously financially distressed. It follows that the public pawnshops' profits on those sales must be very high indeed to offset the very low interest rates charged those who do redeem their pawns.

Even lowering the loan-to-value ratio will not allow all of the pawnshops within the state to survive the cut in the rate ceiling. Consumers' total demand for pawnshop loans will decline because the loans are now less desirable. Why is this so? First, some consumers will accept the "second-best" alternative of borrowing less because they have inadequate household assets to pawn. These consumers are likely to be young, renters, with modest or irregular incomes. They are not necessarily poor credit risks. They just do not have a lot of household assets that they can do without during the time that the loan is needed.[51] But, by borrowing less, they generate less interest income and lower gross profits from the sale of forfeited items than before rate ceilings were reduced.

Next, consider two groups of consumers who need to borrow $72: (1) those who can pledge additional collateral; and (2) those who cannot provide the added collateral.

Group 1. For those consumers who can provide more collateral the cost of pawnshop loans has increased. Thus, a consumer who wishes to borrow $72, must now pawn goods with a market value of $138.46, rather than $120, an increase in the cost of the "investment" required to obtain the loan of $18.46.[52] What does the consumer receive in return? The cost of the loan has dropped by $4.32.[53] The annual percentage rate charged and disclosed has dropped from 216 percent to 144 percent. However, as will be seen later, most pawnshop customers will probably conclude that pawnshop loans are less desirable than before the state legislature reduced the permitted rate.

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[51] Some consumers needing cash may buy household items on their store credit card and then bring them into the pawnshop to obtain cash to pay their utility bill or for other urgent needs.

[52] The pawnshop must earn a gross margin on sales of 48 percent; that is a cost of sales of 52 percent. To provide a loan of $72 rather than $62.40, the items pawned must have an expected market value 72/0.52, or $138.46.

[53] The decline in the finance charge = (.18)(72) – (.12)(72) = 4.32.

Group 2. Consumers who really need $72, but who cannot provide the added collateral required for a loan from a pawnshop, will turn to less desirable sources of credit. However, as will be shown at the end of this chapter, other financial institutions are unlikely to provide loans of $72, even with collateral. Consumers rejected by pawnshops because of lowered rate ceilings are more likely to turn first to friends or relatives. (See Chapter 2). In the end, they may borrow from illegal lenders or other unsavory sources of small short-term loans.

C. Effects of other regulations

Other regulations affecting pawnshops have very similar adverse results for consumers, and the same framework of analysis is relevant. Some state laws require that pawnshops retain pawns for a specified period of time before being sold. The requirement delays the recovery of the shop's investment in the loan and the value of the collateral may decline as well. Any such forced delay in selling an unredeemed pawn exposes the pawnshop to a falling market price from recession or obsolescence of the item pawned.

Some statutes require that pawnshops return any profit on the sale of an unredeemed pawn. Not only does the pawnshop lose the profit, but it also must spend extra money to provide a notice to the defaulting borrower. These provisions benefit those consumers who are "slow pay" or "no pay" at the expense of other customers who must (a) receive a lower loan-to-value ratio than would otherwise have been the case; or (b) are denied requests for loans that are now too small to be profitable.

For many years, New York has combined all of these provisions in one statute: (1) low rate ceilings (three percent per month), plus a monthly service charge of $5 for loans of $100 or more and $3 for loans under $100; (2) the collateral must be held for four months after the loan period; and (3) after the holding period the pawn must be sold at advertised auction and the excess proceeds paid to the delinquent debtor. As operating costs have risen over time, while revenues have been constrained by the rate ceiling, it should come as no surprise that the "number of pawn shops in New York City tumbled from 130 in 1950 to 35 in 1975."[54]

Competition is critical for the protection of consumers and the efficiency of credit markets. Some states and cities have "convenience and advantage" licensing statutes that place limits on the number of pawnshops in a geographical area. When competition is restricted in this manner, consumers find pawnshops less convenient and may also obtain less favorable terms than would be found in a fully competitive market. There is no more economic support for such restrictions than for rate ceilings. The framers of the Uniform Consumer Credit Code adopted a "financial responsibility, character and fitness" requirement for supervised lenders and specifically rejected convenience and advantage licensing.[55] The National Commission on Consumer Finance stated that it "finds no

[54] Jarret C. Oeltjen, "Pawnbroking on Parade," *Buffalo Law Review*. 37 (1988/89), p.776.
[55] Comment 1, Section 2.302.

value in 'Convenience and Advantage' limitations on entry. There is ample evidence indicating that these and other similar restrictions are disadvantageous to the public and should be abolished."[56]

d. Effects of an increase in interest rate ceilings

If pawnshops have been operating under low rate ceilings and other restrictions discussed above, it follows that an increase in the rate ceiling and removal or reduction in the other restrictions will encourage entry into the business and wider geographic availability.

If the economic analysis and empirical evidence that rate ceilings are harmful to consumers are so strong, why do many state laws still greatly discourage pawnbroking? A very important reason is that legislators fear being attacked by the news media and consumer groups if they advocate a rate ceiling of, say, 20 percent per month or 240 percent at an annual rate. It is not easy to persuade legislators and some consumer advocates that those rates are required if consumers are to receive small, short-term loans. Yet the consumers who rely on pawnshops for small, short-term loans are "real people," as will be demonstrated in the next chapter.

Another reason for the maintenance of low rate ceilings rests within some members of the industry. It might appear that an increase in interest rate ceilings and elimination of other restrictive provisions would be applauded by owners of pawnshops in a state with a low rate ceiling. However, economic analysis suggests that their enthusiasm may be muted.

Suppose that the imposition of a rate ceiling has driven a number of pawnshops out of business in small towns and less affluent areas of the major cities. Necessity aided by the lack of competition has enabled the survivors to increase the average size of their loan and decrease the ratio of loan to value. Given the reduced level of competition, it is entirely possible that the gross yield on investment of the survivors is more favorable than in earlier years when the rate ceilings were higher.

It is not possible to predict how the pawnshops that survive in a low-rate environment will restructure their average size of loan and the loan-to-value ratios. However, a variety of combinations can be suggested. Rather than accept an average loan of $72, it is economically necessary to emphasize large loans. As shown in Exhibit 4, it is even possible to reduce the gross margin on sales from 40 percent to 38 percent and still make a better gross return on investment than under less restrictive regulation (16.6 percent vs. 16.3 percent). An even more profitable approach might be to seek an average loan of $100, and count on limited competition to raise the gross margin on sales to 45 percent. This strategy would generate a gross return on investment of 19.5 percent. Again, these are hypothetical calculations to demonstrate the direction of response to low rate ceilings and other restrictive regulations.

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[56] *Consumer Credit in the United States*. Washington, D.C.: National Commission on Consumer Finance, 1972. (U.S. Government Printing Office)

Exhibit 4

Cost/Revenue Combinations With Restrictive Rate Ceilings And Regulations

No. of Loans	$ per Loan	Total $ Loans	Interest 12%/mo.	Profit %	Sales	$ Profit Margin	Total Cost	Net $ Return	Monthly % Return
4	100	400	36.0	0.45	181.8	81.8	40	77.82	0.195
4	110	440	39.6	0.42	189.7	79.7	40	79.26	0.180
4	120	480	43.2	0.40	200.0	80.0	40	83.20	0.173
4	130	520	46.8	0.38	209.7	79.7	40	86.48	0.166

Will the owners of pawnshops that have managed to survive under restrictive legislation seek to raise rate ceilings, eliminate restrictive regulations and encourage entry into the industry? Economic self-interest suggests otherwise. Before money market funds were available, were commercial banks anxious to eliminate rate ceilings on what they could pay on savings accounts? Did the owners of baseball teams advocate free agency for their players? Did small loan companies with licensed offices in states with strict convenience and advantage licensing requirements advocate striking those requirements from the books? Pawnshop owners generally fought vigorously against lowering rate ceilings and imposing other restrictive legislation. However, once restrictive laws are enacted, the survivors do not necessarily aggressively seek to return to the earlier and more competitive markets. This comment is not a criticism, but recognition of rational economic self-interest.

This discussion provides an admonition for state legislators. It may be popular to reduce rate ceilings and impose other regulations on pawnshops. However, once restrictive laws are enacted and prove to harm the very consumers that were to be protected, it is difficult to return to the earlier more competitive market. The consumers who have been disadvantaged by the restrictive legislation are unlikely to have advocacy groups who will argue for a return to higher rate ceilings (or no rate ceilings at all). It is hard to unscramble eggs.

5. Alternatives to pawnshops

Rate ceilings and other regulations that affect profitability or restrict competition will harm consumers that rely on pawnshops for quick, small short-term loans only if there are no viable alternatives conveniently available. This section analyzes the likelihood that other lenders will supply small, short-term loans, while the following chapter explores the same issue from the standpoint of pawnshop customers. The discussion in this section focuses strictly on the availability of loans to consumers, not lifeline banking or other payment services for consumers.[57]

[57] For example, see Edward I. Rubin, "The Lifeline Banking Controversy: Putting Deregulation to Work for the Low-Income Consumer," *Indiana Law Journal*, 67 (1992), pp. 213-249.

Consumers who patronize pawnshops also may obtain other financial services from rent-to-own companies, check-cashing outlets and firms that accept post-dated checks ("payday loans") in return for immediate cash. This market is sometimes referred to as "fringe banking" the "alternative financial sector" or the "forgotten credit market."[58]

Only the post-dated check financing would be a possible competitor to pawnshops. A typical example would be a consumer who gives the outlet his or her check for $120, postdated for two weeks, in return for immediate cash of $100. The finance charge is $20, and the annual percentage rate would be about 520 percent. The interest rate is consistent with the greater risk assumed by these lenders; these loans are not secured by any collateral. These may not offer a significant alternative source of funds for pawnshop customers. They must have a checking account, and many do not. Even if they do have checking accounts, the term of the loan is too short for many of their needs and the rates of charge greatly exceed pawnshop rates.

Do pawnshops compete with banks and finance companies? Among the active borrowers[59] surveyed only 12 percent had borrowed from a bank during the previous 12 months and only 16 percent had borrowed from a finance company. Only one-fifth of active borrowers were members of credit unions, and only a third of them had borrowed from their credit unions. While some consumers do not borrow from these financial institutions because they are not comfortable in dealing with them, most of them have recognized that these institutions do not make small short-term loans within a very short period of time.

Consumers of any economic strata are very unlikely to be able to obtain small cash loans that average about $75 from a financial institution. Since these financial institutions do not accept household items for security, the creditworthiness of the borrower becomes an issue. But even if the applicant is creditworthy, it is not profitable for most of these institutions to make small cash loans. The cost of gathering data from a consumer on a loan application, checking the applicant's credit record and preparing the loan agreement would far exceed the rates that banks, finance companies or credit unions traditionally charge. Moreover, they could not complete the loan arrangements within 15 minutes.

The only possible alternatives to pawnshops are the small small loan companies that are found in the southeast and western states. If even they do not compete effectively with pawnshops, it becomes critically important to create a legislative framework that encourages entry and survival of pawnshops in a competitive market. Otherwise, the consumers' alternatives are friends and relatives or non-charitable sources such as illegal lenders and swap shops.

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[58] For example, see Roger Swagler, John Burton and Joan K. Lewis, "The Alternative Financial Sector: An Overview," *Advancing the Consumer Interest*, 7 (Fall 1995), pp. 7-12.

[59] Those who were borrowing at the time of the survey or who had borrowed from a pawnshop within the previous 12 months.

Fortunately, there is an excellent study of the small small loan companies in Texas.[60] These firms make cash loans of $100 or less to consumers and are found mainly in the south and southeast. The data from that study can be used to compare with the data from our survey to answer the question: Do pawnshops compete with small small loan companies in the small cash loan market? Although the study in Texas was made in 1972, it is possible to compare on a number of dimensions the consumers with loans of less than $100 with those who had recently borrowed from pawnshops. Rates ranged from 108 percent to 240 percent on the loans in Texas.

A first step in the analysis is to adjust for changes in the consumer price level. The consumer price index for urban workers rose from 41.8 in 1972 to 160.5 in December 1997. The question is: "What size of loan today would provide the same purchasing power as a loan of $100 in 1972?" The answer is $384. Put another way, assume that in 1972, the Texas legislature had indexed the ceiling on the size of loan to the consumer price index. In that case the ceiling on small small loans in Texas would be $384 today—far above the average size of pawn loan made in Texas.

Alternatively, we can ask, "If pawnshop loans average about $75 today, what would be their equivalent size in terms of purchasing power in 1972? A loan of about $20 would have provided about the same purchasing power as a $75 loan today. But, Durkin's study shows that most of the 1972 loans were far above the 1972 equivalent of today's average pawn loan. Of the almost 1,600 loans surveyed, 45.7 percent were for $100, of which more than nine-tenths were for six months. Only 3.8 percent of the loans made by small small loan companies were $25 or less. The typical size and maturity of loans from small small loan companies and pawnshop loans differ so much that it is doubtful that significant competition exists between these two types of lenders.

Consistent with differences in size of loan between small small loan companies and pawnshops, there also appear to be differences in consumers' purposes for borrowing. Comparisons are difficult, since Durkin's questions were open-end, while CRC's questionnaires offered nine alternatives plus "other." Multiple responses were permitted in both cases. Pawnshop borrowers were evidently more likely to be faced with pressing bills (31.9 percent) than were consumers that were borrowing from small small loan companies (23.9 percent).[61] They were also more likely to be borrowing for automobile repairs and other expenses (11.3 percent vs. 4.8 percent) and less likely to be borrowing for medical expenses (4.8 percent vs. 11.3 percent). In the latter case, the average amount borrowed from a pawnshop would typically not go far in covering medical expenses, either in 1972 or 1998.

The small small loan companies in Texas competed more with banks and large finance companies than did the pawnshops surveyed in this study. A significantly larger portion of the borrowers from small small loan companies that Durkin surveyed had used

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[60] Thomas A. Durkin, "A High Rate Market for Consumer Loans: The Small Small Loan Industry in Texas," National Commission on Consumer Finance, Technical Studies Volume II, pp. 1-99. Washington, D.C. U.S. Government Printing Office, 1975. Each of the four papers in this publication is numbered separately.

[61] *Ibid*., p. 41. Utility bills are added into the category: "old bills, debt consolidation."

these alternatives than had the active pawnshop borrowers in this study. Durkin found that 22.4 percent of the consumers in his survey had borrowed from banks or savings and loan associations within the previous 12 months (vs. 12.3 percent in this study), and 24.1 percent had borrowed from credit unions within the previous 12 months (vs. 11.3 percent in this study).[62]

On one dimension, the borrowers from small small loan companies and from pawnshops appear to be similar. Both were generally well aware of the dollar cost of their loans, but not the quoted annual percentage rate. Durkin asked borrowers for the dollar cost and annual percentage charge on their loans. While those questions could have been asked in the survey of pawnshop customers, they were not asked for two reasons. First, only a small portion of our respondents in the pawnshop had just borrowed, and it would have been very difficult to track down those who had recently borrowed. Second, consumers who had borrowed in the past typically had borrowed several times, and it would have been impractical to ask them to recall the dollar or percentage cost of particular loans.

Durkin found that only 2.4 percent of respondents were able to recall the percentage cost of their loans, but 41.3 percent could recall the dollar cost, and an additional 20.1 percent were reasonably accurate in remembering the cost of other loans.[63] We observed the same phenomenon in a videotape of a focus group of six regular customers of pawnshops. When asked about the cost of their loans, they could recite the dollar cost of their loans for one month, as well as the dollar rebate that would be available if they repaid early and the dollar cost of extending the loan another month. None mentioned the annual percentage rate even though it was disclosed on the pawn ticket.

Further evidence of consumers' focus on the dollar finance charge on small, short-term loans is provided in a study of moneylenders in the United Kingdom. Their rates ranged "between 100 to 500 percent depending principally on the length of the loan."[64] The rates reflect the fact that the loans were unsecured and collections were made monthly. Borrowers seemed to be well aware that their loans were more costly than the rates charged by other sources of credit. "But many people were not aware and not particularly concerned about the APR. Their views were based more on the proportion of money they were repaying on top of the principal amount. The calculation was made regardless of the time period of the loan."[65]

In summary, consumers seeking credit from small small loan companies and pawnshops generally do not have meaningful access to other sources of such loans. Major financial institutions do not offer small short-term loans quickly with few questions asked and minimum paper work. At the same time, however, little competition exists between small small loan companies and pawnshops. With the exception of their tendency to measure the level of finance charges in dollars rather than percentages,

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[62] *Ibid*., p. 31.
[63] *Ibid*., pp. 37-38.
[64] Karen Rowlingson, *Moneylenders and Their Customers*, London: Policy Studies Institute, 1994, p. 154.
[65] *Ibid*., p. 96.

consumers who patronize small small loan companies differ from pawnshop customers on a number of dimensions. Thus, small small loan companies should not be considered as part of the economic market served by pawnshops. Public policy makers who wish to allow consumers to obtain small, short-term secured loans within 15 to 20 minutes will design laws and regulations to encourage entry into the market and competition among pawnshops.

C. Conclusions

Pawnshops have existed for centuries. The enduring nature of pawning stems from the structure of the financial arrangement. There is no credit risk. The risk rests with the item pawned: its market value if it must be sold later, whether it is what it is claimed to be and whether it really belongs to the consumer pawning it. Pawnshop borrowers, who have ranged from princes to peons, have one common characteristic. They do not have financial savings to meet what they regard as pressing, short-term liquidity needs. Over the centuries, successful pawnshop lenders have had two common characteristics. They have related well to the borrowers and they have the ability to appraise the value of the item pawned.

The number of pawnshops in the United States has grown rapidly over the past two decades. Macro-economic studies show that the growth may be attributed to an increased demand for small short-term loans. Factors that evidently played a role are increased levels of poverty and, possibly, the effect of deregulation of the banks on the availability of deposit services. However, it is quite likely that the absence of savings accounts is attributable only in part to the banks' driving out small deposits, but more importantly to "the household's ability to maintain financial savings."

Pawnbroking is a unique market. A large portion of consumers needing small short-term loans quickly has almost no legal alternative source of such loans. Even if a consumer has a steady job and has always paid bills promptly, he or she is unlikely to be able to obtain a one-month loan of $70 within minutes from a bank, finance company or credit union. These lenders are seldom equipped to provide that type of service. This is not a criticism of those institutions. A wholesale grocer does not sell one apple at a time. Even the small small loan companies found in Texas and other states in the southeast and southwest do not appear to be significant competitors of pawnshops. The alternatives of swap shops and illegal lenders are not welcome alternatives.

Ever since loans of money or victuals or "anything lent upon usury" have been made, there have been efforts to restrict the charges for the loan. History has shown that efforts to reduce the interest rates charged by pawnshops have inevitably harmed the consumers they were intended to benefit. Government-owned pawnshops have either been dismal failures or heavily subsidized by taxpayers and those consumers unable to redeem their pawns. Analysis of a hypothetical and simplified model of revenues and costs of a pawnshop shows why reducing the allowed interest rates on pawnshop loans forces surviving pawnshops to reduce the loan-to-value ratio of pawnshop loans. Moreover, by driving some pawnshops out of the market, the reduced rate ceilings would encourage the remaining pawnshops to move to more affluent markets in order to raise

the average size of loan. Other regulations that would decrease revenues or increase costs would have similar effects.

Given the fact that the majority of pawnshop customers have few legal alternatives to obtain small short-term loans, the burden of these regulations designed to "protect" pawnshop customers falls directly on those customers. Those that remain as customers will be forced to pledge more possessions to obtain loans. Others will be forced out of the market because there are no longer convenient pawnshops available or because they do not have enough possessions to pawn for their financial needs. Who are these current customers? What are their socio-economic characteristics? One of the basic purposes of the CRC survey was "to put a face" on these consumers so that they will no longer be participants in a "forgotten market."

CHAPTER 2

CONSUMER SURVEY AND ANALYSIS

This chapter is divided into three parts. The first section explains the origin of the survey of consumers who were patronizing pawnshops, the selection of the pawnshops to survey, the design of the questionnaires and the procedures used to persuade customers to fill out the questionnaires. The major portion of the chapter is devoted to presenting the findings and analyzing their implications for consumers, the industry and regulators.

A. Background and methodology

1. Origins of the study

In recent years, a few academic economists have shown some interest in what has been variously termed "fringe Banking," "unbanked consumers" or the "forgotten" credit market. The founding father of research in this field is undoubtedly Dr. John Caskey, as evidenced by the numerous footnotes to his research in the preceding chapter. The origin of his interest are explained in his ground-breaking book, *Fringe Banking*:

> Several years ago, my curiosity about pawnshops was piqued by hearing an interview with a pawnbroker on National Public Radio. Subsequently, an afternoon in the library revealed that no economist had analyzed the role of the pawnbroker in the financial system for over 30 years. I thought that I might undertake such a study, to investigate why and when pawnbroking had died out. When I discovered that it had not died out but, in fact, had boomed over the 1980's, I had to change the premise of my study.[66]

Research in this area is extraordinarily difficult. State regulators differ widely in the data that they collect and make available. There is no industry-wide database conveniently available in an annual report, let alone on computer tape. Caskey based most of his findings on laborious digging, principally from interviewing pawnshop owners and regulators. Small wonder that few other academics have followed in his footsteps.

The Credit Research Center (CRC) became interested in pawnshops for several reasons. Founded in 1974, the purposes of CRC, as stated in the bylaws, "are to stimulate and support research pertaining to the markets for retail financial services." John Caskey stimulated our interest in the subject by his presentation at one of the semi-annual meetings of CRC's Advisory Council and at a research conference sponsored by the Federal Reserve Bank of Kansas City and by his publications in the area.

It became obvious from those discussions that a major barrier to a better understanding of the industry was the absence of detailed information about the most important participant in the industry: the pawnshop customer. Basically, we know no

[66] Caskey (1992), *op. cit.*, p. xi.

more about today's pawnshop customer than we did about borrowers from small loan companies in the early 1900s.[67] Yet, this knowledge is critical if we are to understand why consumers use pawnshops to obtain small, short-term loans. While these data about consumers are important marketing information for the industry, they are essential to forming public policies concerning the regulation of pawnshops. Any regulation will affect, adversely or favorably, the consumers that use the services of pawnshops. But, what do these "real people" look like? Do they have reasonable alternative sources of such loans? If so, why are they at the pawnshop? The data in the major part of this chapter on 1,820 patrons of pawnshops provide for the first time information to answer these and many other questions concerning the pawnshop industry.

This study was financed by a contribution from the National Pawnbrokers Association and from the general, unrestricted funds of the Credit Research Center (CRC). The members of the Advisory Panel donated their time, while the Credit Research Center covered their expenses for meetings. Finally, gathering data from pawnshop customers was made possible by the full cooperation of a number of pawnshop owners, their staff and their customers. As with all CRC publications, the staff of the Center has sole responsibility for the final report. Professor John Barron, Professor of Economics, Krannert Graduate School of Management, Purdue University, should receive special accolades for his contribution to the research design and implementation of the survey.

2. Design of the study

The first step in the research process was to meet with the Advisory Panel to learn more about the operations of pawnshops, the critical issues that needed to be studied and how data about customers was to be gathered. Following that meeting, we turned our attention to how we could gather information about pawnshop customers. First, we decided that we needed a "control sample," with which to compare those consumers who were borrowing from the pawnshop. Rather than attempt to take a random sample of consumers living in the community, we decided to use as the control sample those consumers who were shopping at the pawnshop. These consumers knew where the pawnshop was located, were comfortable shopping there and were drawn from the same geographical area.

The next step was to design questionnaires that were not so long or obtrusive that we would damage our response rates. (The questionnaires can be found in Appendix 1). Our basic objectives were to determine for borrowers and shoppers: (1) socio-economic characteristics and income levels; (2) borrowers' perceptions about alternatives to pawnshops for small, short-term loans; (3) current relationships and experience with other financial institutions and credit; (4) frequency of and reasons for pawning; (5) recent employment experience; and (6) ownership of automobiles and household items. Obviously, the questionnaires for those who were in the shop to pawn had to be different

[67] The Russell Sage Foundation sponsored research leading to a model uniform small loan law, just as it developed a model law to govern pawnshops. Caskey's *Fringe Banking*, was published by the Russell Sage Foundation.

from those given to patrons who were there only to shop and who had never pawned at any time in the past. For example, it would not be sensible to ask these shoppers where they would go to borrow if there were no pawnshops.

There was one group of respondents who were in a "middle ground." These were patrons who were in the pawnshop only to shop at the time of the interview, but who had pawned at some time in the past. We segregated these people with a third questionnaire designed for shoppers who had pawned at *some* store at some time in the past. The details of these questionnaires are explained more fully in Part B. We pilot-tested the survey at a pawnshop, made some slight revisions and were then ready to go into the field.

The next step was to identify the states where we wished to conduct the surveys and to secure the cooperation of one or more pawnshops in those states. One objective in selecting the states was to see if there were significant differences in pawnshop customers in states with high rate ceilings in comparison to states with low rate ceilings. In retrospect, we doubt that this objective could have been achieved. First, the geographical range of pawnshop customers is relatively small. Consequently, a survey of a shop's clientele represents a sub-section of a city not a state. Second, as explained in the previous chapter, the adjustment that pawnshops make to low rate ceilings is more likely to be in the ratio of loan to value than in the characteristics of the customer served.

Tom Horn, Executive Director of the National Pawnbrokers Association and members of the industry on the Advisory Panel helped us to identify nine shops in five states where we could conduct interviews. In each case we sent letters to the managers of the pawnshops explaining the purpose of the study and how the surveys would be conducted in that shop.

3. Procedures for conducting the survey

As noted in the first chapter, we were fortunate to obtain the services of John B. Lynch to conduct the surveys in the pawnshops. Lynch typically was in each of the pawnshops for four to six days. Since Saturday is a busy day, we generally scheduled him for each shop on a Saturday. Managers reported to us later that he "fit right in" and made a good impression on the patrons.

The managers and staff of each shop were very cooperative. They provided Lynch with a table and chairs in a location that gave customers some privacy as they filled out the questionnaires, and he was there to answer their questions. The staff encouraged all of their customers to stop by his table and fill out questionnaires. Further, each of the shops provided $5 to $15 discount coupons that were given to consumers who filled out the questionnaires. An example is provided in Exhibit 5. The combination of personal encouragement by the staff and by Lynch and a financial reward in each of the pawnshops generated completed questionnaires from 1,820 consumers.

Exhibit 5
Example of Discount Certificate Given Respondents

When a customer approached, Lynch asked if he or she was in the store to pawn an item or to shop. If they were currently pawning something, they received the "Current Borrower" questionnaire. If the consumer said that he or she was there to shop or for some other reason, Lynch asked if he or she had ever pawned at any time at any pawnshop. Those who said that they had done so were given "Have Borrowed" questionnaires. The consumers who said that they had never pawned were given the "Shoppers Only" questionnaire. John spent at least a portion of each evening tabulating the responses on the questionnaire using Survey Pro. Data from each pawnshop were merged at the Credit Research Center, which was then located at Purdue University.

B. The sample

A total of 1,820 pawnshop customers participated in the study by completing a questionnaire (Exhibit 6). Of those participants, 220 (12.1 percent) said they were obtaining a loan that day (Current Borrower questionnaire). The majority of the participants (46.8 percent) said that they were not applying for a loan that day, but that they had borrowed at a pawnshop at least once at some time (Have Borrowed questionnaire). The Have Borrowed participants may have been in the pawnshop for several reasons: some were shopping, some were paying on or redeeming an earlier pawn, or simply accompanying a friend doing business in the store that day. The remaining 41.1 percent of the participants said they had never obtained a loan at any pawnshop (Shop Only questionnaire).

Exhibit 6
Original Customer Type

Type		%
Current Borrowers	220	12.1
Have Borrowed	852	46.8
Shop Only	748	41.1
Totals	*1820*	*100%*

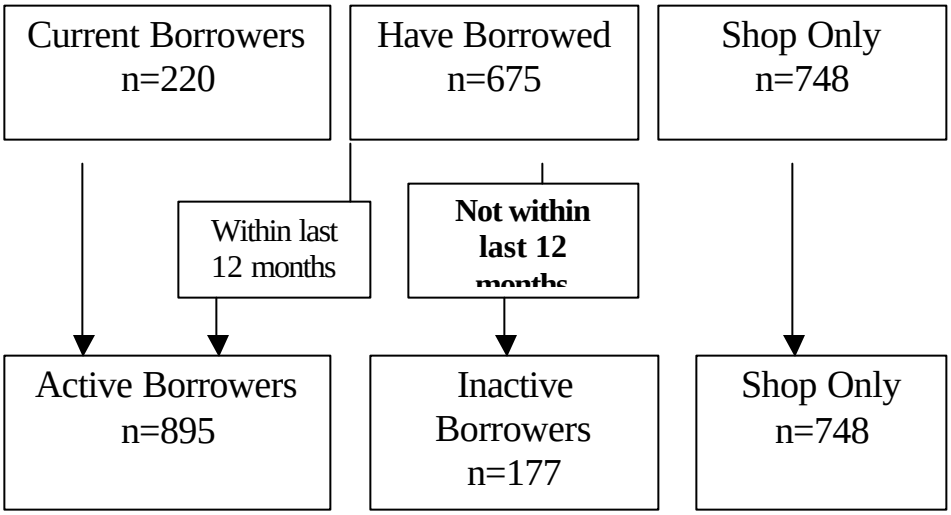
Since the purpose of this study was to gain a better understanding of pawnshop customers and, more specifically, consumers who currently utilize pawnshops as a source of small cash loans, consumers who borrow at pawnshops are compared to those consumers who are aware of and shop at pawnshops but do not borrow money there. Thus, the sample has been reconfigured into three groups for the majority of the analyses as follows (Exhibit 7 and Exhibit 8):

Exhibit 7
Modified Customer Type

Type		%
Active Borrowers	895	49.2
Inactive Borrowers	177	9.7
Shop Only	748	41.1
Totals	*1820*	*100%*

Active Borrowers, 49.2 percent of the total sample, were defined as those customers who said they had borrowed money at least once at a pawnshop in the last 12 months. Active Borrowers include all of the participants who were applying for a loan on the day of the interview (Current Borrower questionnaire, n=220), and those who, on the Have Borrowed questionnaire, said that they had borrowed from a pawnshop at least once in the last 12 months (n=675). **Inactive Borrowers**, only 9.7 percent of the total sample, were defined as those who said they had borrowed at a pawnshop at some time in the past but not within the last 12 months (Have Borrowed questionnaire, n=177). **Shop Only**, 41.1 percent of the total sample, said they had never borrowed money at a pawnshop (Shop Only questionnaire, n=748).

Exhibit 8



Shop Only respondents are used as a control group or comparison group for the Active Borrowers. Shop Only respondents knew the location and nature of the pawnshop. They either lived or worked nearby or could readily get there, but they were not borrowing there. The Inactive Borrowers are a small group and, for most of the exhibits, are similar to the Shop Only group. Thus, the Inactive Borrowers will not be discussed in much detail unless they differ from the Shop Only group.

C. The Exhibits

Exhibits throughout this monograph contain percentage distributions of each characteristic by customer type. Because of rounding, the ***Totals*** may not add to exactly 100 percent. The number of respondents in a group or subgroup, **n**, is listed for most tables. **Missing**, **(Msg.),** identifies the number of respondents who did not answer that question. The majority of the exhibits include statistical analyses, and differences between or among the groups that were statistically

significant are identified with an asterisk, which refers to a footnote. Throughout the monograph significance is judged at the .05 level or better. "Better" means a number smaller than .05, .01 or .001 for example. The significance level identifies at what point the differences among the groups are probably not a coincidence. The .05 level says that there are only 5 chances out of 100 that random draws from the same population would produce differences of this magnitude. Said the other way around, there is 95 percent confidence that the groups really do differ on the characteristic being measured.

D. Analyses

1. Demographic characteristics

This section presents the demographic characteristics of the pawnshop sample and comparison data from U. S. national surveys. The pawnshop sample is also divided by customer type to measure any differences among Active Borrowers, Inactive Borrowers, and Shop Only respondents.

Most pawnshop respondents were men (59.5 percent), versus only 48.9 percent of the general population (Exhibit 9). When sorted by customer type, there were more men than women in each of the groups. But the percentage of men in Inactive Borrowers and Shop Only was much larger than in Active Borrowers. Pawnshop employees suggest that there would be even fewer women in the Active Borrower category except for two factors. First, a primary pawn item is jewelry, and women still seem to own more jewelry than men. When a household needs quick cash, the owner of the item to be pawned is frequently called upon to obtain the loan. Second, men are sometimes hesitant to admit, publicly at least, that the household needs quick cash. The woman may be the one to go in and obtain the loan, with the man waiting in the car.

The pawnshop sample was much younger than the general population (Exhibit 10). The vast majority of respondents (78.4 percent) were under 45 years of age, an age group that typically faces expensive family formation/child rearing demands. They were going to pawnshops not only for loans but also to shop. Used jewelry, appliances, sound equipment and compact disks are less expensive than new ones. Pawnshop employees have checked that the gold and the diamond are real, that the VCR works, and that the bike was not stolen. Consumers looking for bargains do not find such assurances at garage sales.

Exhibit 9
Gender by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
Women	44.5	35.9	36.9	*40.5*	*51.1*
Men	55.5	64.1	63.1	*59.5*	*48.9*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*876*	*170*	*746*	*1792*	-

*Significant at the .003 level
Msg. = 28
[1] Source: U. S. Bureau of the Census, 1996

Active Borrowers were significantly younger than Shop Only respondents, with a mean age of 35 versus 37 years (Exhibit 10). The largest percentage difference was in the "25-34 years" group, 38.4 percent of Active Borrowers vs. 24.5 percent of Shop Only. This is also the age group facing heavy family formation/child rearing costs and instability in job and marital status. Yet a large portion (21.6 percent) of Shop Only were very young, under twenty-five years of age. Pawnshops sell many items popular with younger consumers, such as compact disks, movies, video games, sound equipment, musical instruments, and jewelry.

Exhibit 10
Age by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
Under 25	14.7	12.7	21.6	*17.3*	*14.0*
25-34 years	38.4	31.5	24.5	*32.0*	*20.0*
35-44 years	31.1	31.5	26.3	*29.1*	*23.8*
45-54 years	11.6	14.6	16.9	*14.1*	*20.0*
55 years +	4.3	9.7	10.7	*7.4*	*22.5*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*818*	*165*	*685*	*1668*	-
Mean Age	35.0 Yrs.	37.0 Yrs.	37.0 Yrs.	36.0 Yrs.	

*Significant at the .00l level
Msg. = 152
[1] Source: U. S. Bureau of the Census, 2,000 est. Adjusted for population age 18-74

Pawnshop respondents had less education than the general population (Exhibit 11). When examining differences by customer type, education levels varied significantly, with Borrowers having less education than Shop Only. Because pawnshop respondents were younger than the general population, and education levels have generally increased over time, Exhibits 12 compares the education of all pawnshop respondents aged 25 through 54 years, with general population percentages for the same age groups in parentheses. The pawnshop sample had dramatically lower percentages of college graduates than the general population.

Exhibit 11
Education by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
Less than HS	17.1	11.6	10.9	*14.0*	*24.8*
HS G.E.D.	13.9	12.2	5.5	*10.3*	*30.0*
HS grad	24.2	27.3	30.3	*26.9*	
HS + some training	9.1	7.6	9.4	*9.1*	
HS + some college	26.7	28.5	25.9	*26.6*	*24.9*
College graduate	9.0	12.8	18.3	*13.2*	*20.3*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*868*	*172*	*726*	*1766*	-

*Significant at the .001 level
Msg. = 54
[1] Source: U.S. Bureau of the Census, 1990

Exhibit 12
Age by Education For Pawnshop Sample Age 25-54
Versus National Totals
(Percentage Distributions)

	Less than High School	High School	**Some** College	**College** Grad	***Totals***
25-34 years	10.7	51.4	26.7	11.1	*100%*
	(12.9)[1]	(34.0)	(28.2)	(25.0)	*(100%)*
35-44 years	13.5	44.6	27.8	14.1	*100%*
	(11.6)	(33.3)	(28.4)	(26.6)	*(100%)*
45-54 years	9.9	34.8	33.9	21.5	*100%*
	(13.7)	(32.5)	(25.7)	(28.0)	*(100%)*
n	*145*	*569*	355	177	*1246*

[1] Source: U. S. Bureau of the Census, 1995

Because of the significant difference in education by customer type (Exhibit 11), with Active Borrowers at the disadvantage, Exhibit 13 breaks down *only Active Borrowers*, again aged 25-54, by age and education. The percentages of "College Grad" drop, relative to the national percentages in parentheses and to the overall pawnshop sample in Exhibit 12. The percentages for "Less than High School" are now higher than national percentages.

Exhibit 13
Age by Education For Active Borrowers Age 25-54
Versus National Totals
(Percentage Distributions)

	Less than High School	High School	Some College	College Grad	*Totals*
25-34 years	14.7	53.0	25.2	7.0	*100%*
	(12.9)[1]	(34.0)	(28.2)	(25.0)	*(100%)*
35-44 years	15.9	46.0	29.4	8.7	*100%*
	(11.6)	(33.3)	(28.4)	(26.6)	*(100%)*
45-54 years	15.8	36.8	30.5	16.8	*100%*
	(13.7)	(32.5)	(25.7)	(28.0)	*(100%)*
n	*101*	*317*	*182*	*60*	*660*

[1] Source: U. S. Bureau of the Census, 1995

The pawnshop respondents, compared to the general population, were less likely to be currently married, and more likely to have experienced marital disruption or had never married (Exhibit 14). Marital status was also significantly related to customer type, with fewer Active Borrowers currently married, and both Borrowers groups having higher percentages of separated, divorced, or widowed.

Exhibit 14

Marital Status by Customer Type*

(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
Currently married	38.2	40.9	43.6	*40.7*	*60.3*
Never married	32.6	31.6	36.8	*34.2*	*23.3*
Sep/div/widowed	29.2	27.5	19.7	*25.1*	*16.5*[2]
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*856*	*171*	*732*	*1759*	-

*Significant at the .001 level
Msg. = 61
[1] Source: U.S. Bureau of Census, 1996
[2] Census data includes only widowed and divorced.

Since the pawnshop sample was younger than the general population and predominately male, Exhibit 15 compares marital status of *only young male respondents* with national totals (shown in parentheses). The percentages of men separated, widowed, or divorced in the pawnshop sample were about double that of the national totals for men in the same age groups. The "Never Married" percentages were higher for the three older age groups than national percentages for the same age groups. Conversely, pawnshop percentages for "Currently Married" were lower than national percentages for same age groups in all but the two youngest age categories.

The household size of pawnshop respondents tended to be larger than did households in the general population (Exhibit 16). Although a slightly larger percentage of pawnshop respondents lived in one-person households, compared to households nationally, pawnshop respondents had a much higher percentage of large households (five or more members). In part, this difference may be because pawnshop respondents were younger than the general population and, thus, in the child rearing stage. Household size varied significantly by customer type, with Active Borrowers reporting larger household size than Inactive Borrowers and Shop Only.

Exhibit 15

Male Pawnshop Sample, Age 20-44 by Marital Status
Versus National Totals

(Percentage Distributions)

	Currently Married	Never Married	Separated/ Div/Wid	*Totals*
20-25 years	19.4	76.9	3.7	*100%*
	(18.2)[1]	(80.7)	(1.1)	*(100%)*
25-29 years	38.6	50.0	11.4	*100%*
	(44.8)	(51.0)	(4.2)	*(100%)*
30-34 years	51.0	33.6	15.5	*100%*
	(63.2)	(28.2)	(8.6)	*(100%)*
35-39 years	45.9	25.2	28.9	*100%*
	(68.5)	(20.3)	(11.2)	*(100%)*
40-44 years	49.6	22.1	28.2	*100%*
	(73.1)	(14.0)	(12.9)	*(100%)*
n	*294*	*290*	*127*	*711*

[1]Source: U.S. Bureau of the Census, 1995

Exhibit 16

Household Size by Customer Type*

(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
One person	24.5	31.5	30.6	*27.7*	*25.0*
Two	20.0	17.9	21.1	*20.2*	*33.0*
Three	20.2	13.0	20.8	*19.7*	*17.0*
Four	15.4	12.4	12.7	*14.0*	*15.0*
Five or more	21.0	25.3	13.8	*18.4*	*10.0*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*838*	*162*	*723*	*1723*	-

*Significant at the .001 level
Msg. = 97
[1] Source: U. S. Bureau of the Census, 1996

Exhibit 17 shows the racial composition of the pawnshop sample, as well as general population totals. As with census surveys, pawnshop respondents were asked to identify their racial or ethnic group or groups. Respondents who checked black or African American were classified as black, even though they also may have checked other ethnic or racial groups. Since Hispanics may be black or white, Hispanics were

counted as either black or white, depending on how they defined themselves. Respondents who checked only white, only Hispanic, or both white and Hispanic were defined as white. The row "Hispanic ethnicity" gives the percentage of respondents who checked Hispanic as part of their racial/ethnic description. The "Other" category includes American Indians, Asians, and mixtures of races other than black. The racial composition of the pawnshop sample does not reflect, nor was it expected to reflect, the distributions of the general population. One reason is that the pawnshop sample was not random. But another strong factor is that the data were collected in large metropolitan areas, typical pawnshop locations, and those populations may not reflect the general population. Racial percentages varied significantly by customer type, with a larger percentage of whites in the Shop Only group and, conversely, a larger percentage of blacks in the Borrower groups.

Exhibit 17
Race by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
White	44.9	45.6	52.9	*48.3*	*82.8*
Black	47.8	45.6	40.6	*44.6*	*12.6*
Other	7.3	8.8	6.6	*7.1*	*4.5*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
Hispanic ethnicity	8.7	7.0	7.4	*8.0*	*10.7*
n	*862*	*171*	*730*	*1763*	-

*Significant at the .02 level
Msg. = 57
[1] Source: U. S. Bureau of the Census, 1996

Summary of Demographic Characteristics

Percentage distributions of the pawnshop sample and the general population have been presented for gender, age, education, marital status, household size and race. The data draw a portrait of the pawnshop respondent that is not representative of the U. S. population. The pawnshop customer, based on this sample, is likely to be a young male, probably nonwhite, who may have graduated from high school but did not graduate from college. He may be currently married, but more likely has had the disruption of divorce, separation or widowhood or has never married. If he is not living alone, he is likely to bear the responsibility for a large household.

Based upon this sample, the same demographic characteristics suggest that the Active Borrower at a pawnshop is significantly different from the Shop Only customer. He or she is likely to be a minority in the child rearing stage of life, is separated/divorced/widowed, has a large household, and is entering the market place and workforce with significantly less education.

2. Employment Characteristics

Exhibit 18 summarizes responses to a series of questions about employment status. Since respondents were able to mark more than one category if needed to accurately depict their employment status, percentage totals do not equal 100 percent. Because Exhibit 18 comprises eight tables, an asterisk marks each employment question that was significantly related to customer type.

Exhibit 18
Employment Status by Customer Type
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Employed by someone*	61.5	65.1	68.0	*64.5*
Self-employed	18.8	19.2	20.1	*19.4*
Homemaker*	7.2	6.4	3.9	*5.7*
Retired	3.9	2.9	5.8	*4.6*
Unemployed	8.4	5.2	6.3	*7.3*
Disabled*	7.0	7.6	3.5	*5.6*
More than one job*[1]	27.2	25.0	18.5	*23.2*
Other	2.4	1.7	2.9	*2.6*
n	*867*	*172*	*897*	*1764*

*Significant at the .02 level or better
Msg. = 56
[1]Msg. = 304

Although the majority of all groups are employed, the differences were significant, with a lower percentage of employed Active Borrowers. (Exhibit 18). There was no significant difference in self-employment, unemployment, and retirement. Few of all groups identified themselves with the "Homemaker" role, but the difference was significant. A significantly larger percentage of both Borrower groups reported being disabled than did Shop Only; this was also true for holding more than one job.

Differences were mixed and not statistically significant for average hours worked per week by customer type (Exhibit 19). To some extent, Active Borrowers might be considered "underemployed," with 27.3 percent working less than 40 hours per week, versus 23.3 percent of Shop Only.

Exhibit 19
Average Hours Worked Per Week by Customer Type
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Less than 31 hours	20.5	16.4	15.1	*17.8*
31-39 hours	6.8	9.0	8.1	*7.5*
40 hours	30.9	27.6	29.8	*30.1*
41-45 hours	16.7	19.4	18.0	*17.5*
More than 45 hours	25.1	27.6	29.1	*27.1*
Totals	*100%*	*100%*	*100%*	*100%*
n	*634*	*134*	*584*	*1352*

Employment changes can be expensive and disruptive to households. Respondents were asked to check any of the following events that had occurred to them in the last 12 months: being laid-off, fired, quitting a job, getting a new job, and being rehired. Whereas 38 percent of Shop Only reported at least one job market event, 58.9 percent of Active Borrowers checked at least one job market event. Significantly larger percentages of Active Borrowers were represented in each of the job market events than were Shop Only.

Exhibit 20
Job Market Events During Last 12 Months
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Laid off*	15.0	10.2	7.6	*11.5*
Fired*	6.5	2.3	2.5	*4.5*
Quit*	13.1	12.4	9.1	*11.4*
New job*	32.2	24.3	24.7	*28.4*
Rehired*	9.1	5.1	4.7	*6.9*
n	527	71	283	*881*
% who did not check any events	*41.1*	*60.0*	*62.0*	-

*Significant at the .04 level or better

3. Income

The data in Exhibit 21 show that the pawnshop sample had lower incomes than the general population. Thirteen percent of the respondents reported income of less than $5,000. Approximately 34 percent of the sample reported household income of less than $15,000 for 1996, versus 21.1 percent of U. S. households (1995).

Almost one-third of households nationally had incomes of $50,000 or greater, but only 13.5 percent of the pawnshop sample had achieved such heights. Household income was dramatically related to customer type, with larger percentages of Active Borrowers in the three lower income categories than were Shop Only. Only 7.1 percent of Active Borrowers reported household incomes of $50,000 and over, versus 21.1 percent of Shop Only.

Exhibit 21
Household Income by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
Under $5,000	15.2	14.0	10.5	*13.1*	
$5,000-14,999	23.3	18.9	18.3	*20.8*	*21.1*
$15,000-24,999	26.4	20.1	17.8	*22.3*	*15.9*
$25,000-49,999	28.1	33.5	32.3	*30.4*	*31.1*
$50,000 and over	7.1	13.4	21.1	*13.5*	*31.9*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*830*	*164*	*696*	*1690*	-

*Significant at the .001 level
Msg. = 130
[1] Source: U. S. Bureau of Census, 1995

The distributions of income are consistent with the earlier findings on education (Exhibit 11), marital status (Exhibit 14), job market events (Exhibit 20) and, to some extent, age (Exhibit 10). Other studies have found a significant correlation between education and income. Marital status is frequently related to household income, in part because the presence of two adults allows the opportunity for two participants in the labor market. Income frequently shows a curvilinear relationship with age: young households tend to earn less than middle-aged households because of less job experience, and older households frequently have lower incomes as they enter retirement or work fewer hours. The impact of lower income for Active Borrowers is exacerbated by the fact that Active Borrowers tend to have larger households (Exhibit 16).

4. Life style

In this and later sections, the discussion of creditworthiness does not related to consumers' ability to borrow from pawnshops. As noted in the previous chapter, consumers' ability to borrow from pawnshops depends on the value of the collateral, not creditworthiness. Instead, the discussion in much of this chapter relates to consumers' *choices*; that is, their ability to borrow from other legal lenders.

Home ownership status of pawnshop customers is important for several reasons. First, home ownership represents, to some extent, a measure of the creditworthiness of

the consumer in the past. A consumer has to have fairly good credit and a dependable income stream to get a mortgage loan. Second, home ownership represents an ongoing debt commitment that requires a fairly stable income stream to maintain and the payment record is generally available to current credit grantors. Thus, credit grantors frequently use home ownership status as one factor in making decisions about granting credit. Finally, home ownership represents an asset that can be used for a home equity loan.

The homeownership rate of the pawnshop sample was significantly lower than the national rate: 34.8 percent versus 65.4 percent. The difference may be influenced, in part, by the metropolitan locations of the pawnshops, where home ownership rates may be lower.

Active Borrowers were much less likely to be homeowners than were Shop Only who, presumably, lived in about the same area. The relationship between home ownership and customer type is consistent with the significant differences in age, income, employment status and marital status between the Active Borrowers and Shop Only groups noted earlier. The "Other" category of housing, 12.3 percent for the full sample, included all of those who listed alternative forms of housing. Most of the people in this category said that they lived with a friend or relative and did not pay rent.

Exhibit 22
Home Ownership by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*[1]
Own	26.4	39.0	43.5	*34.8*	*65.4*
Rent	62.8	47.7	42.7	*53.0*	
Other	10.7	13.4	13.8	*12.3*	*34.6*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*
n	*866*	*172*	*742*	*1780*	-

*Significant at the .001 level
Msg. = 40
[1] Source: Bureau of the Census, 1996

Consistent with the nonownership status, Active Borrowers tended to have fewer years at current residence (Exhibit 23). Only 30.2 percent of Active Borrowers said they had lived at their current address five years or longer, versus 38.8 percent of Shop Only. The difference between the percentage of Active Borrowers who said they had been at their current address less than one year and Shop Only was not great, but that may be related to the fairly high percentage of Shop Only respondents who were under 25 years of age (Exhibit 10). Housing tenure is sometimes used in credit scoring models and shorter housing tenure can adversely affect access to credit.

Exhibit 23
Years at Current Address by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Less than 1 year	27.6	22.0	25.5	*26.2*
1-2 years	24.1	28.9	17.8	*22.0*
3-4 years	18.1	15.0	17.8	*17.7*
5 years or more	30.2	34.1	38.8	*34.2*
Totals	*100%*	*100%*	*100%*	*100%*
n	*863*	*173*	*740*	*1776*

*Significant at the .001 level
Msg. = 44

Pawnshop customers were asked if they were members of various types of organizations or groups. There were two major reasons for seeking this information. First, community ties might help consumers become aware of options in the community, including loan sources. Thus, there may be a relationship between community ties and lending sources used. A second reason was to identify ways to reach pawnshop customers with consumer education programs. Religious, leadership, social organizations or groups were listed, followed by an "Other" category. Respondents also were asked if they belonged to a credit union. Since these questions were posed as "Check all that apply," a lack of a check was recorded as "No;" thus there are no "missing" (Exhibit 24).

The differences in membership in religious, leadership, and social organizations were not significant (Exhibit 24). But response to the "Other" category varied significantly, with only 3.2 percent of Active Borrowers reporting membership, versus 6.7 percent of Shop Only and 8.5 percent of Inactive Borrowers. Some of the organizations listed by respondents under "Other" included the National Guard, NAACP, and unions. Membership in a credit union was significantly different, with a larger percentage of Shop Only reporting membership than did Active Borrowers. Inactive Borrowers were a close second. The difference in rates of credit union membership may be related to employment and age. Both Inactive Borrowers and Shop Only respondents had higher percentages of "Employed by someone" than did Active Borrowers. Consequently, they were more likely to be eligible to join a credit union. Also, these two groups were slightly older, on average, than Active Borrowers and thus had more years in which to acquire membership in a credit union.

Exhibit 24
Membership in Organizations or Groups
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Religious org./groups	23.6	31.1	26.1	*25.3*
Leadership org./groups	3.1	4.0	5.2	*4.1*
Social org./groups	12.0	11.3	13.1	*12.4*
Other org./groups*	3.0	8.5	6.7	*5.1*
Credit union member*	25.3	31.6	33.8	*29.4*
n (belonged to at least one)	*(423)*	*(101)*	*(462)*	*1820*
Checked none	*52.7 %*	*42.9%*	*38.2%*	

*Significant at the .001 level

Health care costs can cause significant and unexpected financial stress for all households, young and old. Overall, 67.8 percent of the pawnshop sample said they had health insurance. The Census Bureau data show that, nationally, 84.8 percent of the United States population had health insurance coverage of some type (private or government) as of 1994. National figures were lower for those citizens between the ages 18 –44, an age group that encompasses the majority of our sample. But, when the pawnshop sample was limited to only those aged 18-44 for comparison purposes, their health insurance coverage rate (64.8 percent) was still dramatically lower than national figures (not shown). The pawnshop sample rate of coverage, 67.8 percent, was closer to health insurance coverage rates for "poor persons," 69.2 percent (Census Bureau, 1996). The low coverage rate may be related to employment: 64.5 percent were employed by someone.

The differences in health insurance coverage were significant among the groups. Active Borrowers were much less likely to be covered by health insurance than were Shop Only respondents: 61.1 percent versus 76 percent. This difference is consistent with the difference in employment rates: 61.5 percent and 68 percent.

Exhibit 25
Health Insurance by Customer Type*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Yes	61.1	66.7	76.0	*67.8*
No	38.9	33.3	24.0	*32.2*
Totals	*100%*	*100%*	*100%*	*100%*
n	*851*	*171*	*732*	*1754*

*Significant at the .001 level
Msg. = 66

Rent-to-own (RTO) operates somewhat like a loan because customers have the opportunity to apply rental payments toward the purchase of the item, and the RTO still owns the item and can get it back if payments are missed. Credit history requirements are less stringent than that of banks and credit unions, for example, because RTO charges are fairly high, compensating the storeowner for the additional risk. Overall, 17.5 percent of the pawnshop sample said they had used RTO during the last 12 months (Exhibit 26). The difference in usage was significant, with a larger portion of Active Borrowers reporting use than Shop Only. This difference is consistent with age (Exhibit 10), home ownership rates, (Exhibit 22), years at current address (Exhibit 23), income (Exhibit 21) and job market events (Exhibit 20). Active Borrowers were younger, were more likely to be renters, were more mobile, experienced more job market events that may have disrupted income flow, and tended to have lower incomes.

Exhibit 26
Used Rent-to-Own by Customer Type During Last 12 Months*
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Yes	23.9	15.6	10.4	*17.5*
No	77.1	77.6	89.6	*82.5*
Totals	*100%*	*100%*	*100%*	*100%*
n	*880*	*173*	*742*	*1795*

*Significant at the .001 level
Msg. = 25

Exhibit 27 summarizes ownership percentages of the pawnshop respondents for various technologies and national ownership rates when available. The lower percentage of auto ownership/lease by the pawnshop sample may, in part, be related to the fact the data were collected in metropolitan areas, where auto ownership may be lower.

Only 83.2 percent of the pawnshop sample had telephone service, versus 94 percent nationally. This difference may be related to a number of factors, including the age and racial make-up of the sample: Census data show that telephone service rates nationally are lower for householders less than 25 years of age (84 percent) and for blacks (86 percent). The percentage of Active Borrowers with telephone service was significantly lower than the other two groups. Active Borrowers also had shorter housing tenure and more job events relative to the other groups, which may help to explain this lower percentage. Overall, the telephone percentages suggest that researchers interested in reaching pawnshop customers should avoid telephone surveys.

A majority of all groups owned an answering machine and a VCR. Almost 30 percent of the sample said they had car phones and the differences among the groups were significant, with Active Borrowers less likely to have one than the other two groups. The ownership of video games ran about 60 percent for the full sample, with both Inactive Borrowers and Shop Only having lower rates than Active Borrowers. These

differences may be because Active Borrowers tended to be younger than the other two groups. A private survey estimates that approximately 37 percent of U. S. households have video games; thus, the overall pawnshop sample's percentage (58.6 percent) is high; but they are a young sample. One-third of the full sample owned a personal computer, with ownership rates of Shop Only and Inactive Borrowers significantly higher than for Active Borrowers. The computer ownership rate for the full pawnshop sample, 33.3 percent, is not far different from 37 percent, which is estimated for the nation by 1997.

Exhibit 27
Ownership of Technology by Customer Type
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*
Auto[1]	72.6	70.6	76.8	*74.2*	*80.0*[2]
Telephone*	79.5	87.2	86.7	*83.2*	*94.0*[3]
Answering machine	59.7	66.5	62.7	*61.6*	
Car Phone*	24.8	32.9	32.5	*28.8*	
VCR	84.2	87.8	82.5	*83.8*	
Video games*	61.9	56.7	55.2	*58.6*	*37.0* [2]
Video camera	28.4	29.9	33.6	*30.7*	
P computer*	29.9	35.5	37.3	*33.3*	*37.0 est.*[4]
n	*852*	*164*	*730*	*1746*	

*Significant at the .02 level or better
Msg. = 74
[1] n = 1721 Msg. = 99
[2] Source: Katie Hafner, "Horse and Blender, Car and Crockpot," *New York Times*, April 9. 1998, p.G1
[3] Bureau of the Census, 1994
[4] Source: Family Economics and Nutrition Review, Vol. 10, 1997

5. Financial Accounts

Choice is one issue in understanding how consumers make decisions. A question that arises in a discussion of use of alternative lending sources is "Did the consumer have a choice?" One step in measuring choice is to identify the types of financial accounts currently held by pawnshop customers. The holding of such accounts has both a supply and a demand side: (1) the consumer wanted the account and (2) the financial institution accepted the consumer as a customer. Exhibit 28 shows the percentages of pawnshop customers holding five types of financial accounts and national totals where available.

The percentage of pawnshop respondents holding transaction accounts (checking and savings accounts) was much lower than national totals. Approximately 84.9 percent of U. S. families had a checking account (1995), versus only 57.6 percent of pawnshop

respondents. Only 13 percent of U. S. families were unbanked, i.e. had no transaction accounts (1995), versus 28.1 percent of pawnshop respondents. The holding of transaction accounts was significantly related to customer type, with Active Borrowers being underrepresented in all measures.

Exhibit 28
Current Financial Accounts by Customer Type
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*U. S.*
Has checking account*	47.4	58.1	69.4	*57.6*	*84.9*[1]
Has savings account*	49.1	58.6	64.6	*56.4*	-
Has neither checking nor savings account*	36.4	27.0	18.5	*28.1*	*13.0*[1]
Has store credit card*	29.7	42.0	46.3	*37.7*	*58.0*[2]
Has regular credit card*	27.4	42.2	48.0	*37.4*	
Has secured credit card	14.4	21.3	16.7	*16.0*	*54.0*[2]
Has any credit card (store, regular, or secured)*	41.5	53.5	61.0	*50.7*	*68.0*[2]

Msg. = varies, no more than 33
*Significant at the .001 level
[1] Source: Federal Reserve Bulletin, 1/97
[2] Source: Federal Reserve Bulletin, 9/92

A lower percentage of pawnshop respondents held credit cards, compared to national totals (Exhibit 28). Sixty-eight percent of U. S. families reported having at least one credit card in 1989, versus only 50.7 percent of pawnshop respondents in 1997. The "any credit card" percentages are awkward to compare because the national totals include credit cards not specifically addressed by the pawnshop sample; gasoline credit cards, for example. This inconsistency would lower the pawnshop percentages somewhat. But the age of the national totals, 1989, means that today's totals would be higher. Customer type was significant in explaining differences in holding of store credit cards, regular credit cards, and credit card holdings overall, with Active Borrowers less likely to have cards of each type.

Two questions were asked to measure both the demand and the supply side of consumer credit. Pawnshop customers were asked if they had applied for credit or a credit card in the last 12 months. Responses show that there was no difference, based upon this measure, of demand for credit (Exhibit 29). Approximately one-third of all groups said they had applied for credit or a credit card within the last 12 months. Those who said they had applied were asked if the application had been approved. The other side of the equation of choice, market supply, shows significant differences among the groups. Approximately one-half of Active Borrowers who had applied for credit or a

credit card within the last 12 months said their application had been approved, versus 62.7 percent of Shop Only. Inactive Borrowers reported an even higher approval rate.

Exhibit 29
Applied for Credit or Credit Card in Last 12 Months by Customer Type
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*Msg.*
Yes, applied	32.2	33.1	32.4	*31.9*	-
If yes, % who said it was approved.*	(49.8)	(68.6)	(62.7)	*(57.1)*	*(20)*
No, did not apply.	67.8	66.9	68.6	*68.1*	
Totals	*100%*	*100%*	*100%*	*100%*	
N	*817*	*160*	*730*	*1707*	*113*

*Significant at the .004 level

Why the big difference in approval rates? Credit grantors may have looked at data similar to what has been shown in previous exhibits. Active Borrowers were less likely to be homeowners (Exhibit 22) and tended to have shorter time at current residence (Exhibit 23). Active Borrowers were less likely to have checking and savings accounts (Exhibit 28). Active Borrowers were less likely to be employed (Exhibit 18) and were more likely to have experienced job market events in the last 12 months than were Shop Only (Exhibit 20). These are factors typically used in credit granting decisions and, more specifically, in credit scoring models.

Customers were asked if they had borrowed money, large or small amounts, in the last 12 months from any of five sources: banks, small loan companies, credit unions, cash advances from credit cards, and friends/relatives. The percentages differed significantly among the groups for four of the five loan sources (Exhibit 30). Active Borrowers had the lowest percentage for banks, relative to the other two groups, and the highest percentages for small loan companies and relatives/friends. The difference is dramatic in the latter, with almost two-thirds of Active Borrowers reporting at least one loan from relatives and friends, versus 16.3 percent of Shop Only.

Percentages for cash advance loans and credit union loans have been treated differently because of their special requirements. A consumer must have a credit card that allows cash advances in order to get a cash advance and, similarly, a consumer must be a member of a credit union in order to borrow there. Thus, percentages for both cash advance and credit union loans are presented for the full sample and then, in parentheses, for the appropriate subsample. For cash advance loans, the subsample includes only those who currently had a regular or secured credit card. For credit union loans, the subsample includes only credit union members. Although there is a timing problem (respondents may not have had a credit card or been a member of a credit union for the full 12 month period), few respondents who claimed such loans lacked the qualifier.

Exhibit 30 shows that Active Borrowers dominated the percentages for both cash advances and credit union loans.

Exhibit 30
Loans by Customer Type During Last 12 Months
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*n*	*Msg.*
Bank*	12.3	20.0	15.8	*14.5*	*1797*	*23*
Small loan company*	15.2	12.6	7.4	*11.7*	*1798*	*22*
Relative or friend*	61.6	45.4	16.3	*41.5*	*1790*	*30*
Cash advance from	20.0	23.4	11.3	*16.7*	*1795*	*25*
credit card*	(49.5)	(38.6)	(19.4)	*(32.8)*	*741*	*10*
Credit union*	11.3	12.6	7.8	*10.0*	*1798*	*22*
	(33.3)	(25.0)	(21.0)	*(26.6)*	*533*	*2*

*Significant at the .01 level or better

Generally, bankruptcy is an important indicator of past serious financial difficulties. More specifically, the declaration of bankruptcy within the past ten years appears on a consumer credit report and could be one factor affecting current credit-granting decisions by credit grantors. Respondents were asked if they had ever declared bankruptcy. Those who said "Yes" were asked if the bankruptcy had occurred within the past ten years. Since revealing information about bankruptcy could be more sensitive than revealing income, the issue was addressed at the end of the questionnaire.

A significantly higher percentage of both Borrower groups reported having declared bankruptcy, versus Shop Only. The follow-up question, to find if bankruptcy was within the last ten years, showed no significant difference. Approximately three-fourths of both the Active Borrowers and Shop Only respondents who had declared bankruptcy said it was within the last ten years.

Exhibit 31
Bankruptcy by Customer Type
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*	*n*	*Msg.*
Have declared bankruptcy ever*	17.0	17.3	10.8	*14.4*	-	
% of "ever" in past 10 years	(73.1)	(69.2)	(75.8)	*(73.8)*	*233*	*24*
No, never	83.0	82.7	89.2	*85.6*	*1780*	*40*

*Significant at the .001 level

6. Borrowing Activities at Pawnshops

Customers who were borrowing on the day of the interview (Current Borrowers) were asked to identify the reason or reasons for needing the money. Those who were not borrowing that day but said they had borrowed at a pawnshop in the past (Have Borrowed) were asked to think back to that last loan and identify the reason or reasons for needing the money. Those two groups have been combined in Exhibit 32 and labeled "Ever Borrowed." Responses do not add to 100 percent because respondents were allowed to give more than one reason for the loan.

Two categories dominated the field: personal reasons and pressing bills. The "Personal reasons" response gave respondents an option to maintain privacy and yet say that a pressing bill or a broken car, for example, was not the issue (Exhibit 32). Medical bills were checked by only 4.8 percent of the respondents. Given the number of respondents who said they did not have health insurance, this low response is surprising. But, money is fungible: money intended for new tires may have been spent on medical care and thus the need for the loan was credited to car expenses rather than medical bills. Several of the suggested reasons (taxes, appliance repair or purchase) had such low percentages that they were collapsed into the "Other" category.

Exhibit 32
Reasons for Needing Latest Pawn Dollars
by Ever Borrowed
(Percentage Distributions)

	Ever Borrowed
Medical bills	4.8
Pressing bills	31.9
Car expenses	13.5
Treat for self	8.8
Gift for someone	4.7
Personal reasons	32.4
Other	13.1
n	*1055*
Msg. = 17	

Customers who either were currently borrowing at the pawnshop on the day of the interview or said they had borrowed at a pawnshop at some time in the past were then asked to imagine there were no pawnshops. "To meet your need for cash (current or last pawn) what would you consider doing?" Seven responses were presented, followed by an open-ended "Other" alternative. Since customers could check more than one response, totals do not add to 100 percent (Exhibit 33).

By far the most frequently identified alternative to pawnshops was a relative or friend. The "Do without" alternative was the second most frequently checked, followed by "Sell item outright." Although the time-lag problem is greater here than for Exhibit 30 because some borrowers have to go back more than 12 months, percentages for cash advances and credit unions are given for the qualifying subsamples, as well as the full sample. Cash advances and credit unions were viewed as possible alternatives for more than one-third of those who currently held memberships necessary for those types of loans.

Exhibit 33
Alternatives If No Pawnshops by Ever Borrowed
(Percentage Distributions)

	Ever Borrowed	*n*	*Msg.*
Bank	19.0	*1041*	*31*
Small loan company	19.4	*1041*	*31*
Cash advance from	18.7	*1043*	*29*
credit card	(38.5)	*(353)*	*(12)*
Relative or friend	74.8	*1054*	*18*
Do without	56.5	*1048*	*24*
Sell item outright	48.7	*1049*	*23*
Credit union	19.1	*1040*	*32*
	(42.6)	(275)	*(7)*
Other	2.4	*26*	*1046*

The majority of the respondents did not view the remaining alternatives, banks and small loan companies, as possible substitutes for pawnshops. The most frequent alternative inserted by the customer in the "Other" category was to earn additional money to meet the need for cash, a very sensible response. The findings suggest that these consumers are aware of the difficulty in obtaining a small loan quickly, especially if your creditworthiness is not strong.

Customers then were asked to select from the alternatives to pawnshops that they had just checked and identify the BEST alternative for themselves (Exhibit 34). The alternative of choice was a relative or friend. "Do without" came in distant second and "Sell outright" came in as the third most frequently selected best alternative. Banks, small loan companies, and cash advance vied for bottom place, the latter even when using percentage of respondents who currently had a regular or secured credit card. Only 10.7 percent of Ever Borrowed who were members of credit unions viewed a credit union as their best alternative for a small cash loan if pawnshops did not exist.

Exhibit 34
Best Alternative to Pawnshops by Ever Borrowed
(Percentage Distributions)

	Ever Borrowed[1]
Bank	4.7
Small loan company	4.4
Cash advance from credit card	1.9 (5.2)
Relative or friend	47.5
Do without	19.7
Sell item outright	15.6
Credit union	3.2 (10.7)
Other	3.0
Totals	*100%*

[1] n = 897
Msg. = 175

Obviously, it would not have been useful to ask Shop Only customers where they would borrow if pawnshops did not exist since they did not borrow at pawnshops. This point begs an even more obvious question. Did Shop Only customers take out small loans? What constitutes a small loan may vary among individuals, so "small" was defined for them. After asking if they had obtained any loans during the last 12 months, a follow-up question was: "If at least one loan was for $200 or less, where did you get the loan(s)?" Only 119 Shop Only respondents, 15.9 percent, said that they had obtained at least one loan of $200 or less. Since multiple responses were allowed, percentages do not add to 100 percent.

Exhibit 35 shows where Shop Only respondents got those small loans. The majority turned to relatives or friends, the alternative of choice for Ever Borrowed also. The second most frequently listed source for Shop Only was cash advance from a credit card. This alternative was not high on the best alternative list of Ever Borrowed. Another source of small loans for Shop Only credit union members was their credit union: 26.8 percent. This percentage is more than twice as large as the percentage of Ever Borrowed credit union members who listed a credit union as their best alternative if pawnshops did not exist. Either Ever Borrowed underestimate their credit union's willingness to make small loans, or they may feel their request would be denied because of something in their credit record. Banks and small loan companies were not typical small loan sources for Shop Only: each was listed by less than 10 percent of the respondents who had gotten small loans. Banks and small loan companies were not high on the Ever Borroweds' best alternative list either.

Exhibit 35
Small Loan Sources for Shop Only
(Percentage Distributions)

	Shop Only	*n*	*Msg.*
Bank	5.4	*1041*	*31*
Small loan company	8.9	*1041*	*31*
Cash advance from credit card	26.8	*1043*	*29*
Relative or friend	50.9	*1054*	*18*
Other	3.6	*26*	*1046*
Credit union (% of members)	(26.8)	(41)	*(3)*

7. Pawnshop History

Customers who were borrowing that day (Current Borrowers) were asked if this was the first time that they had borrowed from a pawnshop. Forty-four customers said "Yes" (20.9 percent). The rest of the respondents who were either borrowing that day or said they had borrowed at a pawnshop in the past were asked "When was the first time you got a cash loan at a pawnshop?" Exhibit 36 shows that the starting time was fairly evenly distributed. Approximately one-third said they had begun within the last year, one-third said they had been borrowing at pawnshops for one to four years and the remaining third said five years or more.

Exhibit 36
When Started Borrowing at Pawnshops by Ever Borrowed[1]
(Percentage Distributions)

	Ever Borrowed
Within the last year	32.5
1-2 years ago	21.1
3-4 years ago	15.4
5 years ago or more	31.2
Totals	*100%*
n	*1017*

[1] Excludes those who said this was their first time
Msg. = 11

Customers were then asked "In the last 12 months, about how many times have you gotten cash loans at pawnshops (counting today)?" Exhibit 37 shows the responses

only for Active Borrowers who said they were not first-time borrowers. Responses were fairly evenly distributed.

Exhibit 37
Number of Loans From Pawnshops During Last 12 Months by Active Borrowers[1]
(Percentage Distributions)

	Active Borrowers
One loan	21.7
Two loans	24.0
Three loans	18.4
Four to six loans	17.3
More than six loans	18.6
Totals	*100%*
n	*851*

[1] Excludes those who said this was their first time
Msg. = 1

The final inquiries about their pawnshop history addressed forfeiture: "Of all your pawns in the last 12 months, how many did you lose (forfeit)?" Six categories were listed, with the first four being zero to three forfeits, and the last two being "4-6" and "more than 6." Because so few respondents reported more than three pawns, the last three categories were collapsed into "Three or more forfeits." Again, the sample is limited to Active Borrowers who said, upon interview, that this was not their first loan at any pawnshop. The vast majority of this subsample (70.6 percent) said they had not forfeited any loans at any pawnshops in the last 12 months and, at the extreme, only 4.6 percent reported three or more forfeits.

Exhibit 38
Number of Forfeits During Last 12 Months by Active Borrowers[1]
(Percentage Distributions)

	Active Borrowers
None	70.6
One forfeit	17.5
Two forfeits	7.3
Three or more forfeits	4.6
Totals	*100%*
n	*851*

[1] Excludes those who said this was their first time
Msg. = 13

Exhibit 39 combines Exhibit 37 and 38 to examine the relationship between the number of loans at pawnshops in the last 12 months and the number of forfeitures at pawnshops in the same time period. The highest category of forfeitures has been collapsed to "two or more" because of the low percentages in the last two categories of Exhibit 38. Go to the *shaded* portion of "More than six loans" (Exhibit 39): 68.1 percent of those respondents had no forfeitures in the last 12 months. These consumers seem to use pawnshop loans for frequent cash flow adjustments but don't seem to be going into a downward spiral of forfeitures, at least in this 12-month period. But, 12.1 percent of the "More than six loans" had one forfeit, and 19.8 percent had two or more forfeits. Continue with "More than six loans" in the *unshaded* portion: of all respondents examined in this table, who reported "No Forfeits," 17.8 percent of them also reported that "More than six loans."

Exhibit 39
Number of Loans at Pawnshops
by Forfeits During Last 12 Months *[1]
(Percentage Distributions)

	No Forfeits	One Forfeit	Two or More Forfeits	*Totals*
One loan	77.3	18.9	3.8	*100%*
	23.8	23.5	6.9	*21.8*
Two loans	73.0	18.1	8.8	*100%*
	24.8	24.8	17.8	*24.0*
Three loans	68.8	19.7	11.5	*18.5*
	18.0	20.8	17.8	*18.5*
Four to six loans	63.3	18.4	18.4	*100%*
	15.5	18.1	26.7	*17.3*
More than six	68.1	12.1	19.8	*100%*
loans	17.8	12.7	30.7	*18.5*
Totals	*70.6*	*17.5*	*11.9*	*100%*
	100%	*100%*	*100%*	-
n	*600*	*149*	*101*	*850*

[1] Excludes those who said this was their first time
*Significant at the .001 level
Msg. = 2

Overall, the variations in percentages between number of loans and number of forfeits are statistically significant, as one would expect. The greater the number of loans, the more opportunity to forfeit. The majority of Active Borrowers who reported large numbers of loans also reported no forfeits.

Because of the obvious correlation between number of loans and number of forfeits, it is fruitful to compare the characteristics of those who reported a high number of forfeitures with those who reported a high number of loans. Exhibit 40 shows

education, income, age, race, transaction account status, and a job events measure for two groups: “2 or More Forfeits” in the last 12 months, and “2 or More Loans” in last 12 months. The characteristics of Active Borrowers are included also, as a reference point.

The education percentages for the frequent loan group are very similar to the percentages for Active Borrowers, but respondents with lower levels of education were, if anything, under-represented in the frequent forfeit group. Approximately 17 percent of Active Borrowers had not graduated from high school and the same percentage reported two or more loans from pawnshops in the last 12 months, but only 13.6 percent reported forfeiting on two or more of those loans in the same time period. High school graduates and “High school + training” were somewhat over-represented in the frequent forfeit group.

The “Under 25” age group is somewhat underrepresented in the frequent loan sample, relative to Active Borrowers, but that same age group is under-represented in the frequent forfeit group: only 6.5 percent of the frequent forfeit group were under 25 years of age. One half of the frequent forfeit sample was 25 to 34 years of age, a much higher representation than in either the frequent loan group or the Active Borrowers. Older age groups were under-represented in the frequent forfeit group.

Percentage distributions of income for the frequent loan group are similar to income distributions for Active Borrowers, but lower income households are over-represented in the frequent forfeit group. Approximately two-thirds of frequent loan respondents had household incomes of under $25,000, versus almost four-fifths of the frequent forfeit group. Respondents with household incomes of $25,000 and over were under-represented in the frequent forfeit group.

Percentage distributions by race for the frequent loan group were similar to Active Borrowers, but black respondents were over-represented in the frequent forfeit group. Whites were under-represented in the frequent forfeit group. The differences by race are probably related to other, over-riding factors such as education, household income, marital status, and household size.

The unbanked (had neither a checking nor savings account) comprised 36 percent of both the frequent loan group and Active Borrowers. The percentage of frequent forfeits that were unbanked was somewhat higher, at 40.6 percent. And, finally, a job events measure was constructed that counted all respondents who had said “Yes” to being fired or laid off or having quit their job in the last 12 months. There were only slight differences in the percentages of those who experienced job events among the three groups, with unbanked percentages lowest in the frequent forfeit group.

Exhibit 40
Characteristics of High Forfeit Sample,
High Loan Sample, and Active Borrowers
(Percentage Distributions)

Characteristic	2 or More Forfeits	2 or More Loans	Active Borrowers
Education			
Less than high school	13.6	17.1	17.1
G.E.D.	11.7	14.1	13.9
High school	27.2	25.0	24.2
High school + training	13.6	8.8	9.1
Some college	25.2	25.6	26.7
College graduate	8.7	9.5	9.0
Age			
Under 25	6.5	11.5	14.7
25-34	50.0	39.3	38.4
35-44	28.3	32.1	31.1
45-54	9.8	12.3	11.6
55+	5.4	4.8	4.3
Income			
$4,999 or less	18.2	14.2	15.2
$5,000-$14,999	29.3	24.0	23.3
$15,000-$24,999	31.3	27.7	26.4
$25,000-$49,999	15.2	27.1	28.1
$50,000 +	6.1	7.1	7.1
Race			
Black	59.4	47.4	47.8
White	32.7	44.2	44.9
Other	7.9	8.4	7.3
Unbanked-no checking and no savings account	40.6	36.3	36.4
Had job event in last 12 months-fired, quit, laid off	30.4	31.2	32.5
n	*~100*	*~666*	*~890*
Msg. varies by characteristics			

Customers were asked to rate the importance of nine factors when selecting any source for a small cash loan of $200 or less. Respondents who had borrowed at pawnshops were faithful in answering these questions, but a high proportion of Shop Only did not respond. This lack of response may be because very few of them borrowed small amounts and, thus, did not see the questions as relevant. For brevity's sake, all factors are listed in (Exhibit 41) with the percentage of each group saying "Very Important."

There was no difference statistically among the groups for the first six factors. Basically the respondents agreed that chances of having the loan approved, little paper

work, short time to get cash, convenient location, convenient hours, and privacy were important. But the next three factors, which had significantly different responses among the groups, are revealing. Not having a credit check as part of the loan process was very important to a significantly larger percentage of Active Borrowers, versus both Inactive Borrowers and Shop Only. When asked about the cost of loan, the groups responded quite differently. Approximately two-thirds of both Borrower groups said cost was very important, versus 74.6 percent of Shop Only. The analysis was redone, collapsing Active Borrowers and Inactive Borrowers into the Ever Borrowed group, and the difference between this combined group and Shop Only was statistically significant. The last factor, personal security, has the same break: it was very important to significantly more Shop Only respondents than the combined Ever Borrowed group. The reason for the difference, unfortunately, is not clear.

Exhibit 41
Factors Rated "Very Important" When Selecting Source for a Small Cash Loan
(Percentage Distributions)

	Active Borrowers	Inactive Borrowers	Shop Only	*Totals*
Good chance of getting loan	65.5	59.8	61.1	*63.9*
Little paper work	41.0	39.7	40.7	*40.8*
Short time to get cash	63.1	64.4	58.5	*62.5*
Convenient location	56.4	52.9	56.7	*56.0*
Convenient hours	57.1	54.6	53.6	*56.2*
Privacy	61.7	58.6	62.2	*61.3*
No credit check*	46.5	34.3	31.3	*42.2*
Cost of loan**	67.3	66.9	74.6	*68.5*
Personal security**	63.3	60.2	72.0	*63.9*
n	*883*	*175*	*224*	*1282*

*Significant at the .001 level
**Significant at the .04 level or better when collapsed to Ever Borrowed and Shop Only
Msg. varies by question

In the pilot questionnaire, all respondents were asked to evaluate statements about four potential sources for small cash loans ($200 or less) by a "Yes," "No" or "Don't Know" response. However, Shop Only customers complained about answering the long series of questions about hypothetical small loans. This complaint made sense because few Shop Only customers reported obtaining small loans in the last 12 months (see discussion of Exhibit 35). Therefore, this series of questions was removed from the revised Shop Only questionnaire for the remainder of the study. The responses of the Shop Only respondents from the pilot interviews and the responses from all of the Borrower interviews were used in (Exhibit 42.) Significant results for banks, small loan companies, and pawnshops are presented. Respondents were asked to evaluate credit

unions also but those data have not been included because many respondents were not members.

Since there are 24 tables behind Exhibit 42, a summary discussion is presented. There were slightly fewer than 100 Shop Only respondents because these questions were asked only on the initial Shop Only form of the questionnaire. Since most Shop Only respondents said they had not obtained a small loan in the last 12 months, their responses may be based upon "street knowledge." But then, that could also be said for some pawnshop borrowers as they evaluate banks. Because the personal security question was added after the pilot test, there are no responses from Shop Only respondents.

Exhibit 42
Views Significantly Different Among Groups for a Small Cash Loan Sources
(Percentage Distributions)

	Banks	Small Loan Companies	Pawnshops
My chance of getting cash is good.	Sig.	Sig.	Sig.
There is very little paper work		Sig.	Sig.
Short amount of time to get cash.	Sig.	Sig.	Sig.
Offer convenient locations	Sig.		Sig.
Have convenient hours	Sig.		Sig.
Offer privacy	Sig.	Sig.	Sig.
Feel personally secure.			Sig.
Dollar cost of loan is low.	Sig.		Sig.

"My chance of getting cash is good." There were significant differences among groups for all three loan sources. A significantly larger percentage of Shop Only said they had a good chance of getting cash at both banks and small loan companies than did Borrowers. But significantly larger percentage of Borrowers, versus Shop Only, believed that their chances of getting a small loan from a pawnshop were good. More than one-third of Shop Only marked "Don't Know."

"There is very little paperwork." Few respondents from any group were willing to say "Yes, there is very little paperwork at banks." Significantly more Active Borrowers felt there was little paperwork at small loan companies, versus either Shop Only or Inactive Borrowers. The overwhelming majority of Borrowers agreed there was little paperwork at pawnshops, but over one-half of Shop Only checked "Don't know."

"Short amount of time to get cash." Although most respondents agreed that "Short time to get cash" was "Very Important" (Exhibit 40), responses to this question relative to banks (Exhibit 41) show that "short time" was defined differently by Borrowers than by Shop Only. A significantly higher percentage of Shop Only agreed with this

statement than Borrowers. The percentages on small loan companies took a different slant: few respondents said "Yes," but most Borrowers said "No," versus Shop Only who tended to check "Don't know." Most respondents agreed that loans at pawnshops were fast, but over one-third of Shop Only respondents responded "Don't Know."

"Offer convenient locations." Dramatically more Shop Only respondents felt banks were conveniently located than Borrowers. Responses did not vary significantly about locations of small loan companies: approximately one-third of all groups said "Yes," "No," and "Don't know." It was amazing but, standing in a pawnshop completing the questionnaire, a lower percentage of Shop Only respondents said pawnshops were conveniently located than did Borrowers. It may be that banks were closer to their work or home than was the pawnshop.

"Have convenient hours." Significantly more Shop Only respondents agreed that banks had convenient hours, versus Borrowers. There was no significant difference in responses about small loan companies' hours, with a considerable number of all respondents saying "Don't know." Although over two-thirds of all groups felt pawnshop hours were convenient, approximately one-fourth of Shop Only checked "Don't know."

"Offer privacy." A significantly smaller portion of Borrowers than Shop Only felt banks offered privacy. Two-fifths of all three groups felt that small loan companies offered privacy, and more than one-third of each group checked "Don't know," but a higher portion of Active Borrowers than Shop Only said "No." There was a big difference in feelings of Borrowers about privacy in the loan process at pawnshops, versus Shop Only. The vast majority of Borrowers checked "Yes" versus less than half of Shop Only. One-third of Shop Only checked "Don't know."

"Feel personally secure." Shop Only were not asked the question about personal security because it was added after the pilot test, but the difference between Active and Inactive Borrowers was significant only for pawnshops. More than three-fourths (77.7 percent) of Active Borrowers said they felt personally secure in pawnshops, versus 70 percent of Inactive Borrowers.

"Dollar cost of loan is low." A larger percentage of Shop Only than Borrowers agreed that the dollar cost was low at banks. Almost one-half of Borrowers disagreed with the statement, versus only one-third of Shop Only. The differences in responses were not significant concerning small loan companies: about 40 percent of all three groups said "No," one-third or more of all groups said "Don't know," and less than one-fourth of any group agreed that the cost was low at small loan companies.

Differences blossomed over the cost of a loan at a pawnshop. Over two-thirds of Active Borrowers agreed that dollar cost of a loan at a pawnshop was low, followed by 62.6 percent of Inactive Borrowers. But only 26.9 percent of Shop Only respondents agreed with this statement. Less than 20 percent of any group said "No," but the majority of Shop Only said "Don't know." Only 12.3 percent of Active Borrowers and 22.4 percent of Inactive Borrowers checked "Don't know."

The answers about dollar cost of the loan are fascinating because they contradict reality: interest rates are higher at pawnshops than banks. But banks may not be the appropriate reference point for Borrowers. Three-fourths of Borrowers said "No" or "Don't know" in response to "My chance of getting cash is good" at a bank. Going back to Exhibit 34, the best alternative to pawnshops was "Relative or friend," with "Do without" and "Sell item outright" running rather distant second and third. Although earlier research shows that most relatives and friends do not charge monetary interest, there may be other costs. And what are the costs of doing without or selling the item outright?

Pawnshop customers were asked how they learned about that particular pawnshop where the interview was conducted (Exhibit 42). Responses varied by group on only one method: "Shop signs." Fifty percent of Ever Borrowed said they had learned about that pawnshop because they saw the shop sign, versus 55.4 percent of Shop Only respondents. Because the remainder of the methods had virtually no variations among the three groups, only the overall percentages are presented for methods in Exhibit 42. Multiple responses were allowed so totals do not sum to 100 percent. In retrospect, "Yellow pages" should have been included as a response.

Exhibit 43
How They Learned About That Pawnshop
(Percentage Distributions)

	Full Sample
Shop sign*	52.4
Relative or friend	35.8
TV ad	3.7
Radio ad	2.4
Newspaper ad	2.9
Mailer	0.88
n	*1810*

*Significantly different at the .05 level between Ever Borrowed and Shop Only
Msg. = 10

Businesses are always interested in competition for customer attention. So, those customers who had borrowed at pawnshops were asked "Of those pawns, (all pawns over the last 12 months), how many were from pawnshops other than this one (another branch or a competitor)?" The responses of the Active Borrowers only (Exhibit 43) show that almost half said they had not borrowed at other pawnshops over the last 12 months. But, the fact that the other half of Active Borrowers had obtained loans from other branches or competitors suggests that the respondents were "shopping" for credit within this source: pawnshops. Pawnshop borrowers may shop for high loan-to-value ratios or quality of customer service.

Exhibit 44
Number of Loans From Other Pawnshops
During Last 12 Months
(Percentage Distributions)

	Active Borrowers
None	49.5
One	24.6
Two	14.2
Three	6.5
Four or more	5.2
n	*865*
Msg. = 30	

Summary of Findings

Based upon this sample, the majority of pawnshop customers come from the family-raising stage of life, ages 25 to 44 years, when the demands upon household frequently are greater than the income. Pawnshop customers are especially vulnerable because they tend to have larger households, marital instability, and are facing the workforce with less education than their cohorts. The result is lower incomes and job instability. Consistent with all of these factors, pawnshop customers are also much less likely than the general population to own a home or to have health insurance.

Why borrow from a pawnshop instead of a bank or a small loan company? The main reason is that pawnshop customers say they have a much better chance of getting the loan they need at a pawnshop. Most financial institutions are unwilling to provide small loans and pawnshop borrowers seem to recognize this. Pawnshop borrowers also have above-average records of bankruptcy and express a desire to avoid the credit check that is part of most lending procedures. A high percentage of those who have applied for credit elsewhere have been rejected. In addition, or perhaps as a result, many are uncomfortable with many aspects of established financial institutions. In short, many pawnshop borrowers have little choice; if not the pawnshop, then friends or relatives, or they do without or sell assets outright.

Their records of borrowing from pawnshops show that they may be customers for years. By far the most frequent pattern is borrowing for a few weeks or a month or so, redeeming the pawns; then later, borrowing again and redeeming again. Household possessions are used in lieu of savings accounts and in lieu of credit checks. However, pawnshops meet only the needs for short-term “blips” in the household’s finances. Long-term reductions in income or increases in expenses cannot be financed with loans from pawnshops.

CHAPTER 3

CONCLUSIONS

Pawnshops have existed for centuries. If nothing else, their endurance suggests that they are delivering a service desired by consumers. In large part, they serve the "working poor," although some affluent borrowers have always obtained large, collateralized loans from pawnshops. As has been true of most firms making small loans, pawnshops have incurred public criticism throughout the centuries because their rates are higher than those of other lenders who make larger loans. Yet, the costs of making and collecting small, short-term loans and storing and safeguarding the collateral are unavoidable costs of the business. Efforts to somehow evade these costs are fruitless, as has been demonstrated by the dismal performance of pawnshops owned and managed by various government entities in Europe and Mexico.

Reductions in rate ceilings on larger cash loans made by banks and finance companies in order to "protect" consumers have forced those firms to deny credit to consumers that pose a high credit risk or who seek small loans. In contrast, pawnshops avoid credit risk by obtaining collateral in the form of various possessions of the borrower. Instead of a credit risk, the risk assumed by a pawnbroker is that the value of the collateral will be insufficient to cover the loan plus unpaid interest if the borrower defaults. Thus, rate ceilings have a quite different adverse effect on consumers "protected" by lower rate ceilings and regulations that increase operating cost or reduce revenues. Consumers needing small, short-term loans must either produce more collateral or accept smaller loans.

Can borrowers from pawnshops evade these consequences by going to other financial institutions? In almost all cases, the answer clearly is "No." Banks, finance companies, and credit unions are simply not equipped to make unsecured, small, short-term loans. (For the most part, the loans would have to be unsecured, since the only collateral the borrowers can offer would be household items). Consequently, the responses to CRC's survey show that the most common alternatives available to pawnshop borrowers is to seek funds from friends or relatives or to do without. The only remaining source of cash may be the loan shark with rates of 20 percent per week.

We can draw some broad generalizations about the consumers who would be driven from the legitimate pawnshop market. The preceding chapter has shown clearly that, in relation to the control group of shoppers who have never borrowed from pawnshops, pawnshop borrowers generally have lower and more uncertain incomes. That income is less likely to be protected by health insurance. They are less equipped than non-pawners to deal with unexpected declines in their incomes or increases in their expenses. In relation to the control group, they are younger, less educated and demonstrate less experience with the world of finance. There is every indication that these differences would hold, and be even greater, were it possible to compare even more of the characteristics of pawnshop customers to those of the national population.

From the point of view of public policies regarding pawnshops, the basic issue is whether the consumers so fully described in the previous chapter should be accommodated in the pawnshop market. For the first time, we have a clear understanding of the characteristics of pawnshop customers. Should they be allowed into the market or should they be kept out, where they may not be so visible?

APPENDIX A

QUESTIONAIRES

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Questionnaires were administered as indicated by the code in the lower right-hand corner:

CB2 – Consumers who were obtaining a loan on the day of the survey

HB2 – Consumers who had borrowed at any pawnshop at least once at some time

S2- Consumers who said that they had never obtained a loan at any pawnshop

The number ”2” indicates that these were the final revised questionnaires after minor adjustments to the pilot questionnaire.

PURDUE UNIVERSITY

CREDIT RESEARCH CENTER
KRANNERT GRADUATE SCHOOL OF MANAGEMENT

Alternative Credit Survey-Pawnshops

1. How did you learn about this pawn shop? (check all that apply)

- ❑ Saw store/sign
- ❑ Radio ad
- ❑ Friend or relative
- ❑ Newspaper ad
- ❑ TV ad
- ❑ Mail flyer
- ❑ Other: _____

2. Is this the first time you have ever gotten a cash loan from a pawn shop (any pawnshop, not just this one)?

- ❑ No *If you check No, go to question 3*
- ❑ Yes *If you check Yes, go to question 7*

3. When was the first time you got a cash loan at a pawn shop (any pawn shop)?

- ❑ within the last year
- ❑ 1-2 years ago
- ❑ 3 to 4 years ago
- ❑ 5 years ago or more

4. In the last 12 months, about how many times have you gotten cash loans at pawn shops (counting today) ?

- ❑ Once
- ❑ Twice
- ❑ Three times
- ❑ 4-6 times
- ❑ More than 6 times

5. Of those pawns, how many were from pawn shops other than this one (another branch or a competitor)?

- ❑ None
- ❑ One
- ❑ Two
- ❑ Three
- ❑ 4-6
- ❑ more than 6

6. Of all your pawns in the last 12 months, how many did you lose (forfeit)?

- ❑ None
- ❑ One
- ❑ Two
- ❑ Three
- ❑ 4-6
- ❑ more than 6

7. Thinking of your pawn **today**, why did you need the money? (check all that apply)

- ❑ Medical
- ❑ Pressing bills
- ❑ Car expense
- ❑ Appliance-repair or purchase
- ❑ Treat for yourself
- ❑ Gift for other(s)
- ❑ Personal expense
- ❑ Taxes
- ❑ Other: _____

8. Imagine now that there are NO pawnshops. To meet your need for cash today, what would you consider doing? (Please check yes or no to each of these)

Go to a bank?	❑ Yes	❑ No
Go to a small loan company?	❑ Yes	❑ No
Go to a credit union?	❑ Yes	❑ No
Get a cash advance from a credit card?	❑ Yes	❑ No
Go to a friend or relative?	❑ Yes	❑ No
Sell something outright?	❑ Yes	❑ No
Do without?	❑ Yes	❑ No

Other _____

9. Of the choices you checked 'Yes' in question 8, please go back and **circle** the **one** that you would be **most** likely to do.

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10. We would like to know how you would choose a company to give you a small cash loan ($200 or less). Please rate the importance to you of **EACH** of these factors in selecting a source for this loan.

	Very Important	Somewhat Important	Little/no Importance
The chance of getting the loan	❑	❑	❑
Little paper work	❑	❑	❑
Short time to get cash	❑	❑	❑
Convenient location	❑	❑	❑
Convenient hours	❑	❑	❑
No credit check	❑	❑	❑
Privacy	❑	❑	❑
Personal security	❑	❑	❑
Cost of the loan	❑	❑	❑

11. **Pawn shops** may be a source of a small cash loan ($200 or less). Please tell us whether or not you feel that each of the statements below apply to pawn shops.

	Pawn shops Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

12. **Banks** might be another source of small cash loans ($200 or less). Please tell us whether or not you feel that each of the statements below apply to banks.

	Banks Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

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13. **Small loan (finance) companies** might be another source of small cash loans ($200 or less). Please tell us whether or not you feel that each of the statements below apply to small loan companies.

	Small loan companies Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

14. **Credit unions** might be another source of small cash loans ($200 or less). Please tell us whether or not you feel that each of the statements below apply to credit unions.

	Credit unions Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low	❑	❑	❑

15. In the last 12 months have you gotten one or more loans, small or large, from the following sources?

Bank	❑ Yes	❑ No
Credit union	❑ Yes	❑ No
Small loan company	❑ Yes	❑ No
Cash advance (from a credit card)	❑ Yes	❑ No
Friend or relative	❑ Yes	❑ No

Other _____

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16. Have you used a rent-to-own store in the last 12 months? ..... ❑ Yes ❑ No

17. Do you currently have

a checking account? ❑ Yes ❑ No

a savings account? .. ❑ Yes ❑ No

a store credit card? ❑ Yes ❑ No

a standard credit card (Visa, MasterCard, Discover, American Express)? ..... ❑ Yes ❑ No

a credit card secured by your savings account? ..... ❑ Yes ❑ No

18. Have you applied for credit or a credit card within the last 12 months?

❑ Yes *If you check Yes, go to question 19.*
❑ No *If you check No, go to question 20.*

19. If yes, was the application approved? ❑ Yes ❑ No

20. About how long have you lived at your current address?

❑ less than 1 year ❑ 3-4 years
❑ 1-2 years ❑ 5 years or more

21. Check the statement that BEST describes your housing situation.

❑ I own-no mortgage.
❑ I own-have a mortgage.
❑ I rent.
❑ I live with friend or relative-pay no rent.
❑ Other: _____

22. Do you own or lease a motor vehicle? ..... ❑ Yes ❑ No

23. Do you personally own any of the following? (check all that apply)

❑ Telephone in your home
❑ Answering machine or voice mail
❑ Cellular or car phone
❑ Television
❑ Video games
❑ VCR
❑ Video camera
❑ Home computer

24. Are you a member of any of the following organizations or groups in the community? (check all that apply)

❑ Credit union
❑ Religious groups
❑ Leadership groups (Boy Scouts, 4-H, etc.)
❑ Social groups (YMCA, Elks, VFW, etc.)
❑ Other: _____

25. In what year were you born? ..... [ ]

26. How many years of education have you completed?

❑ Less than 12 years
❑ High school-GED
❑ High school graduate
❑ Training beyond high school-not college
❑ Some college
❑ College graduate

27. What statement(s) describes your work status? (check all that apply)

❑ I am employed by someone.
❑ I am self-employed.
❑ I am a full-time homemaker.
❑ I am retired.
❑ I am currently unemployed.
❑ I am disabled.
❑ Other: _____

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28. Has any of the following occurred in the last 12 months? (check all that apply)

- ❑ I was laid off.
- ❑ I was fired.
- ❑ I quit a job.
- ❑ I started a new job.
- ❑ I was rehired on a previous job.

*If you have **any job**, go to question 29.*
*If **neither** employed **nor** self-employed, go to question 31.*

29. Do you have more than one current job? ..... ❑ Yes ❑ No

30. If employed or self-employed, how many hours **total** do you typically work per week ?

- ❑ less than 20 hours/week
- ❑ 20-30 hours/week
- ❑ 31-39 hours/week
- ❑ 40 hours/week
- ❑ 41-45 hours/week
- ❑ over 45 hours /week

31. Do you have health insurance? ..... ❑ Yes ❑ No

32. Would you describe yourself as: (check all that apply)

- ❑ Hispanic
- ❑ African-American
- ❑ Black
- ❑ Asian
- ❑ American Indian
- ❑ White
- ❑ Other: _____

33. What best describes your marital status?

- ❑ Currently married
- ❑ Never married
- ❑ Separated, divorced, widowed

34. **Not counting yourself**, what is your total number of dependents? (If you have a spouse or partner, be sure to count him or her also-not just the children) ..... ____

35. How many are over age 65? ..... ____

36. How many are under 18 years of age? ..... ____

37. How many are full-time students over the age 18? .. ____

38. You are ..... ❑ Female ❑ Male

39. What was your approximate total household income (before taxes) for 1996?

- ❑ Under $4,999
- ❑ $5,000-$14,999
- ❑ $15,000-$24,999
- ❑ $25,000-$49,999
- ❑ $50,000-$74,999
- ❑ $75,000 and over

40. Have you ever filed for bankruptcy? ..... ❑ Yes ❑ No

41. If yes, did you file within the past 10 years? ..... ❑ Yes ❑ No

Thank you for your help!

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CREDIT RESEARCH CENTER
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Alternative Credit Survey-Pawnshops

1. How did you learn about this pawn shop? (check all that apply)

- ❑ Saw store/sign
- ❑ Radio ad
- ❑ Friend or relative
- ❑ Newspaper ad
- ❑ TV ad
- ❑ Mail flyer
- ❑ Other: _____

2. When was the first time you got a cash loan at a pawn shop (any pawn shop)?

- ❑ within the last year
- ❑ 1-2 years ago
- ❑ 3 to 4 years ago
- ❑ 5 years ago or more

3. In the last 12 months, about how many times have you gotten a cash loan at pawn shops?

- ❑ None
- ❑ Once
- ❑ Twice
- ❑ Three times
- ❑ 4-6 times
- ❑ more than 6 times

4. Of those pawns, how many were from pawn shops other than this store (another branch or a competitor)?

- ❑ None
- ❑ One
- ❑ Two
- ❑ Three
- ❑ 4-6
- ❑ more than 6

5. Of all your pawns in the last 12 months, how many did you lose (forfeit)?

- ❑ None
- ❑ One
- ❑ Two
- ❑ Three
- ❑ 4-6
- ❑ more than 6

6. Thinking back to your last pawn, what did you need the money for?

- ❑ Medical
- ❑ Pressing bills
- ❑ Car expense
- ❑ Appliance-repair or purchase
- ❑ Treat for yourself
- ❑ Gift for other(s)
- ❑ Personal expense
- ❑ Taxes
- ❑ Other: _____

7. Imagine that there were NO pawnshops when you last got cash (question 6). To meet your need for cash, what would you have considered doing? (Please check yes or no to **each** of these)

Go to a bank?	❑ Yes	❑ No
Go to a small loan company?	❑ Yes	❑ No
Go to a credit union?	❑ Yes	❑ No
Get a cash advance from a credit card?	❑ Yes	❑ No
Go to a friend or relative?	❑ Yes	❑ No
Sell something outright?	❑ Yes	❑ No
Do without?	❑ Yes	❑ No

Other _____

8. Of the choices you checked 'Yes' in question 7, please go back and circle the **one** that you would have been **most** likely to do

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9. We would like to know how you would choose a company to give you a small cash loan ($200 or less). Please rate the importance to you of **EACH** of these factors in selecting a source for this loan.

	Very Important	Somewhat Important	Little/no Importance
The chance of getting the loan	❑	❑	❑
Little paper work	❑	❑	❑
Short time to get cash	❑	❑	❑
Convenient location	❑	❑	❑
Convenient hours	❑	❑	❑
No credit check	❑	❑	❑
Privacy	❑	❑	❑
Personal security	❑	❑	❑
Cost of the loan	❑	❑	❑

10. **Pawn shops** might be a source of small cash loans ($200 or less). Please tell us whether or not you feel that each of the statements below apply to pawn shops.

	Pawn shops Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

11. **Banks** might be another source of small cash loans ($200 or less). Please tell us whether or not you feel that each of the statements below apply to banks.

	Banks Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

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12. **Small loan (finance) companies** might be another source of small cash loans($200 or less). Please tell us whether or not you feel that each of the statements below apply to small loan companies.

	Small loan companies Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

13. **Credit unions** might be another source of small cash loans ($200 or less). Please tell us whether or not you feel that each of the statements below apply to credit unions.

	Credit unions Yes	No	Don't know
My chance of getting cash is good.	❑	❑	❑
There is very little paper work.	❑	❑	❑
Short amount of time to get cash.	❑	❑	❑
Offer convenient locations	❑	❑	❑
Have convenient hours	❑	❑	❑
Offer privacy	❑	❑	❑
Feel personally secure	❑	❑	❑
Dollar cost of the loan is low.	❑	❑	❑

14. In the last 12 months have you gotten one or more loans, small or large, from the following sources?

Small loan company	❑ Yes	❑ No
Bank	❑ Yes	❑ No
Credit union	❑ Yes	❑ No
Cash advance (from a credit card)	❑ Yes	❑ No
Friend or relative	❑ Yes	❑ No

Other _____

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15. Do you currently have

a checking account? ❑ Yes ❑ No

a savings account? . . ❑ Yes ❑ No

a store credit card? ❑ Yes ❑ No

a standard credit card (Visa, MasterCard, Discover, American Express)? . . . . . ❑ Yes ❑ No

a credit card secured by your savings account? . . . . . ❑ Yes ❑ No

16. Have you used a rent-to-own store in the last 12 months? . . . . . ❑ Yes ❑ No

17. Have you applied for credit or a credit card within the last 12 months?

❑ Yes *If you check Yes, go to question 18.*
❑ No *If you check No, go to question 19.*

18. If yes, was the application approved? ❑ Yes ❑ No

19. About how long have you lived at your current address?

❑ less than 1 year ❑ 3-4 years
❑ 1-2 years ❑ 5 years or more

20. Check the statement that BEST describes your housing situation.

❑ I own-no mortgage.
❑ I own-have a mortgage.
❑ I rent.
❑ I live with friend or relative-pay no rent.
❑ Other: _____

21. Do you own or lease a motor vehicle? . . . . . ❑ Yes ❑ No

22. Do you personally own any of the following? (check all that apply)

❑ Telephone in your home
❑ Answering machine or voice mail
❑ Cellular or car phone
❑ Television
❑ Video games
❑ VCR
❑ Video camera
❑ Home computer

23. Are you a member of any of the following organizations or groups in the community? (check all that apply)

❑ Credit union
❑ Religious groups
❑ Leadership groups (Boy Scouts, 4-H, etc.)
❑ Social groups (YMCA, Elks, VFW, etc.)
❑ Other: _____

24. In what year were you born? . . . . . [ ]

25. How many years of education have you completed?

❑ Less than 12 years
❑ High school-GED
❑ High school graduate
❑ Training beyond high school-not college
❑ Some college
❑ College graduate

26. What statement(s) describes your work status? (check all that apply)

❑ I am employed by someone.
❑ I am self-employed.
❑ I am a full-time homemaker.
❑ I am retired.
❑ I am currently unemployed.
❑ I am disabled.
❑ Other: _____

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27. Has any of the following occurred in the last 12 months? (check all that apply)

- ❑ I was laid off.
- ❑ I was fired.
- ❑ I quit a job.
- ❑ I started a new job.
- ❑ I was rehired on a previous job.

*If you have **any job**, go to question 28.*
*If **neither employed nor self-employed**, go to question 30.*

28. Do you have more than one current job? . . . . . ❑ Yes ❑ No

29. If employed or self-employed, how many hours **total** do you typically work per week ?

- ❑ less than 20 hours/week
- ❑ 20-30 hours/week
- ❑ 31-39 hours/week
- ❑ 40 hours/week
- ❑ 41-45 hours/week
- ❑ over 45 hours /week

30. Do you have health insurance? . . . . . ❑ Yes ❑ No

31. Would you describe yourself as: (check all that apply)

- ❑ Hispanic
- ❑ African-American
- ❑ Black
- ❑ Asian
- ❑ American Indian
- ❑ White
- ❑ Other: _____

32. What best describes your marital status?

- ❑ Currently married
- ❑ Never married
- ❑ Separated, divorced, widowed

33. **Not counting yourself**, what is your total number of dependents?(If you have a spouse or partner, be sure to count him or her also-not just the children) ____

34. How many are over age 65? . . . . . ____

35. How many are under 18 years of age? . . . . . ____

36. How many are full-time students over the age 18? . . ____

37. You are . . . . . ❑ Female ❑ Male

38. What was your approximate total household income (before taxes) for 1996?

- ❑ Under $4,999
- ❑ $5,000-$14,999
- ❑ $15,000-$24,999
- ❑ $25,000-$49,999
- ❑ $50,000-$74,999
- ❑ $75,000 and over

39. Have you ever filed for bankruptcy? . . . . . ❑ Yes ❑ No

40. If yes, did you file within the past 10 years? . . . . . ❑ Yes ❑ No

Thank you for your help!

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Alternative Credit Survey-Pawnshops

1. How did you learn about this pawn shop? (check all that apply)

- ❑ Saw store/sign
- ❑ Radio ad
- ❑ Friend or relative
- ❑ Newspaper ad
- ❑ TV ad
- ❑ Mail flyer
- ❑ Other: _____

2. Check the statement that BEST describes your housing situation.

- ❑ I own-no mortgage.
- ❑ I own-have a mortgage.
- ❑ I rent.
- ❑ I live with friend or relative-pay no rent.
- ❑ Other: _____

3. About how long have you lived at your current address?

- ❑ less than 1 year
- ❑ 3-4 years
- ❑ 1-2 years
- ❑ 5 years or more

4. Are you a member of any of the following organizations or groups in the community? (check all that apply)

- ❑ Credit union
- ❑ Religious groups
- ❑ Leadership groups (Boy Scouts, 4-H, etc.)
- ❑ Social groups (YMCA, Elks, VFW, etc.)
- ❑ Other: _____

5. Do you own or lease a motor vehicle? ❑ Yes ❑ No

6. Do you personally own any of the following? (check all that apply)

- ❑ Telephone in your home
- ❑ Television
- ❑ Video games
- ❑ Answering machine or voice mail
- ❑ VCR
- ❑ Video camera
- ❑ Home computer
- ❑ Cellular or car phone

7. Do you currently have

a checking account?	❑ Yes	❑ No
a savings account?	❑ Yes	❑ No
a store credit card?	❑ Yes	❑ No
a standard credit card (Visa, MasterCard, Discover, American Express)?	❑ Yes	❑ No
a credit card secured by your savings account?	❑ Yes	❑ No

8. Have you used a rent-to-own store in the last 12 months,? ❑ Yes ❑ No

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9. In the last 12 months have you gotten one or more loans from the following sources?

Small loan (finance) company	❑ Yes	❑ No
Bank	❑ Yes	❑ No
Credit union	❑ Yes	❑ No
Cash advance (from a credit card)	❑ Yes	❑ No
Friend or relative	❑ Yes	❑ No

Other: _____

*If you answered 'No' to **all** of the responses in question 9, please go to question 13-next page.*

10. If you answered 'Yes' to at least one of the responses in question 9, were any of these loans for **$200 or less**?

❑ Yes *If you check Yes, go to question 11.*
❑ No *If you check No, go to question 13-next page.*

11. If at least one loan was for $200 or less, where did you get the loan(s)? (check all that apply)

❑ Small loan (finance) company
❑ Credit union
❑ Bank
❑ Cash advance on credit card
❑ Friend or relative
❑ Other: _____

12. We would like to know how you would choose a company to give you a small cash loan ($200 or less). Please rate the importance to you of **EACH** of these factors in selecting a source for this loan.

	Very Important	Somewhat Important	Little/no Importance
The chance of getting the loan	❑	❑	❑
Little paper work	❑	❑	❑
Short time to get cash	❑	❑	❑
Convenient location	❑	❑	❑
Convenient hours	❑	❑	❑
No credit check	❑	❑	❑
Privacy	❑	❑	❑
Personal safety	❑	❑	❑
Cost of the loan	❑	❑	❑

13. Have you applied for credit or a credit card within the last 12 months?

❑ Yes *If you check Yes, go to question 14.*
❑ No *If you check No, go to question 15.*

14. If yes, was the application approved? ❑ Yes ❑ No

15. In what year were you born? ____

16. How many years of education have you completed?

❑ Less than 12 years
❑ High school-GED
❑ High school graduate
❑ Training beyond high school-not college
❑ Some college
❑ College graduate

17. What statement(s) describes your work status? (check all that apply)

❑ I am employed by someone.
❑ I am self-employed.
❑ I am a full-time homemaker.
❑ I am retired.
❑ I am currently unemployed.
❑ I am disabled.
❑ Other: _____

18. Has any of the following occurred in the last 12 months? (check all that apply)

❑ I was laid off.
❑ I was fired.
❑ I quit a job.
❑ I started a new job.
❑ I was rehired on a previous job.

*If you have **any job**, go to question 19.*
*If you are **neither** employed **nor** self-employed, go to question 21.*

19. Do you have more than one current job? ❑ Yes ❑ No

20. If employed or self-employed, how many hours **total** do you typically work per week ?

❑ less than 20 hours/week
❑ 20-30 hours/week
❑ 31-39 hours/week
❑ 40 hours/week
❑ 41-45 hours/week
❑ over 45 hours /week

21. Do you have health insurance? ❑ Yes ❑ No

22. Would you describe yourself as: (check all that apply)

❑ Hispanic
❑ African-American
❑ Black
❑ Asian
❑ American Indian
❑ White
❑ Other: _____

23. What best describes your marital status?

❑ Currently married
❑ Never married
❑ Separated, divorced, widowed

26. **Not counting yourself**, what is your total number of dependents? (If you have a spouse or partner, be sure to count him or her also-not just children) ____

27. How many are over age 65? ____

28. How many are under 18 years of age? ____

29. How many are full-time students over the age 18? ____

30 You are . . . . . ❑ Female ❑ Male

31. What was your approximate total household income (before taxes) for 1996?

❑ Under $4,999
❑ $5,000-$14,999
❑ $15,000-$24,999
❑ $25,000-$49,999
❑ $50,000-$74,999
❑ $75,000 and over

32. Have you ever filed for bankruptcy? . . . . . ❑ Yes ❑ No

33. If yes, did you file within the past 10 years? . . . . . ❑ Yes ❑ No

Thank you for your help!

APPENDIX B

SUMMARY OF STATE PAWNSHOP LAWS

Note: These are only summaries of state laws. Therefore, they do not reflect recent changes in those laws and should not be used for decisions that are related in any way to state laws.
A qualified attorney should be retained.

Revised May 22, 1998

STATE PAWNSHOP LAW SUMMARY**

STATE	PERMITTED MONTHLY PAWN SERVICE CHARGE	LENGTH OF LOAN PERIOD	LENGTH OF REDEMPTION PERIOD	BUY/SELL ALLOWED ?	PFI MAILER	HOLD PERIOD (PURCHASES)	SPECIAL REQUIREMENTS	LAST INTERNAL UPDATE
Alabama	25%	At least 30 days	30 days from maturity date	Yes	No	Vehicles: 21 days Other: 15 days		4/98
Alaska	Not specified*	Not specified	60 days from loan date plus 30 day notice period	No	Yes	[See local ordinances]		6/93
Arizona	6% for first and second month; 3% thereafter; plus one-time set-up fee of $5.00 and storage fee of $5.00 per month on items over 3 cubic feet.	At least 90 days	Must redeem during loan period	Yes	No	10 days	- Charges pro-rated after 2nd month	9/96
Arkansas	Not specified*	Not specified	Not specified	No	No	[See local ordinances]		5/93
California	(i) 2.5% on the amount up to $225; 2% on the portion over $225 up to 900; 1.5% on the portion over $900 up to $1,650; 1% on the portion over $1,650; (ii) plus service charge ranging from $3 on "any loan for not more than 90 days" of $15-$20 to $140 on "any loan for not more than 90 days" of $2,100-$2,500; (iii) plus $2 loan setup fee and one-time variable storage fee for items over 1 cubic foot depending on the size of the item. $2.00 PFI mailer fee.	4 months	10 day notice period after expiration of loan period	No	Yes	[See local ordinances]		9/96
Colorado	$ % Under 50 20 50 and over 10	90 days or less	Presumably must redeem during original loan period	Yes	Yes	30 days		4/98

Connecticut	$ / % 0 - 15 / 5 16 - 50 / 3 Over 50 / 2	Not specified	2 months from loan date	No	No	(See local ordinances)	- Newspaper notice - No wholesalers - Pawnbroker to pay for loans & purchases by check.	3/98
Delaware	3% 3% storage fee (?)	Not specified	2 months: wearing apparel 4 months: all else	Yes	No	4 months (?)	- No "worker's tools" or artificial limbs - Watches and invoices tagged "secondhand"	4/98
District of Columbia								9/96
Florida	25% for each 30 day period (Minimum of $5.00) (Must prorate after 60 days)	30 days	30 days after maturity date (next business day)	Yes	No	30 days	- Thumb print	4/98
Georgia	25% during the first 90 days (minimum $10) 12.5% hereafter (minimum $5)	30 days	10 days after maturity date	Yes	No	(See local ordinances)	- No renewals unless full redemption pd & goods removed from premises - Extensions 30-day periods only - Special rules for motor vehicles - Special advertising restrictions - Watches tagged "secondhand"	4/98
Hawaii	20%	One month	30 days after maturity date	Yes	No	10 working days	- Limit of 2 extensions - Charges prorated after maturity	10/93
Idaho	Not specified*	Not specified	Not specified	No	No	(See local ordinances)		9/96
Illinois	Monthly fees and interest not to exceed 1/5 of the loan amt. (20%)	30 days	30 days grace	No	No	Min. 48 hrs. from delivery of report (See local ordinances)	- 2 Forms of I.D. Required	4/98
Indiana	$ / % 0 - 300 / 3 301 - 1,000 / 1.75 1,001 - and over / 1.25 plus a fee not to exceed 1/5 of the principal	Not specified	90 days from maturity date	Yes	Yes (Not required if held 180 days)	(See local ordinances)	- Thumb print	4/98

Iowa	1.75% per Consumer Credit Code. (Exception for pawnbrokers subject to local rate regulation, but no rate regulation in Cedar Rapids, Davenport or Des Moines.)	Not specified	Not specified	No	No	(See local ordinances)		9/96
Kansas	10%	1 month	2 months	Yes	No	10 days for precious metals	- $5,000 loan limit	9/96
Kentucky	2% plus a fee not to exceed 1/5 of the principal	Not specified	90 days from date of maturity	Yes	Yes	(See local ordinances)		4/98
Louisiana	10% plus an additional 10% service charge for the first month only	6 months for jewelry; 3 months for other	Must redeem during loan period	Yes	No	30 days	- No pawnshops within 300 ft. of a gaming facility.	4/98
Maine	25% on loans up to $500; 20% on the portion exceeding $500	Not specified	60 days from loan date	Yes	No	(See local ordinances)	- Must allow at least one extension of 31 days	9/96
Maryland	Not specified*	Not specified	Not specified	Yes	No	18 days	(See local ordinances) Baltimore: No new pawnshop licenses (45 exist). If transferred, renewal fee of $2,000 per yr. No Sundays & hrs. regulated. Permitted use zoning.	11/96
Massachusetts	Determined by licensing authorities (i.e., cities)	Not specified	4 months from loan date	Yes	No (Notice of Auction Required)	(See local ordinances)	- Auction; return of excess proceeds (for loans over $25,00) - Photograph each customer - Cannot lend on firearms	9/96
Michigan	3% ($50¢ min.) plus 50¢ per month for non-jewelry after 30 days but for not more than 4 months	Not specified	6 months from loan date	Yes	No	(See local ordinances)	- Fingerprint - Newspaper notice - Auction; return of excess proceeds - No pistols - No Sundays	9/96
Minnesota (New statute effective 8/1/96)	3% plus "a reasonable fee for storage and services".	Not specified	60 days from loan date	Yes	No	Minneapolis: 12 days St. Paul: 30 days	- St. Paul; videotape all transactions	11/96
Mississippi	25%	Not specified	30 days from maturity date	Yes	No	21 days		9/96

Missouri	2% plus ½ charge for storage and security*	30 days	60 days from maturity date	Yes	No	(See local ordinances)	- No new licenses issued w/in ½ mile of a gambling boat dock.	9/96
Montana	25%	30 days	Not specified (see local ordinances)	Yes	No	(See local ordinances)		9/96
Nebraska	Not specified*	Not specified	4 months from loan date	Yes	No	14 days	- Fingerprint	9/96
Nevada	8% plus a $5 initial charge	Not specified	120 days from loan date	No	No	(See local ordinances)		12/94
New Hampshire	Fixed by local licensing boards	Not specified	4 months from loan date	No	No	(See local ordinances)	- Auction; excess proceeds to customers	9/96
New Jersey	5%	Not specified	12 months from loan date "unless otherwise agreed in writing between the pawnbroker and pledgor or authorized by the Commissioner for due cause"	Yes	Yes	(See local ordinances)	- Newspaper notice - Auction; excess proceeds to customers	5/98
New Mexico	1st 30-day period: 10% ($7.50 minimum); subsequent periods (including renewals): 4%	30 days	90 days after due date	Yes	No	(See local ordinances)	- Excess sales proceeds to customers - $2,000 loan limit	9/96
New York	3% plus service charge: $5 for loans of $100 or more; $3 for loans under $100	Not specified	4 months from loan date	Yes	Yes	(See local ordinances)	- Newspaper notice - Auction; excess proceeds to customers	12/94
North Carolina	2% plus 20% of the principal up to a maximum of the following: 1st mo. = $100 2nd mo. = 75 3rd mo. = 75 4th mo. = 50	Not less than 30 days	60 days after maturity date	No	No	(See local ordinances)	- Stated value = loan value	4/98
North Dakota	Not specified (licensed pawnbrokers exempt from Small Loans Code)	Not specified	Not specified (See local ordinances)	No	No	(See local ordinances)		9/96
Ohio	5% plus a $2 storage fee and $1 PFI mailer fee	Not specified	2 months from date of loan or date of last int. payment date	No	Yes	15 days	Retain all pledges 72 hours. Post business hours.	12/97

Oklahoma	20% on the amount up to $150; 15% on the portion over $150 up to $250; 10% on the portion over $250 up to $500; 5% on the portion over $500 up to $1,000; 3% on the portion over $1,000.	One month	30 days after maturity date	Yes	No	10 days	- $25,000 loan limit - Charges prorated after maturity	9/96
Oregon	3% on the amount up to $2,500; 1.75% on the portion over $2,500 up to $5,000; 1.5% on the portion over $5,000, plus one-time fee of 10% (maximum $5)	At least 3 months	30 days after maturity date	Yes	Yes (loans of $100 or more)	(See local ordinances)		7/93
Pennsylvania	5% interest plus fee of 2.5% plus $1.00 charge for reporting to government	Not specified	90 days from "due date"	Yes	Yes	Jewelry: 30 days Other: 7 days	- Can only renew for 8 mos. after loan date - Auction; excess proceeds to customers; must sell within 12 mos. of loan date and for at least 125% of loan amt. - No firearms in pawn	9/96
Rhode Island	Loans over $50: 5% for periods of 3 months or less; 2.5% for periods over 3 months	Not specified	3 months from the maturity date	Yes	No	No purchasing other than through Buy/Sells	- Newspaper notice - Auction (loans of $25 or more) - Excess proceeds to customers	4/94
South Carolina	Amt. APR $ 50 300% $ 75 280% $ 90 273% $ 100 270% $ 125 252% $ 150 240% $ 200 225% $ 500 162% $1,000 141% $1,500 114% $2,000 100.5%	30 days	60 days from due date	Yes	Yes (loans over $50)	7 days	- $2,000 loan limit	4/98
South Dakota	No stated maximum if parties set rate in the contract	Not specified	Not specified	No	No	(See local ordinances)		4/94
Tennessee	2% plus a fee not to exceed 20%	Not less than 30 days after loan date	30 days after maturity date	Yes	No	15 days		11/96

Texas	$ % 1 - 135 20 136-450 15 451-1,350 2.5 1,351-11,250 1 [Customer gets pro rata reduction in interest for redeeming loans over $75.00 prior to maturity (subject to $15.00 min.)]	1 month	60 days from maturity date	Yes	No	20 days	- $11,250 loan limit - Charges prorated after maturity	4/98
Utah	Not specified (Municipalities prohibited from setting pawn rates and pawnbrokers are exempt from Consumer Credit Code, but no rate provision.)	Not specified	Not specified	No	No	(See local ordinances)	Thumb print	4/98
Vermont	$ % 50 or less 5 Over 50 3	Not specified	6 months from loan date	No	No	(See local ordinances)	- Excess proceeds to customers	9/96
Virginia	$ % 0 - 25 10 26 - 99 7 100 or more 5	Not specified	Not less than 30 days from loan date	Yes	No	Jewelry: 10 days Other: (See local ordinances)	- Newspaper notice - Auction, excess proceeds to customers	2/93
Washington	Monthly rate: Sliding scale from $1 for loans under $10 to 3% for loans of $100 or more; plus one time fee ranging from $.50 for loans under $5 to $90 for loans of $4,500 or more.	30 days	60 days from maturity	Yes	No	30 days		6/94
West Virginia	Not specified (Pawnbrokers exempt from Consumer Credit Code)	Not specified	Not specified	No	No	(See local ordinances)		11/94
Wisconsin	3% Max. loan amt. of $150.00	Not specified	90 days after due date	Yes	Yes (30 days prior & notice of surplus)	30 days - unless known to be lawful owner. Min. 10 days for articles & 15 for jewelry	- Fingerprints	4/98
Wyoming	20% ($5 minimum)	One month	[Presumably must redeem during loan period]	Yes	No	(See local ordinances)	- $3,000 loan limit	5/94

Need further review of Consumer Credit Code or usury statute to determine rates, if any, applicable to small loans generally.

Note: These are only summaries of state laws. Therefore, they do not reflect recent changes in those laws and should not be used for decisions that are related in any way state laws. A qualified attorney should be retained.

WHERE HAVE ALL THE HOT GOODS GONE? THE ROLE OF PAWNSHOPS

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Recent research argues that because markets for stolen goods act as incentives to steal, police and criminologists should shift attention from thieves to methods of disrupting demand for the goods. The underlying research, however, is too thin to support this advice. Effective policy requires considerably more investigation. Analysis of pawn transaction data from Texas supports this assessment. It suggests that proposals to disrupt demand are unlikely to succeed, partly because similar actions already applied to pawnshops have shown limited effect, mainly because hot goods are invisible in the daily flow of secondhand merchandise through the general retail market. Police and criminologists should remain focused on thieves and their apprehension, and on pursuing ways to do this more efficiently, such as through improved tracking of pawn transactions. There may be other intervention possibilities as well, but much more empirical research is required to identify them.

Keyword: *property crime; receiving stolen goods; pawnbroking*

Recent improvements in public understanding of markets for stolen goods has led some researchers, Clarke (1999); Kock, Kemp, and Rix (1996); and Sutton (1995), for example, to conclude that these markets, because they facilitate disposal, act as incentives to steal. From this they argue that police and criminologists focus too much on thieves, not enough on reducing demand for hot goods. They then urge more research on the markets and on methods of disruption, such as encouraging stores that do not want illicit merchandise to install closed circuit televisions, photograph sellers and post signs announcing participation in crime prevention programs (Sutton 1998).

More research is certainly warranted. But a shift in focus from thieves to disrupting demand seems premature. As Freiberg (1997) highlights, all studies to date merely hint at the size and other features of the market. They offer no basis to justify diverting attention or for expecting that the markets can be upset in meaningful ways. Indeed, Freiberg stresses, "public knowledge of [the] market [for stolen goods] and its dynamics . . . is so impoverished as to

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border on the scandalous. Good policy cannot be developed on the foundations of ignorance" (1997:25).

A glaring sign of this poverty is scarcity of research on pawnshops (i.e., pawnbrokers who make loans as main businesses or as sidelines to other enterprises). Rarely arrested, these brokers have long been suspected of illicit trade. Scholars recurrently point fingers at them. Interviews with burglars show their importance for quick disposal. And everywhere there are pawnshop laws that, among other objectives, aim to reduce traffic in stolen goods.

What makes the dearth of research especially dismaying is that although denunciation of pawnshops and efforts to halt illegal trade have recurred for a long time, the few empirical studies done on them, mainly by economists (e.g., Caskey 1994; Patterson 1899), legal analysts (e.g., Levine 1913; Nickles and Adams 1994; Oeltjen 1996), and others (e.g., Wheat 1998), ignore or downplay their involvement. Although these scholars act as deliberate or inadvertent pawnbroker defenders, adversaries, such as Glover and Larubbia (1996) and other investigative journalists, continue to underscore close connections between brokers and stolen merchandise.

Missing from this arena is dispassionate inquiry that might help estimate pawnbrokers' share of the market, and also answer the question of whether new attempts to reduce that share could prove more effective than past attempts. This question is important because if the answer to it is no, then prospects for disrupting other, less visible and less regulated markets for stolen merchandise are remote. There would then be little reason for attention to shift from thieves to markets.

Following a brief look at pawnbroking in the United States, we move toward answering the question with a review of what has been alleged about the link between brokers and stolen goods. With data for Dallas, Texas, we then show that the pawnshop customer base holds a small group of prolific pawners. Containing many people with arrests for thievery, this group is responsible for a disproportionate number of transactions that, we suspect, involve hot items. These data also show that even if the items are but a fraction of all things passing through shops, that fraction represents a significant portion of broker revenue and a nontrivial share of the estimated $40 billion to $45 billion of goods that we estimate are stolen every year (see appendix).

Out of this, our answer to the question is that efforts to disrupt markets for stolen goods are unlikely to succeed. One reason, for pawnshops, is that proposed disruption methods are similar to those that have been applied with little effect for a long time. Writ larger, another reason is that stolen items are invisible in the flow of used merchandise between sellers and buyers. Markets for hot goods are inseparable from the market for all secondhand wares. Reducing demand for stolen goods, therefore, implies disrupting the whole retail market for used merchandise. Even if one accepts the premise that this

bigger market acts as an incentive to steal, disturbing it serves no fruitful purpose. Police and criminologists are thus better advised to stick with identification and apprehension of thieves, and with improving methods to accomplish this, such as finding more efficient means to track pawn transactions. This does not exhaust the list of possible interventions, but much more empirical research is required in order to identify the productive possibilities.

PAWNBROKING IN THE UNITED STATES

Pawnbroking is the business of lending cash for a fixed term against the security of a deposit, or pledge, of personal property. The loan is typically 30 percent to 75 percent of the market value of the pledge. If borrowers repay the loan on time together with interest and other fees, the broker returns the goods. If obligations are not paid, then borrowers forfeit their property. The broker earns revenue from interest and fees or from sale of the forfeited items.

The business has almost always been associated with exorbitant interest rates and with facilitation of traffic in stolen goods. As a result, pawnshops are everywhere subject to specific state and local regulation. Some laws set maximum limits, or ceilings, on nominal (i.e., official) interest rates and on storage and other administrative fees that brokers use to push effective rates that customers pay to levels higher than nominal rates. In addition to licensing, bond, land use zoning and like requirements, other regulations focus mainly on identifying stolen goods and limiting their flow through shops. Among other things, these require that brokers submit records of all transactions to police in a timely manner, that the records describe every item pawned, and that borrowers supply personal identification, at times including fingerprints or photographs.

Laws were highly restrictive during the first half of the twentieth century, dampening growth of pawnbroking, or at least that of visible, licensed shops. Levine (1913) counted 1976 of them in 1911, after which the number dropped to 1509 in 1929 and 1374 in 1948 (U.S. Bureau of the Census 1953). As they still do, laws also varied greatly across states. With profitability harder in some places than in others, this variation contributed to big differences in spatial distribution, for example, from 2.6 shops per 100,000 urban population in Kentucky to 17.9 in Florida (Levine 1913).

Numbers exploded during the second half of the century, due in part to regulatory reform, especially liberalization of interest ceilings (Johnson and Johnson 1998), and in part to rapid growth in demand for used merchandise.[1] Based on a count of telephone directory listings, Caskey (1994, 1995) estimates that the number of shops jumped from 4,850 in 1985 to near 10,000 in

1994. We count 12,300 unduplicated listings in 2002. With allowance for those that do not list themselves, this suggests the presence of perhaps 15,000 brokers.[2] As we show in Table 1, pawnshops have become as convenient to their customers, be they borrowers or criminals, as the 12,500 McDonald's fast food restaurants are to their hungry patrons.[3]

Another change, in recent years especially, is the structure of the industry. Independent outlets have been absorbed or displaced by regional and national firms, such as Cash America, which in 1987 became the first publicly traded pawnshop corporation in the country (Scott 1992), and EZCorp, Express Cash, and First Cash, which traded on Wall Street a few years later (Caskey 1995).

These corporate players have moved aggressively to acquire merchandising respect, to replace the pawnbroker's disreputable image with that of virtuous entrepreneurship (Drysdale and Keest 2000). Some efforts focus on transforming seedy shops into smart-looking retail stores (Berg 1991; Breyer 1995; Ruisseaux 1995). Others involve strategic use of advertising in local media, and encouraging these media to report positive trends in the industry, notably the move of brokers into suburbia and corresponding widening of the customer base to include more middle- and higher-income individuals (e.g., Auster 1997; Calkins 1987).

WHAT SCHOLARS AND JOURNALISTS SAY ABOUT PAWNSHOPS AND STOLEN GOODS

These exertions may have succeeded in removing some of the stigma attached to use of pawnbrokers, especially in higher-income strata. But they have yet to undermine the widely held conviction that shops serve what Glover and Larubbia (1996) call the modern thief's automatic cash machine. The perceived link between theft and pawnbroking, as mentioned earlier, is indirectly supported by some scholarly research. Cromwell's (1991) interviews of 30 apprehended burglars in Texas showed that 18 percent used pawnshops as a primary method of disposal whereas others used them irregularly. Our analysis of transcripts from interviews by Richard and Decker (1993) of one hundred burglars in Missouri suggests that even though required to have their picture taken, 42 percent used pawnshops for goods disposal, half of them regularly.

More commonly, the perception is sustained by recurrent newspaper articles concerning pawnshop crackdowns, arrest of operators, proposals to computerize pawn records, and the like (e.g., Gryta 1998; Krause 1998; McGeevy 1997). Grounded or not, belief that shops attract criminals contin-

TABLE 1: Pawnbrokers in the United States in 2002, by State[a]

		Pawnbrokers		*McDonalds' Restaurants*		
State	*Effective Interest Rate[b] (%)*	*Number[c]*	*Per 100,000 Population[d]*	*Number[c]*	*Per 100,000 Population[d]*	*Ratio of Pawnbrokers to Restaurants*
Alabama	21	660	14.8	230	5.2	2.9
Alaska	25	55	8.8	30	4.8	1.8
Arizona	20	145	2.8	200	3.9	0.7
Arkansas	15	385	14.4	140	5.2	2.8
California	18	745	2.2	1,165	3.4	0.6
Colorado	10	235	5.5	195	4.5	1.2
Connecticut	3	80	2.3	150	4.4	0.5
Delaware	3	15	1.9	35	4.5	0.4
District of Columbia	2	15	2.6	40	7.0	0.4
Florida	25	1,120	7.0	725	4.5	1.5
Georgia	25	995	12.2	370	4.5	2.7
Hawaii	20	75	6.2	70	5.8	1.1
Idaho	20	150	11.6	50	3.9	3.0
Illinois	23	265	2.1	600	4.8	0.4
Indiana	23	155	2.5	335	5.5	0.5
Iowa	23	100	3.4	130	4.4	0.8
Kansas	10	140	5.2	175	6.5	0.8
Kentucky	22	325	8.0	220	5.4	1.5
Louisiana	20	230	5.1	265	5.9	0.9
Maine	25	40	3.1	60	4.7	0.7
Maryland	20	185	3.5	315	5.9	0.6
Massachusetts	5	65	1.0	240	3.8	0.3
Michigan	5	150	1.5	535	5.4	0.3
Minnesota	20	140	2.8	190	3.9	0.7
Mississippi	25	400	14.1	130	4.6	3.1
Missouri	4	355	6.3	325	5.8	1.1

Montana	25	140	15.5	45	5.0	3.1
Nebraska	12	55	3.2	75	4.4	0.7
Nevada	15	110	5.5	110	5.5	1.0
New Hampshire	20	35	2.8	60	4.9	0.6
New Jersey	3	45	0.5	220	2.6	0.2
New Mexico	10	145	8.0	75	4.1	1.9
New York	3	150	0.8	495	2.6	0.3
North Carolina	22	480	6.0	375	4.7	1.3
North Dakota	25	35	5.5	25	3.9	1.4
Ohio	9	210	1.8	600	5.3	0.4
Oklahoma	20	415	12.0	180	5.2	2.3
Oregon	10	50	1.5	170	5.0	0.3
Pennsylvania	2	90	0.7	545	4.4	0.2
Rhode Island	5	15	1.4	30	2.9	0.5
South Carolina	25	300	7.5	200	5.0	1.5
South Dakota	20	60	7.9	35	4.6	1.7
Tennessee	20	570	10.0	290	5.1	2.0
Texas	20	1,270	6.1	920	4.4	1.4
Utah	10	125	5.6	95	4.3	1.3
Vermont	3	2	0.3	25	4.1	0.1
Virginia	9	255	3.6	385	5.4	0.7
Washington	12	245	4.2	265	4.5	0.9
West Virginia	10	140	7.7	95	5.3	1.5
Wisconsin	3	55	1.0	265	4.9	0.2
Wyoming	20	70	14.2	30	6.1	2.3
Total (average)	(19)	12,295	(4.4)	12,530	(4.5)	(1.0)

a. All numbers in table are rounded.
b. Effective interest, including both nominal interest and other charges, is calculated for a hypothetical 60-day loan of $50 secured with a 2.5 cubic foot microwave oven (i.e., to estimate storage fees based on volume).
c. Numbers of brokers and restaurants are from state listings downloaded in mid-2002 from the Yellow Pages business directory (excluding duplicates), retrieved June 12, 2002, http://www.superpages.com/.
d. Population estimated, April 1, 2000, http://eire.census.gov/popest/data/states/populartables/table01.php.

ues to fuel opposition to their presence in residential areas (e.g., Ingrassia 1995; Lundy 1994).

Pawnbrokers insist that this is misperception, countering that shops are in fact good neighbors serving the needs of cash-strapped populations. They illustrate this with genial stories in the media of the benefits obtained by individual borrowers in financial distress (e.g., Marino 1997). They claim, furthermore, that most if not all pawnbrokers are honest, hard-working individuals who try to reduce risk of receiving stolen property by working closely with police (Chuang 1998; Stroer 1997). As a result, they say, pawnshops accept few stolen items.

Some data seem to bolster this assertion. A review of 150,000 pawn transactions by Cash America found only 34 stolen items, or 0.02 percent of the total (Kleinfield 1989). A 1991 check of 65,000 transactions in Dallas County, Texas, found 250 stolen items, or 0.4 percent (Scott 1992). In Oklahoma, 873 of more than 1.5 million items pawned in 1995, or less than 0.1 percent, were identified as stolen (Wheat 1998). Police in Los Angeles, California, recover about $700,000 a year in stolen property, also a tiny share of all transactions (McGeevy 1997). Similar figures, respectively .01 and .07 percent, are reported in Florida for Collier and Palm Beach counties (Florida Committee on Criminal Justice 2000)

But these data are not convincing. They stem from efforts to match goods in pawn against lists of stolen items with serial numbers, engraved ownership markings, or other unique identifying features that victims report to police. Most stolen goods do not have such unique features. Most thefts, as we note in the appendix, are not reported.

Pawnbrokers also find support from scholars studying the business. Caskey (1994), after interviewing six brokers, argues that they do not traffic in stolen goods because, risking arrest or suspension of their licenses, it would be foolish for them to do so. Nickles and Adams (1994), to buttress their argument that possession of property by pawnbrokers should imply legal right to the property, claim that virtually all pawned goods involve true owners. Oeltjen (1996), reacting to a broker's claim in court that 5 percent of transactions involve stolen goods, tries to discredit the assertion in a footnote by saying, disingenuously, that it is not substantiated by fact.

Evidence to challenge the idea that hot goods are an insignificant share of all pawned items is often just as anecdotal as that which supports it. Much of this evidence flows from ad hoc law enforcement actions, such as a sting operation by police in Manatee County, Florida, that was filmed and then broadcast on national television during the NBC network's *Dateline* program on May 11, 1999 (Florida Committee on Criminal Justice 2000). Here, undercover officers created a pawnshop to investigate the extent to which

thieves would use this type of facility. Hidden cameras then recorded how several frequent pawners came in to fence wares that were obviously hot, a few even revealing how they burgled homes and businesses. The state requirement that pawners leave a thumb print at every transaction did not deter these individuals.

An earlier undercover operation in Fort Lauderdale, Florida, filmed and then aired on December 21, 1997, during the CBS network's *60 Minutes* program, involved detectives posing as homeless people trying to pawn computer equipment with stickers indicating that they belonged to a prominent local business ("Quick Cash" 1997). Notwithstanding overt signs that the goods might be hot, staff at three of five shops accepted them, one even asking for computer monitors the next time.

Luring CBS to Fort Lauderdale was a series of investigative reports by Glover and Larrubia (1996) in a local newspaper claiming that city pawnshops routinely accept suspect merchandise. After sorting through 70,000 pawn tickets to identify and examine backgrounds of the 50 most prolific pawners, the journalists found three common characteristics: Most were unemployed, 78 percent had arrest records (half of them for property crimes, most others for drug offenses), and all possessed a seemingly endless supply of things to pawn. A police survey of frequent pawners produced like findings in Portland, Oregon. It noted that 90 percent were chronic drug users with long criminal records, and that most were unemployed (Hammond 1997).

The combination of high arrest and unemployment rates among prolific pawners implies that pawnbrokers have a correspondingly high probability of receiving stolen goods from such people. However, without an indication of the proportion of prolific pawners in the whole population of customers, or of the share of their goods relative to all pawned items, it is hard to gauge the significance of Fort Lauderdale and Portland findings. Johnson and Johnson (1998), for example, make clear that frequent pawners are not representative of the general clientele. Their interviews with 1,100 randomly selected borrowers in 1997 show that most are employed males, usually high-school graduates, without bank accounts (Johnson and Johnson 1998).

In general, research by scholars and journalists suggests three things. First, pawnbrokers do have some role in recycling stolen goods. Second, frequent pawners present the highest likelihood of acting as main agents through which pawnshops acquire hot goods. Third, the volume and value of these goods may be substantially greater than the tiny fractions that have been proposed. Pawn data from Dallas, Texas, provide circumstantial evidence to support these suggestions.

DATA FROM DALLAS, TEXAS

In addition to data from interviews with nine imprisoned property offenders (confirming the findings of Cromwell [1991] and Richard and Decker [1993] on use of brokers), 11 pawnshop managers and a dozen police officers in pawn units in Dallas and surrounding municipalities, these data comprise three related components. First is a primary database of all pawn transactions recorded by the Dallas Police Department (DPD) during the six-year period from January 1, 1991, through December 31, 1996. Each transaction shows a pawn ticket number, a pawner identification number, shop identification number, transaction date, and classification code for items pawned.[4]

The second component, devised to help us calculate transaction values, comprises 1,000 randomly selected pawn tickets issued by 102 pawnbrokers during the first half of 1993. In addition to items in the primary database, each ticket shows the pawner's zip code address, age, sex, and race; the loan period, amount of loan, finance charge, description and quantity of items pawned, and whether the transaction involves a loan or sale. With these data we estimate mean dollar values for 21 items that together represent almost 70 percent of all pawned goods.

The third data component, designed to examine arrest histories, is sample data on 2,000 pawners. These show pawner identification number, street address, age, race, gender, and state arrest record, if any. To create the sample we stratified the primary database into 10 frequency-of-transaction classes (i.e., one pawn transaction during 1991-1996, two transactions, etc.), and then randomly selected 200 individuals from each category. The selection provided a list of identification numbers that we then used to search through state and county public records for individual arrest information. Glover and Larrubia (1996) used a similar method. The difference between the two approaches is that we cover all pawners for six years, not just the prolific ones for one year.

THE EVIDENCE CONNECTING PAWNSHOPS AND STOLEN GOODS

These data show that Dallas pawnshops received more than 5.5 million items in pledge during the six-year period, or a daily average of 23 items per shop.[5] Table 2 indicates that about two dozen items made up more than 70 percent of the total, most in the categories of jewelry, electronics, tools, office equipment, and firearms. This distribution pattern is roughly similar to that

TABLE 2: Items Pawned in Dallas, Texas, 1991-1996[a]

Item Class	*Specific Good*	*Number*[b]	*Percentage*
Jewelry	Ring	848,040	15.4
	Necklace	280,280	5.1
	Wristwatch	229,610	4.2
	Gold bracelet	139,070	2.5
	Subtotal	1,497,000	27.2
Electronics	Video recorder/player	399,230	7.2
	Television	371,560	6.7
	Television game	158,120	2.9
	Stereo receiver	135,550	2.5
	Radio/tape player	119,500	2.2
	Compact disk player	94,300	1.7
	Speakers	72,840	1.3
	Amplifier	69,110	1.3
	Compact audio disk	50,320	0.9
	Subtotal	1,470,530	26.7
Tools	Drill	121,290	2.2
	Saw	98,860	1.8
	Toolbox	62,210	1.1
	Subtotal	282,360	5.1
Communication	Telephone	67,980	1.2
	Pager/beeper	65,020	1.2
	Subtotal	133,000	2.4
Firearms		321,910	5.8
Other	Camera	81,550	1.5
	Microwave oven	68,020	1.2
	Guitar	64,310	1.2
	Vacuum cleaner	58,540	1.1
	Subtotal	272,420	4.9
Total, listed items		3,977,220	72.1
Total, all items		5,513,600	100.0

a. All numbers in table are rounded.
b. Figures calculated from data in primary database of all pawn transactions recorded by the City of Dallas Police Department, 1991-1996.

reported by Caskey and Zikmund (1990) and also, as noted in the appendix, to the composition of stolen goods. This similarity between types of items pawned and stolen is expected because the features that make some things better candidates for theft than others (i.e., easily concealed, removable, valuable, enjoyable and disposable [Clarke, 1999]) also make them good things to pawn.

The 5.5 million items were pledged by 523,000 different individuals during the course of nearly 2.9 million transactions (see Table 3).[6] We estimate the total loan value of these transactions at about $208 million in 1999 dollar terms, or an average of $73 per transaction.[7] This is near the $70 that Johnson and Johnson (1998) report for 1.2 million pawn tickets reviewed by the National Association of Pawnbrokers in 1997, and the $75 for 1.6 million tickets issued in Illinois in 1998 and 1999 (Illinois Office of Banks and Real Estate 2001).

Frequent pawners generated a disproportionate share of this activity. The 14,500 people pawning 30 times or more, though only 2.7 percent of the total, were responsible for 29 percent of all transactions and goods, and 24 percent of total loan value.[8] This group, as in Ft. Lauderdale and Portland, also held a higher proportion of individuals with arrest records. Its members were two to three times more likely to have been convicted for theft, larceny, burglary, or robbery than those who pawned once or twice. Nearly two thirds of the 1,100 individuals within the group who pawned more than one hundred times had arrest records, more than half of them for some kind of stealing.

Looking at the most prolific pawners, the top 100 individuals who each pawned more than 250 times, Table 4 shows 83 with arrest records. Of these, 58 had accumulated 300 convictions for property as well as other offenses, or an average of 5.2 arrests per individual, Most property crime arrests, 74 percent, were for theft, 11 percent for burglary of vehicles, 7 percent for burglary of homes or businesses, 5 percent for robbery, and the rest for forgery and car theft. Other infractions mainly involved drug possession (23 percent) or driving without a license (23 percent).

Among the 42 persons not apprehended for property crimes, 17 had no records whereas 25 had 49 convictions for nontheft infractions, or an average of 2 arrests per person. Very similar to the previous group in age, sex, and race composition, arrests here were mainly for drug possession (40 percent) and driving without a license (14 percent). But it would be premature to assume that these people committed no property offenses. As we note in the appendix, nearly three fourths of thefts from households, half of burglaries, and a third of robberies were not reported in 1999. Employee theft, a prime source of stolen goods, usually goes unreported too. And for reported crimes, clearance rates are low in large cities: 15 percent for theft, 12 percent for burglary and 23 percent for robbery (U.S. Federal Bureau of Investigation 1995-2000). That is, 85 to 95 percent of property crimes are not solved. This suggests that many thieves are able to evade arrest, a fair share of them are likely to be in the group of frequent pawners that do not have property-related arrest records, and a goodly proportion of things pledged by members of this group are unlikely to be their own property.

TABLE 3: Pawn Transactions in Dallas, Texas, 1991-1996[a]

							Transaction Value ($1999)[b]					
	Persons[b]		*Transactions*[b]		*Items*[b]		*Total*				*% Persons Arrested for:*[d]	
Transaction Frequency	*Number*	*%*	*Number*	*%*	*Number*	*%*	*Dollars (U.S.) 000's*	*%*	*Per Transaction*	*Per Person*	*Any Offense*	*Stealing*[c]
100+	1,100	0.2	168,500	5.9	341,300	6.2	9,440	4.5	56	8,402	63	53
50-99	4,400	0.8	328,000	11.5	585,900	10.6	18,330	8.8	56	4,163	43	36
40-49	3,100	0.6	138,600	4.8	276,800	5.0	9,110	4.4	66	2,926	49	33
30-39	5,900	1.1	203,600	7.1	403,800	7.3	13,590	6.5	67	2,304	47	33
20-29	13,100	2.5	320,300	11.2	629,200	11.4	22,110	10.6	69	1,691	33	31
10-19	39,500	7.6	572,400	20.0	1,081,400	19.6	39,840	19.2	70	1,009	34	22
5-9	66,400	12.7	497,700	17.4	895,400	16.2	35,520	17.1	71	535	22	18
3-4	68,300	13.1	239,000	8.4	485,600	8.8	21,280	10.2	89	312	25	16
2	72,400	13.8	144,800	5.1	302,800	5.5	14,780	7.1	102	204	21	13
1	248,700	47.6	248,700	8.7	511,300	9.3	23,870	11.5	96	96	14	12
Total (avg.)	522,800	100.0	2,861,500	100.0	5,513,600	100.0	207,870	100.0	(73)	(396)	(20)	(15)

a. All numbers in table are rounded.
b. Includes theft, larceny, burglary, and robbery.
c. Extracted from primary database of all pawn transactions recorded by the City of Dallas Police Department, 1991-1996.
d. Estimated from arrest and court records (compiled by the Texas Department of Public Safety and county and municipal courts) of 200 randomly selected persons from each transaction frequency class.

TABLE 4: Profile of the Top 100 Pawners in Dallas, Texas, 1991-1996[a]

	Arrested for Theft in Texas[b]	*Not Arrested for Theft in Texas*[b]
Total number of persons	58	42
– Ever arrested	58	25
Total number of pawn transactions	21,980	15,190
– Average per person	379	362
Total number of arrests	300	49
– Average per arrested person	5.2	2
Percentage of all arrests for		
– Theft, larceny, burglary or robbery	74	—
– Illegal possession of drugs	6	40
– Driving with license suspended	6	14
– Driving while intoxicated	1	10
– Weapons violation	3	12
– Other	10	24
Median age (in 1994)[c]	38	37
Percentage Male[c]	100	90
Percentage Female[c]	0	10
Percentage Black, non-Hispanic[c]	64	69
Percentage White, non-Hispanic[c]	27	29
Percentage White, Hispanic[c]	9	2

a. All numbers in table are rounded.
b. Extracted from arrest and court records compiled by the Texas Department of Public Safety and county and municipal courts.
c. Extracted from primary database of all pawn transactions recorded by the City of Dallas Police Department, 1991-1996.

By the same token, however, it is equally premature to presume that all frequent pawners, or even just those with property arrests, systematically dispose of stolen goods through pawnshops. Although reliance on pawnbroker loans is an expensive method of personal finance, individuals may confront situations where this is the best source available to them. What our observations suggest is that although research by those who look only at the most prolific pawners may inflate the role of pawnbrokers in disposal of hot goods, evidence still indicates that more of these goods flow through shops than scholarly research has acknowledged. The amount may not be as high as 25 percent of total value, but it is certainly greater than the fractions of 1 percent noted earlier.

The Dallas Police Department, for example, reports recovery of $2.4 million in stolen property from pawnshops in 1997. This represents about 3.5 percent of the average annual value of transactions during 1991 to 1996.[9] Given that police recover only goods with unambiguous markings that deter-

mine true ownership, it seems likely that the share of stolen goods is much greater, greater even than the 5 percent dismissed by Oeltjen (1996).

What that higher share might be is uncertain. Caskey and Zikmund (1990) report pledge forfeit rates in three states ranging from 14 percent to 22 percent of loans and from 10 percent to 20 percent of loan value. Our interviews with brokers suggest 20 to 25 percent of loans. Johnson and Johnson (1998) indicate that 29 percent of pawners forfeited at least once during the year. Of more interest, they also report that although 23 percent of individuals who pawned only once lost their pledges, 34 percent of those pawning four times or more forfeited at least once, 20 percent at least twice. In other words, as might be expected if one suspects that the frequent pawner population contains many thieves, prolific pawners are much more likely to walk away from their goods than infrequent pawners.

Given the many legitimate reasons that people might have to forfeit, it seems unlikely that hot goods constitute as much as 20 percent of all things pawned. By the same token, high reported rates of forfeiture make it equally unlikely that they represent less than 5 percent—especially when 15 percent to 20 percent of transactions are straightforward sales of goods, not loans.[10] The actual proportion seems likely to lie somewhere in between. If it is in the vicinity of, say, 10 percent, then the annual value of stolen goods at secondhand market prices might average about $64,000 per pawnshop. Extrapolated to the universe of 15,000 brokers, the total approaches $1 billion.

This is substantial in relation to pawnshop turnover because brokers make nearly as much money selling forfeited goods as they do collecting interest.[11] Income from interest and fees averaged $145,100 per pawnshop in 1997 or, extrapolating to 15,000 shops, a total of about $2.2 billion (U.S. Census Bureau 2001b). Sale of forfeit property produced an average of $253,400 per shop, suggesting a net revenue of around $126,700 after deducting loss of capital.[12] For all shops, these figures imply a gross income of $3.8 billion and a net of $1.9 billion from sale of merchandise. That is, $1 billion may represent more than a quarter of the pawnbroking industry's gross, and more than half of its net proceeds from sale of property.

At the same time, if the total value of pilfered merchandise is close to our estimate of $40 billion to $45 billion per year, then this $1 billion also represents 2.0 percent to 2.5 percent of all stolen goods. And if, say, half the items are retained by the people who steal them, it represents 4 percent to 5 percent of all goods disposed.[13] This is a modest share of the whole market. But pawnshops are only one component of used merchandise trade. Excluding repair and other shops selling secondhand items as sidelines, the census counted an additional 105,000 used merchandise stores with gross sales of $8.3 billion in 1997 (U.S. Census Bureau 2001e). If stolen goods comprised a quarter of these sales as well, then one could account for another $2.1 billion

and thus another 8 percent to 10 percent of the market for stolen goods. The entire used merchandise sector, including pawnshops, might then be handling $3.1 billion per year, or 12 percent to 16 percent of the market for hot goods.

CONCLUSIONS

Although our estimates may eventually prove inaccurate, there seems no way to circumvent a few essential facts. One is that pawnbrokers, as omnipresent today as McDonald's restaurants, offer thieves a potentially convenient method of disposing of merchandise, especially items with no obvious markings. Another fact, found in our data and by journalists in Fort Lauderdale and police in Portland, is that the population of prolific pawners contains a large segment of people with robust arrest records. Combined with findings from burglar interviews, this strongly intimates that the population contains a substantial corps of habitual thieves who actually do rely on pawnbrokers for their recurrent service needs. A third fact, as we have tried to show, is that a modest percentage of the total value of pawnbroker transactions is sufficient to constitute a noteworthy share of our estimated $40 billion to $45 billion per year in stolen property. Even if our numbers are very wrong, there is enough circumstantial evidence here to warrant much more scholarly research, the quantitative sort especially, on connections between pawnbroking (and other components of the used merchandise retail sector) and hot goods. This is our first conclusion.

Our second conclusion is that the idea of deliberately disrupting markets for stolen goods does not seem well founded. In the case of pawnshops, Sutton's (1998) notion that businesses can avoid buying such goods by use of closed-circuit televisions, photographs and/or signs is not convincing because these actions are the same or similar (e.g., fingerprints) to measures that most pawnbrokers undertake routinely. Such tactics and police oversight may have reduced the flow of stolen goods through pawnshops at different times, but there is no evidence to confirm this. More likely, given the criminal records of prolific pawners, is that they have not dissuaded thieves from availing themselves of pawnbrokers. One reason, proposed by Hall (1935), may be that enforcement of pawnshop regulations is too perfunctory to interfere with receipt and disposal of stolen goods. Another is that enforcement has been effective, but only to the extent of displacing part of the trade to other, less regulated enterprises, such as secondhand, precious metal and antique dealers or, where these are also under perpetual scrutiny (e.g., Illinois, Washington), flea markets and the like. A third possibility, the most plausible, is that most stolen goods are not identifiable as such.

There are several dimensions to this issue. As discussed by Clarke (1999) and Sutton (1998), one is technical. Most stolen items are not unique, do not have serial numbers, engraved codes or other property identifiers, or else have markings that are easy to remove. Another dimension is social. Most households neither record serial numbers of what they buy nor engrave them and, together with firms, do not report their loss to police.

The third aspect, the most important, is economic. Because the annual volume of hot goods is large, perhaps measuring in the hundreds of millions of items, the societal outlay required to create a record for each reported item and, at the same time, a reference base for the billions of things that businesses buy legitimately, is larger. It is for the moment prohibitive. In other words, stolen goods are not identifiable largely because it costs too much to identify them. They are, as a result, invisible in the daily exchange of millions of secondhand items between sellers and buyers.

Viewed in this context, the claim that markets for stolen goods act as underlying incentives to steal makes sense only if one subscribes to the notion that these markets are clearly separate or separable from retail trade in general and used merchandise trade in particular. Because they are neither clearly separate nor separable, because it is usually impossible to know what is or is not stolen, a recommendation to deliberately disrupt demand for hot goods is a recommendation to deliberately disrupt demand for secondhand goods in general. This is unwise counsel.

From this, our third and final conclusion is that wiser would be support of actions to render more efficient the monitoring of people and things circulating through pawnshops, secondhand stores and similar establishments. The premise here is that identification and apprehension of thieves need to remain the focus of police and criminologist attention. More efficient monitoring of suspicious pawners and goods, achieved through strengthened pawn details, speedier transfer of transaction records from pawnshops to police computers, accelerated analysis of the data, and similar means can help in this. To the extent that pawnbrokers cooperate with police in improvement of monitoring, these actions may also protect the interests of firms that prefer to shun hot goods.

The problem, now and in the past, is that pawn units (called details or squads sometimes) are relatively understaffed, partly because police departments are asked to concentrate on crimes against persons, partly because policy makers do not see gain from spending on data collection, and partly because most pawnbrokers object to the extra cost and intrusion into their affairs. The units, as consequence, are usually behind in data entry. Fort Lauderdale's pawn unit recorded fewer than 50 percent of the pawn information it received during 1995 (Larrubia and Glover 1996). Dallas police recorded 100 percent of all information for only one continuous 12-month

span during 1991 to 1996, managing an average completion rate of 70 percent to 80 percent through the period. Consequently, items were often identified as hot after pawnbrokers disposed of them, and transaction trails that could justify surveillance of suspicious pawners were often identified after they ran cold.

Benefits of improved monitoring have already shown themselves through increased recovery and apprehension. Murray (1996), for example, reports that police in Atlanta, Georgia, entered only 25 percent of transaction data in 1996. A year later, after installation of a computer system with electronic data transfer from brokers, police entered 100 percent of pawn information, reduced processing time from several weeks to 24 hours and increased recovery rates from 12 to 42 items per month (Murray 1997). In Florida, similarly, Perez (2000) reports a rise in recovery after the Broward County Sheriff established an automated pawn tracking database. The new system also helped catch 175 parole violators and 110 felons pawning firearms in 1998. By 2000, some 50 state and local agencies were using similar tracking systems, including the Florida Department of Law Enforcement (FDLE), which initiated a project to install a statewide database in that year.

In addition to property recovery and apprehension of criminals, there is also the prospect of using transaction data to map suspicious behavior in "real" time. People pawning 20 diamond rings or watches or electric tools or city street directories or anything else of value within a relatively short period, especially if encumbered with interesting criminal histories, earn immediate suspicion of stealing or of receiving hot goods. If the items are not reported stolen or if they lack markings, then arrest is not possible. But it is possible to conduct surveillance to determine whether initial suspicions are justified, whether there are networks of accomplices warranting police attention, or whether there are other ways to identify and maybe apprehend these or other thieves.

The prime obstacle to improved tracking is pawnbroker resistance. Rarely conceding the utility of anything but "article only" tracking to help identify stolen goods, brokers habitually oppose collection of personal information that might reduce the flow of patrons. In 2001, for instance, the Florida Pawnbrokers Association responded to the introduction of automated tracking by threatening to initiate legislation that would delete all customer data from pawn unit computer systems.[14] The association did not achieve this goal, but it convinced the legislature to reduce funding for FDLE's statewide database project from $1 million in 2000 to $275,000 in 2001, and then to zero in 2002.[15]

Pawnbrokers are nowhere strong enough to eliminate police scrutiny. But as the industry organizes for common cause, strength such as that shown in Florida may spread. Helping in this is the ability of brokers to propagate

image-enhancing media stories containing references to academic studies that point to minuscule quantities of stolen goods in their merchandise. Scarcity of proper research on the role of pawnshops and other secondhand stores in hot goods trade thus makes it easier for brokers to thwart efforts at improved tracking. Accordingly, the first conclusion put forward above, about the need for more scholarly research, is in our opinion the most important.

APPENDIX
The Value of Stolen Goods

We estimate the net market value of stolen merchandise at $40 billion to $45 billion annually in recent years, based on three sets of data and, for better or worse, several assumptions. The data sets are as follows: reported offenses in the Uniform Crime Reporting System (UCRS), reported and unreported offenses experienced by households in the National Crime and Victimization Survey (NCVS), and reported and unreported losses sustained by firms in the National Retail Security Survey (NRSS).

UCRS data indicate that reported offenses involving loss of property declined during the 1990s: theft-larcenies (excluding motor vehicles) by 12 percent, burglaries by 32 percent, and robberies by 36 percent (Pastore and Maguire 2000). The net value of these losses, however, stayed constant at about $6.6 billion in current dollar terms. Households reported $3.7 billion of this sum and businesses and others $2.9 billion.[16] Jewelry and precious metals comprised the largest class of merchandise, 16 percent of value, followed by electronics (14 percent), office equipment and supplies (8 percent), clothing (4 percent), household goods (3 percent), and firearms (1.5 percent).

But property crimes are usually not reported. For households, NCVS data show that 73 percent of thefts, 48 percent of burglaries and 34 percent of robberies went unreported in 1999 (U.S. Bureau of Justice Statistics 2001). Our NCVS-based estimate of the net value of property taken from households, accordingly, is much greater than that based on the UCRS, $7.3 billion versus $3.7 billion.[17] The composition of goods taken is nonetheless similar. Jewelry and clothing were stolen most frequently (19 percent of all cases), followed by electronics and photographic gear (9 percent), vehicle parts (7 percent), tools and machinery (5 percent), household furnishings (4 percent) and firearms (1 percent).

Turning to business, NRSS data intimate that gross losses from theft and fraud in the retail sectors it sampled, valued at prices sellers paid for them, came to $18.3 billion in 1999, or about 1.1 percent of the $1.74 trillion in total sales of these sectors (University of Florida 2001).[18] Employee theft was responsible for $9.2 billion, shoplifters $6.8 billion, vendor theft $1.2 billion, and check and credit card fraud $1.1 billion.[19] Main items taken were clothing and shoes, compact disks, cassette tapes, video games, movies, over-the-counter remedies, health and beauty aids, automobile accessories, jewelry, hand tools, cigarettes, and batteries. Although the loss rate of 1.1 percent of sales held steady, the total value of goods stolen increased substantially in step with a 6.3 percent average annual increase in retail sales through the decade (U.S. Census Bureau 2001a).

There are no reliable data on loss recovery to help estimate net losses in the retail sector, and no reliable figures on the proportion of incidents reported that could help determine the share of losses already included in the UCRS. We therefore make assumptions. First we assume that the recovery rate for retail stores is 7 percent, the same as for theft in the UCRS and NCVS. This lowers merchandise loss from a gross of $18.3 billion to a net of $17 billion. Second, we assume that the $2.9 billion in losses reported by businesses and others in the UCRS are mainly reports by retail firms, and that they are already included in the $17 billion. Our estimate of the net value of goods stolen from households and from firms of kinds covered by the NRSS is then $24.3 billion, with $7.3 billion of it in household losses and $17 billion in retail business losses.[20]

To this we must add losses in retail sectors not covered by the NRSS with sales of $1.1 trillion in 1999, losses in manufacturing and wholesale trade with combined sales of $6.5 trillion, and losses in other sectors, especially from employee pilfering, in services and government.[21] With no better basis to guess, we assume that theft of goods is (relatively) negligible in government, services and other sectors that are merchandise poor and thus less exposed to removal of objects than retail firms. We assume also that net losses in manufacturing, wholesale trade and the balance of retail amount to 0.25 percent of their total sales of $7.6 trillion in 1999, or $19 billion. Adding this to the $24.3 billion lost by households and retail firms in the NRSS yields $43.3 billion, and the estimate range of $40 billion to $45 billion.

NOTES

1. The number of secondhand stores rose from 33,360 to 124,000 from 1972 to 1992, and their sales from $1.5 billion to $8.2 billion in current dollar terms (U.S. Bureau of the Census 1978, 1996).

2. We use an allowance of 20 percent based on the difference between the number of licensed pawnbrokers in Dallas and the number listed in the telephone directory in 2002 (108 vs. 90), and on the difference between licensed and listed pawnbrokers in Texas (1,500 vs. 1,270).

3. Level of convenience, as measured by the ratio of shops to restaurants (i.e., the higher the ratio, the more plentiful the pawnshops), still varies. Shop densities and ratios of shops to restaurants are generally lower where effective interest is low and higher where interest is high.

4. These data are incomplete because the Dallas Police Department (DPD) gave data entry priority to weapons and items with unique identifiers, registering the remainder as time allowed, and because it recorded only the first item on each ticket before 1996. DPD guesses that it captured 70 percent to 80 percent of all transactions for the whole period. To adjust for this, we applied the mean number of items per transaction for 1996 to prior years. We make no adjustments for the DPD's failure to record all transactions. The data may thus understate the volume and value of pawnshop traffic by 20 percent to 30 percent.

5. Transaction data show wide month-to-month variation in pawnbroker numbers, ranging from a low of 73 to a high of 123. Low figures reflect months when the DPD fell behind in recording data. High figures reflect months when it recorded almost everything, when licensed pawnbrokers that operate infrequently (e.g., jewelry and department stores) were unusually active, and when shops moving from one location to another kept both outlets open for a time. Adjusting for these factors, we use 108 as the average number of pawnshops in operation during the reference period.

6. For present purposes, we treat each pawn ticket, which can record several different items, as one transaction. Although some individuals pawned enough different items to require issuance of more than one ticket for one transaction, these instances are rare in our data.

7. We added 1 percent to actual figures for 1993 to estimate transaction values in 1999 dollar terms. The adjustment was derived from a weighted average of 1993 to 1999 changes in the urban consumer price index, as given in U.S. Bureau of Labor Statistics (1999), for jewelry and watches (–3.3 percent), video and audio equipment (5.2 percent), and photographic equipment (–3 percent). These three classes comprise half the goods pawned in Dallas.

8. The proportion of total loan value is less than that of all transactions because average transaction value drops from about $100 for those pawning once to $56 for those who pawned at least 50 times. This drop stems from differences in item composition, especially jewelry, the most valuable class of goods. This class contains 32 percent of all items for those who pawned once or twice, 16 percent for those pawning 50 and more times.

9. We estimate total loan value at $208 million, or $34.7 million per year. Loan value, in general, is between 30 percent and 75 percent of secondhand market value. Using 50 percent, the annual market value of pledged items is then $69.4 million. The $2.4 million in property recovered from pawnshops, which police assess at market prices, is 3.5 percent of this sum.

10. Because our DPD data do not distinguish between loan and sale, we base our estimate of 15 percent to 20 percent on the 1,000 randomly selected pawn tickets of 1993.

11. Pawnshops have potential to make as much money from selling goods as from collecting interest. For instance, if 80 of 100 loans of $75 each are repaid after 30 days at 20 percent interest, broker income is $1,200 (i.e., 20 percent of $6,000). Sale of property forfeited by the other 20 borrowers at market prices double the value of their loans yields $3,000 in sales revenue and a net income of $1,500 after deducting $1,500 for the capital loss from defaults.

12. The balance between interest and sales income is consistent with other data sources. For example, Cash America Inc., a large firm with almost 420 pawnshops in the United States, reports that interest and fees produced about $222,000 per shop in 2001, and net revenue from sale of merchandise about $194,000 (Cash America 2002).

13. Sheley and Bailey (1985) estimate that 50 percent to 78 percent of all goods are retained by those who steal them. The proportion is closer to 95 percent according to a report in Blakey and Goldsmith (1976). In such a wide range, our assumption of 50 percent is arbitrary.

14. This intent is mentioned in a letter dated June 1, 2001, from the President of the Florida Law Enforcement Property Recovery Unit to the Florida Police Chiefs Association (Retrieved December 2, 2002) (from http://www.flepru.org/fpca.htm).

15. This information is contained in a letter dated January 15, 2002, from the President of the Florida Law Enforcement Property Recovery Unit to the state governor. Retrieved December 2, 2002, from http://www.flepru.org/gov1.htm.

16. From data in U.S. Census Bureau (2001c, 2001d, 2001f) and Pastore and Maguire (2000), we estimate net losses at $6.56 billion in 1992, $6.64 billion in 1997, $6.72 billion in 1998, and $6.56 billion in 1999. These are net dollar amounts that make allowance for recovered goods, averaging 7 percent of gross loss value, and that exclude the value of lost currency and notes (13 percent).

17. National Crime and Victimization Survey (NCVS) data suggest a gross loss value of $9.1 billion, or a net of $7.3 billion after allowance for property recovery (averaging 7 percent of value in theft, 6 percent in burglary, and 18 percent in robbery cases) and exclusion of cash and credit card losses (14 percent).

18. The National Retail Security Survey (NRSS) did not cover motor vehicle and parts dealers, gasoline stations, and nonstore retailers (e.g., catalog and Internet sellers) that had total sales of $1.13 trillion in 1999 (U.S. Census Bureau 2002a).

19. NRSS data show merchandise values at retail prices. These values are not directly comparable to Uniform Crime Reporting System (UCRS) and NCVS figures because they include expected gross margin as well as cost of goods. That is, the NRSS overstates loss value. For sectors covered by the NRSS, the margin averages 30 percent of sales (U.S. Census Bureau 2001g). The figures we report are therefore 70 percent of those reported by the NRSS.

20. Here we assume that the $3.7 billion net loss reported by households that we estimate from UCRS data is included in the $7.3 billion loss that we estimate from NCVS data.

21. Sales figures come from U.S. Census Bureau (2002b, 2002c).

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RESEARCH ARTICLE

INVESTIGATING THE SOCIAL ECOLOGY OF PAYDAY LENDING

Does fringe banking exacerbate neighborhood crime rates?

Investigating the social ecology of payday lending

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Payday lenders have become the banker of choice for many residents of distressed urban communities in the United States. By offering cash advances on postdated checks, these businesses provide a growing number of financially strapped families the money they need to get by at least in the short run. As just one piece of a growing fringe banking industry (consisting of check cashers, pawn shops, rent-to-own stores, and other high-cost financial services), payday lenders provide services but at a heavy cost to some of the most financially vulnerable families. Much attention has been given to the costs the customers of such services are incurring. Yet additional broader community costs might have been ignored in recent debates and in the scholarly literature. One of those costs, and the focus of this research, is a possible link between payday lending and neighborhood crime rates.

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Although pawn shops, loan sharks, and other predatory financial service providers have long histories, the number and range of such fringe banking institutions have mushroomed in the latter part of the 20th and early years of the 21st centuries amid great controversy. In financial services, the rise of subprime and predatory lending has led to record foreclosure rates. A broader economic recession is now reaching overseas. These developments have been followed by unprecedented bailout and rescue plans. Although these events have received most of the attention in financial industry circles, the increase in payday lending and other high-priced services has hardly gone unnoticed. Critics accuse payday lenders with charging exorbitant, exploitative interest rates and fees, and several states have taken legal action to restrict their activities or virtually put them out of business altogether. Providers maintain that they are offering valuable services to markets that are ignored by conventional financial services (e.g., banks, thrifts, and credit unions) and that their costs simply reflect the risks they encounter as well as other legitimate business costs.

The debates over payday lending so far have focused almost exclusively on the implications for immediate customers. Yet given the location of these services and the socioeconomic status of their customer base—what we refer to as the ecology of payday lending—other costs might be incurred by the communities in which they are located, costs that are paid by community members who do not use their services along with those paid by the clients. One potential cost for all residents might be higher crime rates in communities where payday lenders are located. Several theoretically plausible reasons have been suggested for such a link, starting with the simple fact that where payday lenders are present, a concentration of cash exists among store customers often late into the evening and during weekends in neighborhoods where many residents are experiencing financial hardships.

In the following pages, we provide some empirical evidence that such a connection, in fact, exists. Subsequently, we report on a case study of a fairly typical U.S. city where payday lending has grown in recent years—Seattle, Washington. In our discussion leading up to the analysis, we document the growth of payday lending and other fringe banking services in the United States and describe the controversy that such growth has produced. Next, we elaborate several theoretical arguments that support the hypothesized relationship between payday lending and neighborhood crime rates. Finally, we provide empirical evidence for that relationship in Seattle neighborhoods. Crime is just one community cost that might be associated with payday lending. In the conclusion, we briefly note other potential costs. We conclude with a discussion of the policy implications of our findings and recommendations for future research.

The Growth of Fringe Banking and Payday Lending

A two-tiered system in financial services has emerged in the United States in recent years, with one featuring conventional products distributed by banks and savings institutions and the other featuring alternative, higher cost services offered by payday lenders, check

cashers, and pawnshops—often referred to as "fringe bankers." Fringe banking services are disproportionately though not located exclusively in low-income, minority neighborhoods (Fellowes, 2006; Graves, 2003; Li, Parrish, Ernst, and Davis, 2009; Logan and Weller, 2009; Temkin and Sawyer, 2004), and minority and low-income families are more likely than other families to use fringe banking services (Caskey, 1994; Hudson, 1996; Karger, 2005).

Fringe banking has been the subject of much policy debate among financial service providers, regulators, elected officials, and consumer groups. This reflects, in part, substantial growth of fringe banking, its greater concentration in distressed communities, and adverse economic consequences for those who rely on these institutions for financial services. To illustrate, payday lending outlets were virtually nonexistent in 1990, but by 2006, more than 15,000 outlets extended $25 billion in credit (Lawrence and Elliehausen, 2008: 299). By 2008, more than 22,000 locations originated more than $27 billion in loan volume annually (Parrish and King, 2009: 11).[1] The growth of payday lending has been impressive, growing faster than Starbucks during the mid-1990s (Graves and Peterson, 2008: 668). Today, more payday lenders exist than McDonald's restaurants (Karger, 2005: 73).

Several studies demonstrate that these services are concentrated in low-income and minority neighborhoods, although they are starting to grow in many working and middle-class neighborhoods. In North Carolina, three times as many payday lenders per capita are present in African American neighborhoods as in White neighborhoods (King, Li, Davis, and Ernst, 2005). In the state of Washington, the site of the current study, they are twice as likely to be located in predominantly African American as White areas, and they also are concentrated in poverty zip codes (Oron, 2006). In California, they are eight times as concentrated in African American and Latino neighborhoods as in White neighborhoods. Even controlling on income, poverty, population, education, and other socioeconomic factors, the racial disparity persists (Li et al., 2009: 2). In Denver neighborhoods where the median income is below $30,000, one check-casher exists for every 3,196 residents compared with one check casher for every 27,416 residents in neighborhoods where the median income is between $90,000 and $120,000 (Fellowes, 2006: 26–28).[2]

These services are expensive, and it is struggling working families who are paying the highest costs. The Center for Responsible Lending reported that payday lending costs U.S. families $4.2 billion annually in excessive fees, or fees that exceed the risk posed by

1. Payday loans are cash advances on a postdated personal check generally for 2 weeks or less when the borrower will receive the next paycheck. Amounts are typically in the range of $300 to $500. To qualify, a borrower must have a checking account, source of income, and identification. Typically, the borrower writes the check for an amount exceeding the cash loan (to cover the finance charge, generally $15–$30 per $100 or approximately a 390–780% annual percentage rate for a 2-week loan). At the next payday, the borrower can repay the full loan amount, the check could be deposited for payment, or the borrower can pay the finance charge and renew the loan for another term (Consumer Federation of America, 2007: 3, 4).

2. Check cashers are businesses that charge a fee for cashing checks (Karger, 2005: 215).

borrowers and the costs of similar services provided by conventional financial institutions (King, Parrish, and Tanik, 2006: 2,7). Ironically, more than 75% of these fees cover the costs of loans taken out by borrowers to repay debts incurred from previous payday loans, which they could not pay when the debt originally came due (Parrish and King, 2009: 11). Payday lenders claim that their fees simply reflect the costs of doing business.

Payday lenders also assert their borrowers are primarily middle income, although recent research indicates it is low- and moderate-income borrowers who constitute a disproportionate share of customers. A study of Colorado borrowers found that those earning less than $30,000 a year make up two thirds of payday lender customers. A Texas study found that the median income of borrowers was $18,540 (Fox, 2007: 6, 7). A 2001 nationwide survey found that 23% earned less than $25,000 and that 51.5% earned between $25,000 and $50,000 (Lawrence and Elliehausen, 2008: 305). In its 2007 Survey of Consumer Finances, the Federal Reserve, for the first time, asked whether respondents had taken out a payday loan in the previous year. Those who did so had a median income of $30,892 compared with $48,397 for those who had not taken out such loans. Payday loan borrowers had a median net worth of zero compared with $80,510 for nonborrowers (Logan and Weller, 2009: 8).

The industry also claims that its customers are generally people who use their services only on rare occasions to meet sudden emergencies. According to the 2001 survey, however, more than 22% had 14 or more payday loans that year, another 26% had more than 6, and just 15% had only 1 or 2 (Lawrence and Elliehausen, 2008: 311). The Center for Responsible Lending found that less than 2% of all payday loans went to borrowers who just took out one loan. Repeat borrowing was more common with more than 60% of loans going to those who took out 12 or more loans per year and 24% going to those with 21 or more per year (King and Parrish, 2007: 2, 3). Half of these loans were taken out within 1 day of repaying a previous loan, indicating that borrowers often take out such loans to retire the debt of previous payday loans (Parrish and King, 2009: 8). Given the high fees and frequent use, payday loans have been referred to as "debt traps" by many consumer groups (Fox, 2007: 7, 8).

Policy makers have begun to listen to consumer complaints. In 2006, the U.S. Congress prohibited payday lending to military members and capped at 36% the interest rate that could be charged to them on any loan in connection with any other product (Powers, 2006). Fifteen states and the District of Columbia have small loan usury laws or rate caps that effectively prohibit payday lending at triple-interest rates (Center for Responsible Lending, 2010: 7). Several other states and Congress are considering legislation and regulations restricting such lending (*American Banker*, 2007). However, some national banks (e.g., Wells Fargo and U.S. Bank) are now offering "direct deposit advance" or "checking account advance" products that are similar to payday loans. Because the Office of the Comptroller of the Currency has preempted many state banking laws, the national banks it regulates

legally can make such loans, and they are doing so in at least six of the states with the 36% cap (Center for Responsible Lending, 2010).

All this attention is generated primarily by the growth of the industry, the fees that are being charged, and the customers and neighborhoods that are being targeted. Borrowers are clearly paying high costs, as already noted. Lost in this discussion, however, are the broader costs that many communities might be incurring, including perhaps heightened levels of crime. Payday lenders seem to be more concentrated in precisely those neighborhoods where crime rates are highest and where ex-offenders are most likely to return when they leave prison (Lynch and Sabol, 2001: 3; Rose and Clear, 1998; Visher, Kachnowski, LaVigne, and Travis, 2004). No research, however, has examined the direct impact of fringe banking services on neighborhood crime rates. There is reason to believe that such a connection exists and that it is costly.

Theoretical Context of the Payday Lending-Crime Nexus

Theoretical arguments for why payday lending and crime might be related draw on a mixture of criminological perspectives. At a minimum, the availability of cash in distressed neighborhoods at readily identifiable businesses frequently operating with evening and weekend hours suggests a probable link between crime and payday lending, according to routine activities theory. According to this theory, crime can be understood in terms of the "routine activities" of everyday life including what we do, where we go, and with whom we interact on a daily basis (Cohen and Felson, 1979). At its core is the idea that, in the absence of effective controls, offenders will prey on attractive targets. In the current context, residents who use payday lenders often leave these establishments with great sums of cash in their wallets and at late hours in the evenings as well as on the weekends, a fact likely not overlooked by potential criminals.

It is also reasonable to believe that some increase in crime could be attributable to the manner in which payday lenders might lubricate the cash-only drug trade. In places where cash is available on a moment's notice to anyone with a job or government check, those wanting to fuel an addiction, or deviant lifestyle, need not wait until payday with ample payday loan opportunities.

Persons who find themselves in an ever-descending debt spiral, perhaps pressured by the threats of debt collectors, also would seem more likely to suffer from emotional difficulties that manifest themselves in violence, particularly against family, coworkers, friends, and neighbors, as strain theory would predict. Agnew (1992) claimed that strain, which can result from the presentation of negative stimuli (e.g., going into debt), can produce "negative affective states," including anger, fear, frustration, or depression, that might lead to crime. This result is especially likely to occur among individuals who have few resources for coping with strain. Along these lines, it is also easy to imagine that hopelessly indebted persons might turn to other forms of crime to compensate for the debt incurred to payday lenders.

Perhaps the greatest insight on the payday lending-crime nexus comes from social disorganization theory, which has emerged as the critical framework for understanding the relationship between neighborhood characteristics and crime in urban areas. According to the theory, certain neighborhood characteristics can lead to social disorganization, defined as the inability of a community to realize the common values of its residents and to maintain effective social controls (Kornhauser, 1978: 120). Social disorganization, in turn, can lead to more crime.

The most commonly studied aspects of neighborhoods include economic deprivation, residential instability, and population heterogeneity. An impressive literature produced over decades has found that these and related characteristics are positively associated with community crime rates, both directly and indirectly through their effect on neighborhood processes such as informal social control and collective efficacy (for a review of this literature, see Kubrin and Weitzer, 2003).

Along with these community characteristics, local institutions are theorized to play a key role in shaping crime rates. This effect occurs in large part because such institutions structure the daily interaction patterns of residents, affect the ability of communities to exercise social control, and influence available routes to valued goals such as economic or community development. Disadvantaged neighborhoods, in particular, have difficulty attracting and maintaining the types of local institutions that impede crime by providing community stability, social control, and alternatives to occupy residents' time (Peterson, Krivo, and Harris, 2000: 32).

Neighborhood studies of crime have focused on a variety of local institutions such as bars, public housing, and recreational facilities. It is argued that recreation centers and libraries:

> provide places and activities where people can gather, thereby structuring time and observing each other in public. To the degree that these institutions offer organized activities, they place local residents in settings that promote and facilitate the sharing of common values and goals. As this occurs, community networks are more likely to form and fulfill control functions. (Peterson et al., 2000: 34)

Other types of local institutions, however, such as bars, might serve to encourage criminal behavior in neighborhoods. Researchers have argued that their presence can cause crime directly by inducing violence within these establishments themselves (because of intoxication and impaired judgment) and indirectly by undermining informal social control in communities where bars are densely located (Parker, 1995; Roncek and Maier, 1991).

In a study on the role of local institutions and their effect on violent crime rates in Columbus, Ohio, neighborhoods, Peterson et al. (2000) found support for these arguments. They documented that a greater prevalence of recreation centers reduces violent crime, at least in the most economically disadvantaged areas of Columbus. They also documented

that a greater prevalence of bars in Columbus tracts is related to higher levels of violent crime. Beyond their study and previous research, however, they claimed that "scholars have not explored the empirical linkages between the presence of various types of institutions and neighborhood crime" (2000: 36) and cautioned that "additional research is needed to specify more fully what types of institutions . . . will have the most payoff" (2000: 57) for reducing community crime rates.

We would like to add payday lenders to the list of local institutions that might affect community crime rates. In line with social disorganization theory, we argue that a concentration of payday lenders might constitute a visible sign of neighborhood disorder and decline. According to research, disorder has been shown to increase fear of crime (Taylor, 2001) and to reduce informal social control, thereby increasing crime (Wilson and Kelling, 1982). Skogan (1992), in particular, characterizes disorder as an instrument of destabilization and neighborhood decline, with implications for community crime rates.

In summary, several reasons suggest why the presence of payday lenders in neighborhoods might be associated with violent and property crime rates in those neighborhoods. Previous research has investigated the relationship between crime and residential instability, poverty, unemployment, and other factors. Previous research also has documented the effect of local institutions on community crime rates including bars and recreational facilities. To date, however, no research has systematically examined the relationship between payday lending and crime. In fact, little overlap has occurred in the payday lending and crime literatures, despite the plausibility of such a relationship. As such, this study is the first empirical examination of the fringe banking–neighborhood crime nexus.

The Research Context

The city of Seattle, Washington, was selected because it is a representative major U.S. city (with a population of more than 550,000, of which non-Whites account for 30%) and is located in a state where payday lending has grown substantially over the last several years. Payday lending was legalized in Washington State in 1995. It grew slowly at first but then gained momentum in 2003 when the state legislature increased the maximum loan amount from $200 to $700. In Seattle, the number of payday lenders has grown from 37 in 2003 to 52 in 2007, an increase of nearly 41%. Equally important, as in most metropolitan areas, the location of payday lenders in Seattle is concentrated in low- and moderate-income and minority communities, where crime rates are the highest. We also selected Seattle as our study site because it is typical in terms of the number and density of payday lenders. Payday lenders in Seattle do not exhibit any unusual spatial pattern as one might find in heavily ghettoized cities or in cities with a significant military presence. Finally, we chose Seattle because it has been the focus of numerous studies of community crime rates over the last 20 years (Crutchfield, 1989; Kubrin, 2000; Matsueda, Drakulich, and Kubrin, 2006; Miethe and McDowall, 1993; Warner and Rountree, 1997). The current study builds on this literature.

The primary question we explore is whether those neighborhoods that have a relatively greater share of payday lenders exhibit higher crime rates after taking into consideration a range of factors known to be associated with crime (e.g., poverty, unemployment, population turnover, and related socioeconomic factors). We continue to consider that question in analyses that attempt to account for analytic complexities such as spatial autocorrelation and endogeneity. The findings will inform current policy debates and suggest directions for future research on the impact of payday lending.

Data and Methodology

To examine the relationship between payday lending and neighborhood crime rates, we perform a series of regression analyses using data on the location of payday lenders in conjunction with census and crime data for census tracts in Seattle. Census tracts approximate neighborhoods and are the smallest geographic level for which all three data sets are available.[3]

Independent Variables

Our key independent variable is the prevalence of licensed payday lenders in Seattle census tracts in 2005. To calculate this variable, we divide the number of payday lenders in a tract by the tract population size (expressed in units of 1,000 persons) and take the natural logarithm of this rate.[4] The raw data on payday lenders were collected by Steven Graves as part of a larger study focused on payday lenders and the military (Graves and Peterson, 2005). The street address for each lender was assigned a census tract number using ArcView GIS. In the 116 Seattle tracts for which crime data were available, 44 lenders were in operation in 2005. This number is comparable with other major U.S. cities including Milwaukee (41), Fort Worth (62), San Francisco (45), and Salt Lake City (53). The minimum number of payday lenders in a Seattle tract was 0, whereas the maximum was 4. The mean number of lenders across all tracts was .38.

The following variables were constructed from the 2000 U.S. Census to reflect critical neighborhood differences: *percent secondary sector low-wage jobs* (percent of total employed civilian population age 16 years and older employed in the six occupations with the lowest mean incomes),[5] *jobless rate* (percent of civilian labor force age 16–64 years who

3. Seattle has 123 census tracts, but only 116 were included in the analyses. Recently, several tracts have been reconfigured into other tracts or eliminated altogether. Tract 23 is now subsumed in tract 40, tract 55 is now subsumed in tract 57, and tract 37 no longer exists. The remaining tracts were excluded because they encompass unique areas without corresponding census data. Tract 53 is excluded because it encompasses the University of Washington campus, and tracts 83 and 85 are excluded because they encompass the University's medical complex.

4. We added a constant of 1 to the rate prior to computing the logarithmic transformation.

5. The occupations include health-care support; food preparation and serving-related occupations; building and grounds cleaning and maintenance; personal care and service; farming, fishing, and

are unemployed or not in the labor force), *percent professionals and managers* (percent of employed civilian population age 16 years and older in management, professional, and related occupations), *percent high-school graduates* (percent of adults age 25 years and older who are at least high-school graduates), *poverty rate* (percent of the population for whom poverty status is determined whose income in 1999 was below the poverty level), *percent Black* (percent of the total population that is non-Hispanic Black), *percent young males* (percent of the total population who are males between the ages of 15 and 24 years), *residential instability index* (index comprising percent renters, or percent of occupied housing units that are renter occupied, and percent movers, or percent of population ages 5 years and older who lived in a different house in 1995),[6] *percent female-headed households* (percent of households that are female-headed with no husband), and *population* (tract population).[7] The literature has demonstrated that these characteristics are related to community crime rates in a variety of cities throughout the United States (Krivo and Peterson, 1996; Kubrin, 2000; Morenoff et al., 2001; Warner and Rountree, 1997).

An important variable that classifies tracts as within or not within the Seattle Central Business District (CBD) is included in the analyses because few and atypical residents live in CBD tracts. In Seattle, CBD residents tend to be urban professionals with high incomes or people who are poor and homeless. Controlling for whether tracts are inside or outside the CBD minimizes the likelihood that the unique characteristics of this area will distort the results (Crutchfield, 1989).

Previous community-level studies have found it necessary to address the problem of multicollinearity among the independent variables. To evaluate this issue, we examined variance inflation factor (VIF) scores, which confirmed the high level of collinearity among many disadvantage-related variables. Using these diagnostics and previous research as a guide (e.g., Sampson and Raudenbush 1999: 621), we performed principal components factor analysis with varimax rotation. Not surprisingly, the results suggest that the disadvantage-related variables all load on a single component with an eigenvalue of 4.39. This component, which we label *Neighborhood Disadvantage*, explains 73% of the variance and consists of the following variables (factor loadings in parenthesis): percent secondary sector low-wage jobs (.94), jobless rate (.87), percent professionals and managers (–.86), percent high-school graduates (–.93), poverty rate (.80), and percent Black (.71).[8]

forestry; and material moving. The mean wages were derived from 2000 census data available in the Integrated Public Use Microdata Series (ipums.org).

6 The index represents the average of the standardized scores of these two variables.

7 All census data used in the study were compiled by Ruth D. Peterson and Lauren J. Krivo (2006) as part of the National Neighborhood Crime Study (NNCS). The NNCS contains information on the Federal Bureau of Investigation's Index crimes and sociodemographic characteristics for census tracts in a representative sample of large U.S. cities for 2000.

8. Similar to prior research, we include percent Black in the disadvantage index because of its high correlation with the other items that comprise the index. Treating percent Black as a separate covariate

In the analyses, the disadvantage index is used along with the residential instability index, young male rate, rate of female-headed households, total population, central business district, and our payday lending measure to predict Seattle neighborhood crime rates.[9]

Dependent Variables

Data used to compute violent and property crime rates at the census tract level come from Seattle Police Department annual reports. Following common practice, multiple year (2006–2007) average crime rates (per 1,000 population) were calculated to minimize the impact of annual fluctuations.[10] The violent crime rate sums murder, rape, robbery, and assault rates, whereas the property crime rate is calculated as a sum of the burglary, larceny, and autotheft rates.[11]

Analytic Issues and Strategy

One critical issue in neighborhood research is that of spatial dependence. Crime is not randomly distributed but is spatially concentrated in certain areas in the metropolis. Formally, the presence or absence of this pattern is indicated by the concept of spatial autocorrelation, or the coincidence of similarity in value with similarity in location (Anselin, Cohen, Cook, Gorr, and Tita, 2000: 14). When high values in a location are associated with high values at nearby locations, or low values with low values for neighbors, positive spatial autocorrelation or spatial clustering occurs. In analyses using spatial data, such as in the current study, one must attend to potential autocorrelation because ignoring spatial dependence in the model might lead to false indications of significance, biased parameter estimates, and misleading suggestions of fit (Messner, Anselin, Baller, Hawkins, Deane, and Tolnay, 2001: 427).

In the current study, we address potential spatial dependence by mapping the residuals from our regression analyses and running a series of diagnostic tests to check for problematic levels of spatial autocorrelation. We used multiple variants of the Moran's I test and several software packages, including GeoDA, SPSS, ArcMap 9.3, and s3 (Mathematica).

results in levels of collinearity that create partialling and interpretation difficulties in regard to the disadvantage and percentage Black variables. In analyses not shown here, we computed supplemental models with percent Black as a separate covariate. The substantive results regarding payday lending and crime did not change in those models.

9. Examination of collinearity diagnostics revealed no multicollinearity problems in the parameter estimates presented subsequently (maximum VIF was 2.5).

10. Crime data by census tract for 2008 through the present have not yet been released publically.

11. Histograms and descriptive statistics indicate that several variables are highly skewed, and we include log-transformed versions of these variables in the analyses that follow. Transformed variables include the young male rate, payday lender rate, and violent and property crime rates.

A second critical issue has to do with the possibility that endogeneity might be found in the payday lending–crime relationship. Although it is our contention that the most well-grounded theoretical relationship is one in which the presence of payday lenders in an area affects the crime rate, we acknowledge the possibility that the relationship might be reciprocal (i.e., crime could affect where payday lenders set up shop). One reason for this trend is that moderate levels of crime might serve as an environmental signal that informs payday lenders of locations where a reasonably high demand should exist for the sorts of financial services they provide. To the extent this argument has some merit, it seems prudent to account for the possibility that payday lenders might be an endogenous, rather than an exogenous, regressor in our analyses. As discussed subsequently, we do this by implementing an instrumental variables model, a commonly used approach to model endogeneity in social relationships.

Given the issues just raised and our focus on investigating the relationship between payday lending and neighborhood crime rates, after providing some descriptive statistics, our multivariate analysis begins with the estimation of a series of ordinary least-squares (OLS) regression analyses in which the effects of payday lending on crime are examined. In the first model, we assess whether payday lending and crime rates are associated using a baseline model in which only payday lending is included. In the second model, we introduce into the analysis the standard neighborhood crime correlates (e.g., neighborhood disadvantage, residential instability, etc.) to determine whether any payday lending effect withstands these controls. In the third model, we make an effort to allow for the possibility that our payday lending measure is endogenous by estimating an instrumental variables regression via the two-stage least-squares (2SLS) estimator. To implement the instrumental variable model, we require an instrument that is justified on theoretical grounds and meeting the following conditions: (a) It is highly correlated with the measure of payday lenders, and (b) it is uncorrelated with the disturbance terms from the payday lending–crime equations. To that end, we instrument payday lender rates with a measure of the prevalence of Federal Deposit Insurance Corporation (FDIC) banking institutions (i.e., the natural log of banks per 1,000 population). Our theoretical justification for this instrument follows below.

Within the limits of zoning regulations, FDIC banks are likely to locate themselves strategically to provide convenient access to consumers with financial and banking needs. Payday lenders, in turn, are likely to opt for locations in relative proximity to traditional banks for several reasons. First, because FDIC banks are likely to be located in an advantageous position relative to consumer demand, setting up shop nearby provides payday lenders with access to a steady flow of potential customers. Second, because payday lenders tend to provide services that traditional banks do not (e.g., short-term loans to customers with weak credit histories, nighttime, and weekend hours), a location near an FDIC bank provides potential visibility to banking customers whose needs occasionally might be unmet by the traditional bank. Third and most important theoretically, almost every payday loan transaction requires the customer to present a postdated personal check

from a valid checking account to obtain their cash loan. Therefore, logic suggests that the vast majority of Seattle's payday loan customers keep a checking account with a bank that is also nearby. As such, traditional banks and payday lenders do not attract completely different clientele; the customers of the latter are simply a subset of the banks' clients. Although the availability of banks is a necessary condition for payday lenders, banks have little, if any, need for payday lenders (although some lenders have partnered with and, in some cases, even purchased, payday lenders). In essence, the relationship between payday lenders and FDIC banks is commensalistic. Payday lenders benefit from their geographic connection to FDIC institutions without seriously affecting the financial service market of the bank itself. Based on these reasons, we argue that a concentration of payday lending institutions is driven, in part, by the location of traditional banking institutions. Consequently, we expect that payday lenders and FDIC banks will colocate and that the concentration of FDIC banks should be correlated positively with the concentrations of payday lenders.

Consistent with this expectation, a recent analysis by Fellowes and Mabanta (2008: 10) reports that "of the 22,984 payday lenders now in business, about 95 percent are located within one mile of a bank or credit union branch, and 84 percent are located in the same neighborhood or census tract as a bank or credit union branch."[12] This pattern of colocation between payday lenders and FDIC banks also appears in Seattle. As evidenced by the map presented in Appendix A, tracts with a greater prevalence of FDIC banks tend to be tracts that also exhibit more payday lending institutions. Moreover, as expected, we find that the bivariate correlation between the payday lender rate and the FDIC banking rate across Seattle census tracts is fairly strong at $r = .64$. Thus, consistent with its role as an instrument, we believe both theoretical and empirical evidence is present indicating that the prevalence of FDIC banks is related to the prevalence of payday lenders. In contrast, we perceived no compelling reason to expect that the FDIC banking institution rate will be correlated with the disturbance terms from the crime equations. However, because this latter "exogeneity" assumption cannot be tested directly (Wooldridge, 2002: 86), findings should be interpreted with appropriate caution.[13]

12. Given that FDIC banks and payday lenders tend to be located close to one another, one might wonder why individuals choose to use the high-cost services of the latter. For starters, geographic proximity is not equivalent to access. As noted earlier, banks frequently do not offer products sought out by payday lending customers or provide services in a manner or at a time that is convenient for them. Furthermore, available evidence suggests payday loan usage is tied to limited or negative credit experiences, imbalances between living expenses and income, and ignorance about lower cost options (Fellowes and Mabanta, 2008). Lower income residents also indicate that they avoid banks because they fear that they do not have enough money, think the fees are too high, are not comfortable dealing with banks, find banks have inconvenient hours, and believe banks refuse to provide the desired services (e.g., see Fellowes and Mabanta, 2008; Washington, 2006; see also Caskey, 1994: 78–83).

13. Because this assumption involves an unobservable (the disturbance term) concept, it cannot be tested directly with empirical data. However, when two or more instruments are available for a single endogenous regressor (i.e., the equation is "overidentified"), one can assess the adequacy of instruments

Finally, for each model, we test for evidence of spatial autocorrelation, and if needed, we account for spatial effects that might bias our estimates of the direct relationship between payday lending and crime. For all sets of analyses, we examine both violent and property crime rates in Seattle neighborhoods.

Findings

Descriptive Statistics

A preliminary view of descriptive statistics suggests a positive association between payday lending and crime. Means, standard deviations, and correlations for all variables are presented in Table 1. The average count of payday lenders across Seattle neighborhoods is .38; the corresponding rate is 10 per 1,000 persons. Consistent with crime patterns throughout the United States, property offenses comprised the majority of reported crimes in Seattle in 2006–2007. The average rates for property and violent crime, respectively, were roughly 74 and 8 per 1,000 population. As expected, the explanatory variables, and particularly neighborhood disadvantage, have positive relationships with crime rates. More importantly, payday lending is significantly positively associated with both violent ($r = .48$) and property crime ($r = .56$). These correlations suggest initial support for a payday lending–crime relationship.

The bivariate relationship between payday lending and crime can be illustrated visually. Figure 1 plots the distribution of payday lenders and violent crime rates in Seattle neighborhoods. The map in Figure 1 clearly displays the strong bivariate relationship between payday lending and violent crime. In the downtown and inner-city areas where payday lenders are more numerous (as indicated by "x" on the map), the violent crime rate is also highest (as indicated by the darkest shading on the map). The safest neighborhoods in Seattle have no payday lenders in them. The map also shows moderate violent crime rates in areas with lower densities of payday lending. Results for the distribution of payday lenders and property crime rates, although not presented, mirror closely those for violent crime rates. At issue, however, is whether the relationship between payday lending and crime will remain after controlling for other community characteristics known to be associated with crime. To determine this relationship, we turn to the regression results.

Regression Results

Tables 2 and 3 present regression results for violent and property crime rates, respectively. These tables contain results from the series of three regression models, which were outlined earlier. For both tables, the first column reports a baseline OLS regression model in which violent or property crime rates are predicted only by the payday

via a test of overidentifying restrictions (e.g., see Baum, 2006: 191; Wooldridge, 2002: 121). Such testing is not possible in cases like ours in which only one excluded instrument is used for the endogenous regressor variable.

TABLE 1

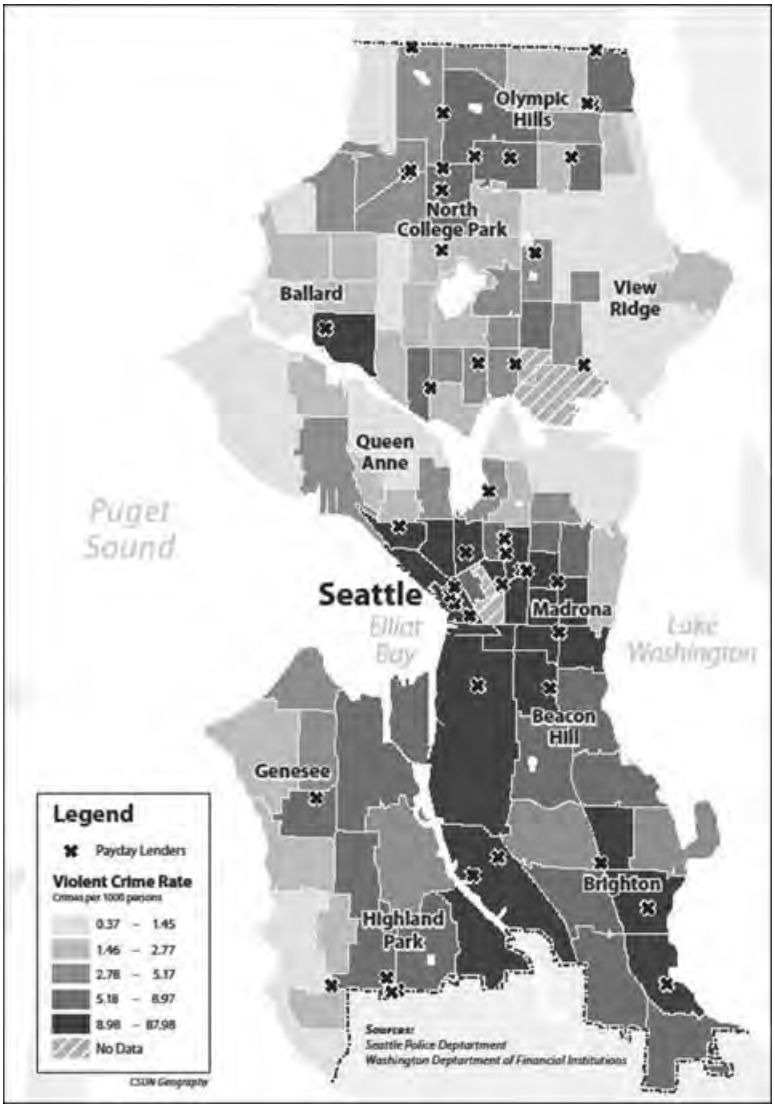
Descriptive Statistics and Correlations ($N = 116$ Census Tracts)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Violent crime rate (ln)	1.00	.80*	−.03	.74*	.45*	.63*	.25*	.45*	.48*	.75*	.62*	.56*	−.61*	.65*	−.63*
2. Property crime rate (ln)		1.00	−.23*	.44*	.38*	.75*	−.15	.58*	.56*	.64*	.41*	.25*	−.28*	.39*	−.29*
3. Total population			1.00	.08	.12	−.04	.22*	−.15	−.15	−.11	−.04	.08	−.22*	.12	−.12
4. Disadvantage index				1.00	.39*	.32*	.56*	.19*	.18	.80*	.87*	.71*	−.86*	.94*	−.93*
5. Young male rate (ln)					1.00	.51*	.13	.05	.20*	.46*	.23*	.18	−.44*	.40*	−.30*
6. Residential instability						1.00	−.28*	.46*	.34*	.65*	.23*	.09	−.23*	.31*	−.14
7. Female-headed households							1.00	−.29*	−.10	.17	.33*	.70*	−.56*	.48*	−.64*
8. Central business district								1.00	.24*	.42*	.31*	.02	−.05	.12	−.07
9. Payday lender rate									1.00	.30*	.19*	.05	−.17	.13	−.09
10. Poverty rate										1.00	.80*	.44*	−.55*	.70*	−.61*
11. Jobless rate											1.00	.54*	−.60*	.74*	−.77*
12. Percent Black												1.00	−.50*	.57*	−.65*
13. Percent professional													1.00	−.87*	.85*
14. Percent low wage														1.00	−.87*
15. Percent high-school graduate															1.00
Mean	7.69	73.74	4709	.00	6.30	.14	8.29	.08	.10	11.93	23.59	7.74	48.70	14.85	89.77
SD	11.60	78.00	1875	1.00	3.52	.86	5.27	.27	.24	9.16	8.25	10.11	13.30	7.46	9.45

Note. ln = measured in natural logarithm; means and standard deviations for all variables are expressed in nonlogged values for ease of interpretation.
$^*p < .05$.

FIGURE 1

Payday Lenders and Violent Crime Rates in Seattle, Washington



lending variable. In the second column of each table, we expand on that initial model by adding measures typically associated with neighborhood crime rates. In the third column, we present results from a model that accounts for the potential endogeneity of payday lenders through an instrumental variables estimator. Finally, we calculate the level of spatial autocorrelation in each of the prior models. Consistent with our

TABLE 2

OLS Regression Results for Violent Crime

	1 Baseline Model	2 Ecological Correlates Model	3 2SLS-IV Endogeneity Model
Payday lenders (ln)	.482***	.248***	.196**
	3.424	1.756	2.346
	(.582)	(.325)	(.658)
Neighborhood disadvantage		.442***	.431***
		.506	.494
		(.076)	(.075)
Young male rate (ln)		.023	.017
		.062	.046
		(.143)	(.141)
Residential instability index		.351***	.334***
		.469	.447
		(.087)	(.088)
Female-headed households		.182**	.188**
		.040	.041
		(.015)	(.014)
Central business district		.189***	.182***
		.806	.776
		(.221)	(.218)
Population size		−.028	−.018
		−.000	−.000
		(.000)	(.000)
Constant	1.098	1.478	.687
	(.104)	(.318)	(.283)
Model summary information			
R^2	.233	.808	.802
Adjusted R^2	.226	.742	—
D-W-H endogeneity test	—	—	1.08
Total number tracts (*N*)	116	116	116

Notes. Cell entries are standardized coefficients and unstandardized coefficients followed by standard errors in parenthesis. In the first stage of the 2SLS model, the excluded instrument predicting payday lenders is the number of FDIC lending institutions per 1,000 population (see Appendix A for full first-stage results).
$p < .05$; $^{**}p < .01$; $^{***}p < .001$.

objectives, this model-building strategy allows us to gauge the extent to which the observed relationship between payday lending and crime remains after controlling for other ecological correlates.

Baseline model. In the first model of Table 2, we find evidence, not surprisingly, of a statistically significant positive relationship between payday lending and violent crime. Also not surprisingly, we find evidence of a statistically significant positive relationship between payday lending and property crime, as indicated in the first model of Table 3. In essence,

TABLE 3

OLS Regression Results for Property Crime

	1 Baseline Model	2 Ecological Correlates Model	3 2SLS-IV Endogeneity Model
Payday lenders (ln)	.565***	.289***	.340***
	2.323	1.189	2.365
	(.318)	(.205)	(.466)
Neighborhood disadvantage		.207**	.171*
		.137	.114
		(.048)	(.054)
Young male rate (ln)		.010	—.010
		.016	—.015
		(.090)	(.100)
Residential instability index		.534***	.401***
		.355	.310
		(.055)	(.062)
Female-headed households		—.006	.016
		—.001	.001
		(.009)	(.010)
Central business district		.237***	.214**
		.587	.528
		(.139)	(.155)
Population size		—.149**	—.113*
		—.00005	—.00004
		(.00002)	(.00002)
Constant	3.842	4.061	3.952
	(.057)	(.179)	(.201)
Model summary information			
R^2	.319	.773	.704
Adjusted R^2	.313	.759	—
D-W-H endogeneity test			11.04**
Total number tracts (*N*)	116	116	116

Notes. Cell entries are standardized coefficients and unstandardized coefficients followed by standard errors in parenthesis. In the first stage of the 2SLS model, the excluded instrument predicting payday lenders is the number of FDIC lending institutions per 1,000 population (see Appendix A for full first-stage results).
*$p < .05$; **$p < .01$; ***$p < .001$.

these results suggest that across Seattle neighborhoods, as the presence of payday lenders increases, so do violent and property crime rates.

Ecological correlates model. In the second model, we introduce several measures typically associated with neighborhood crime rates. In line with prior research, regression results show that neighborhood disadvantage, residential instability, and female-headed households are all significantly positively associated with violent crime rates. Likewise, disadvantage and residential instability are significantly positively associated with property crime rates.

TABLE 4

Moran's I Test for Spatial Autocorrelation

Model	Dependent Variable	Technique	Moran's I	*Z* Score	*P* Value	Pattern
Social disorganization model	Violent crime rate	Contiguity	.03	.70	.48	Random
		Inverse distance	−.02	−.25	.80	Random
Social disorganization model	Property crime rate	Contiguity	.07	1.40	.16	Random
		Inverse distance	.05	1.41	.16	Random
Endogeneity model	Violent crime rate	Contiguity	.03	.72	.46	Random
		Inverse distance	−.02	−.15	.87	Random
Endogeneity model	Property crime rate	Contiguity	.08	1.50	.13	Random
		Inverse distance	.05	1.37	.17	Random

Moreover, whether the census tract is located in the CBD also matters for violent and property crime rates. Our CBD variable is significant and positive in both models. Most important, however, is that the inclusion of these variables does not eliminate the association between payday lending and crime. Although the coefficients for the payday lending variable are roughly cut in half in the violent and property crime equations, payday lending remains a significant predictor in both models. In fact, the standardized coefficients suggest that the effect of payday lending is fairly robust, with a magnitude that compares favorably with several neighborhood measures that have been considered important predictors of crime for a long time.

Using variants of the Moran's I test and several software packages, we next measured the potential effects of spatial autocorrelation within the OLS ecological model. We found that the effect of spatial autocorrelation was minimal in both analyses of violent and property crime, falling well below the threshold that might raise concern (see, e.g., Parker and Asencio, 2009: 208).

Table 4 reports the results of these tests, using a minimum threshold distance of 2,500 m and first-order contiguity models. As shown, the Moran's I scores, which are similar to a Pearson's *r* score, are low and in some instances slightly negative. Although typical in many cities, the lack of spatially autocorrelated data in Seattle appears because of its unusual physical geography. Unlike many cities, Seattle has numerous natural (e.g., bodies of water, hills, etc.) and manmade (e.g., bridges, freeways, etc.) barriers that seem to inhibit interaction. The map in Figure 1 helps make this point clear. This finding is consistent with other studies that have examined spatial autocorrelation and neighborhood crime rates in Seattle (e.g., Kubrin, 2000) and accounts for why previous researchers have not addressed autocorrelation directly in their analyses of Seattle neighborhoods (e.g., Crutchfield, Matsueda, and Drakulich, 2006; Rountree, Land, and Miethe, 1994; Warner and Rountree, 1997).

Endogeneity model. The third model in our investigation is an effort to explore the possibility that the payday lender rate is an endogenous regressor in our models. To account for endogeneity, we use an instrumental variables approach via 2SLS regression. Per our earlier discussion, in the first stage of the 2SLS analysis, the prevalence of payday lenders is instrumented by a single "excluded" instrument—the natural logarithm of FDIC banks per 1,000 persons—with the ecological variables specified as "included" instruments.

The results of this first-stage analysis, reported in Appendix B, are consistent with the bivariate evidence cited earlier and suggest that "FDIC banks" is a "relevant instrument" for the payday lender rate. Several statistics provide evidence of such relevance. First, the coefficient for the FDIC bank rate, which reflects its partial association with the payday lending rate (net of the other covariates), is positive and has a large and statistically significant t ratio. Second, we report an F test that also evaluates the relevance of the included instrument. This statistic is derived based on the R-squared of the first-stage equation after the included instruments have been partialled out (Baum, 2006: 207; see also Bound, Jaeger, and Baker, 1995). Previous research on instrumental variables (IV) methods has shown that, even when the instrument is a statistically significant predictor, bias might be found in the IV estimator because of limitations in the explanatory power of the instrument (see Baum, 2006; Staiger and Stock, 1997). Consequently, it has been suggested that, for a model with one endogenous regressor, an F statistic lower than 10 is problematic (Baum, 2006: 211). As shown at the bottom of the table in Appendix B, the F statistic in our analysis is 33—more than three times the minimum threshold suggested. Finally, we also present results of the Anderson canonical correlation underidentification test, which evaluates the null hypothesis that the equation is underidentified. In this case, the test statistic is large and statistically significant, thereby indicating a rejection of the null. In summary, these statistics imply that one of the two critical assumptions of IV analysis is supported in our data (i.e., that the instrument has a high partial correlation with the endogenous regressor). We note again, however, that the second assumption cannot be evaluated empirically, so findings and conclusions should be regarded as suggestive, not definitive.

Turning our attention to the second-stage regression results, reported as model 3 in Tables 2 and 3, our interest centers on whether the criminogenic effect of payday lenders remains evident in the instrumental variable analysis. Examining the results for violent crime first, the findings continue to indicate that the prevalence of payday lending institutions has a significant positive relationship with violent crime rates. Indeed, the results of the IV analysis mimic fairly closely the substantive results of the OLS analysis, both for the measure of payday lending as well as for the ecological variables. Moreover, a closer inspection of the coefficients in models 2 and 3 indicates that differences are not especially great. Intuitively, this similarity suggests that payday lenders might not be endogenous to violent crime. The "Durbin–Wu–Hausman (D-W-H) endogeneity test" reported at the bottom

of Table 2 evaluates that idea.[14] In this case, the test is not significant, which suggests that little is changed by specifying payday lenders as endogenous to violent crime. Across model specifications, the evidence is consistent in indicating that payday lending is predictive of violent crime rates, controlling on a range of factors associated with neighborhood crime rates.

Looking next at the results for property crime, reported in the third model of Table 3, several findings are noteworthy. Most importantly, in big picture substantive terms, the results of the instrumental variables analysis differ little from OLS results. Payday lenders, neighborhood disadvantage, residential instability, population size, and location within the CBD all are significantly related to property crime rates in expected ways. Thus, the substantive issues most central to the current study seem unaffected by our efforts to model endogeneity in the relationship between payday lending and crime. However, differences in the magnitude of the coefficients in the OLS and IV analyses are more prominent in the property crime analyses than they were in the analyses of violent crime. For instance, the estimated effect of payday lending is roughly twice as large in the IV analysis compared with the OLS analysis. Given this difference, it is not surprising that the D-W-H test is statistically significant in Table 3. In essence, this test suggests systematic differences occur in the coefficients for the OLS and 2SLS-IV models. On the assumption that the instrumental variable is exogenous to the disturbance term of the property crime equation, this result is consistent with the idea that endogeneity exists in the relationship between payday lender prevalence and property crime rates. Nonetheless, our analyses suggest little reason to doubt that payday lending has an effect on property crime rates, net of our controls.[15]

Finally, to evaluate the potential for biases related to spatial processes in the endogeneity models, we once again measured the level of spatial autocorrelation using a variety tests. As before, these results suggest no appreciable evidence of unmeasured spatial effects in our analysis of violent or property crime rates. The results of tests for spatial autocorrelation in these models using Moran's I are listed in Table 4.

In sum, the results of our analyses indicate that payday lending is significantly associated with both violent and property crime rates. This relationship holds even after controlling for a host of factors typically associated with neighborhood crime rates. Moreover, the significant, positive relationship between payday lending and crime remains evident in models that attempt to deal with endogeneity as well as after concerns with spatial autocorrelation have been addressed.

14. It should be noted this test statistic also relies on the critical assumption that the instrumental variable is uncorrelated with the crime equation disturbance term.

15. We replicated the models substituting in the individual components of the disadvantage index to see whether the effects of payday lending remained. In all supplemental analyses, payday lending remained a significant predictor of violent and property crime rates. Results of these analyses are available on request.

Conclusion

Payday lenders in Seattle tend to be concentrated in communities where crime rates are higher. More importantly, the correlation between payday lending and violent and property crime remains statistically significant after a range of factors traditionally associated with crime have been controlled for and when other model specifications have been taken into account. The substantial costs that customers pay for using payday lenders have long been documented for a long time. Our findings indicate that important broader community costs also might persist—such as exposure to crime—that *all* residents pay when they reside in neighborhoods with a concentration of payday lenders. These costs suggest numerous policy implications.

Policy Implications

One critical public policy challenge is to preserve access to small consumer loans on an equitable basis and to do so in a way that does not enhance the danger to those in the community where these services are provided. This is a challenge not just for financial service providers and regulators, law enforcement authorities, or community development officials. Coordinated efforts should be launched to meet these objectives successfully. One approach would be to cap the interest rate that payday lenders are allowed to charge at 36% as several states have done and as Congress did with respect to loans given to members of the military and their families. (Credit cards, although not ideal for all consumers, currently offer cash advances for far less than the 36% annual percentage rate.) Although this approach would reduce many abusive practices often associated with payday lending, it would likely put many payday lenders out of business. This outcome raises the question of whether alternative financial institutions could step in and provide small consumer loans.

One credit union has found a profitable way to serve this function with a high-risk pool of borrowers. In 2001, the North Carolina State Employee's Credit Union (SECU) created the Salary Advance Loan (SALO) product that helps employees make it from paycheck to paycheck while building savings. Members who have their paycheck automatically deposited can request salary advances up to $500. The advance is repaid automatically the next payday. The annual percentage rate is 12%. Typical SALO borrowers have an annual income of less than $25,000 with account balances of less than $150. Two thirds take out advances every month. SECU has earned a net income of $1.5 million on a loan volume of $400 million with loan charge-offs of 0.27%. As Michael A. Stegman (2007: 183) concluded, this experience "shows that large institutions can market more affordable payday loan products to high-risk customers at interest rates that are a small fraction of prevailing payday loan rates." Credit unions around the country offer similar loans, generally with the proviso that borrowers also build a "rainy-day" fund with the credit provider.

Federal banking regulators could encourage larger financial institutions to offer similar services by giving credit to those lenders in their Community Reinvestment Act (CRA) examinations and evaluations. Under the CRA, federally regulated depository institutions

are required to ascertain and respond to the credit needs of their entire service areas, including low- and moderate-income communities. Regulators take lenders' CRA records into account when considering applications for mergers, acquisitions, and other changes in bank lending practices (Immergluck, 2004). Providing CRA credit for offering small consumer loans on equitable terms would encourage more large institutions to do so.

State and local governments could enact zoning laws that limit the number of new payday lenders. Today 81 cities, 5 counties, and 19 states have enacted local ordinances limiting the location and density of alternative financial institutions like payday lenders, check cashers, and pawn shops. For example, in 2008, St. Louis passed an ordinance prohibiting check cashers and short-term loan operators from opening within 1 mile of an existing store and within 500 feet of a residence, elementary school, or secondary school (Standaert, 2009: 432). Similar rules could be targeted explicitly to payday lenders. Such zoning laws could reduce the extent to which neighborhoods become stigmatized as a result of the concentration of fringe banking institutions.

A more direct approach would be to establish a suitability standard prohibiting payday lenders from providing multiple loans to borrowers or from offering loan terms that are designed to entrap borrowers in a cycle of debt. Current FDIC guidelines that prohibit regulated banks working with third parties (like payday lenders) from issuing loans to borrowers with recent outstanding payday loan debts could be extended to cover all payday lenders.

Another immediate concern is the safety of those in neighborhoods where payday lenders are concentrated. Local law enforcement authorities should assess levels of criminal activity carefully in those areas and consider providing additional service at appropriate times. Not only would employees and customers of payday lenders benefit, but residents of the surrounding neighborhoods likely would enjoy safer streets as well. In turn, this change might attract other businesses and more residents to the area, stimulating broader economic and community development in many currently distressed areas. In essence, by reducing the social disorganization of such neighborhoods, a virtuous cycle could be launched that might bring lower crime rates and several associated benefits.

Research Implications

A growing body of research has been developing on the business operations of payday lenders, their customer base, and the linkages to other financial services. Not so widely researched are the potential neighborhood costs associated with such institutions. As detailed in this study, a spike in neighborhood crime rates is one probable cost, but other related costs also might be associated. Most problematic, perhaps, might be a depressing impact on local property values because crime has been shown to be associated with declining property values (Bowes and Ihlanfeldt, 2001; Gibbons, 2004; Thaler, 1978). If a concentration of payday lenders reduced property values (and it is difficult to imagine it would increase values), then this effect would reduce the equity and wealth of property owners. In turn, property tax revenues would

decline and thereby require either a reduction in critical public services (e.g. schools, police, and fire protection) or an increase in taxes for local residents and businesses. It would be informative to know whether payday lenders have such an impact and, if so, to quantify that impact.

It also stands to reason that, in communities with significant concentrations of payday lenders, capital loss in the form of the so-called multiplier leakage might occur. In this scenario, capital crucial to local economic development efforts, or for simple circulation within the local economy, is siphoned off by payday lenders, most of which are owned by interests far removed from local branch operations. Compounding this, of course, is the fact that payday lenders are most prevalent in neighborhoods that already suffer from various types of disinvestment. Estimating the flight of capital from such communities because of the activity of payday lenders would provide valuable information for planners and regulators as well as for the research community.

Limitations of our study suggest several additional directions for future research. An obvious extension would be case studies of additional cities. We suspect that our findings are not unique to Seattle but that variations might be associated with the size, demography, regional location, industrial structure, and other city characteristics that affect the linkage between payday lending and crime. Unfortunately, uneven crime data and even poorer data on payday lenders constitute a key challenge.

How the payday lending–neighborhood crime link varies over time is also unknown. Payday lenders suddenly appeared on the map of virtually all major cities within the past 20 years. Depending on the trajectory of various political initiatives, their numbers could continue to grow or decline with equal speed. In the current study, we offer a snapshot. Longitudinal or pooled time-series work would offer the opportunity to flesh out this connection better. Moreover, relative to the limitations of the current analysis, such data likely would provide a better means of investigating the potential for reciprocal relationships between payday lenders and crime.

A final suggestion for future research involves expanding our model of neighborhood crime rates to include other potentially salient local institutions. Indeed, because of data limitations, we did not include measures of bars or recreational facilities, which previously have been linked to community crime rates. Although we believe incorporating such measures would not change the pattern of results, it is important for future research to account for the scope and diversity of local institutions when assessing the predictors of neighborhood crime rates.

A Final Word

Access to a wide range of financial services on fair and equitable terms has become a major public policy issue as well as the topic of much social science research in recent years. Payday lenders constitute part of the growing web of fringe bankers that have been concentrated in low-income and disproportionately minority communities, although they have begun to

expand into working- and middle-class communities as well. The cost of these services to individual borrowers and families has been evident for a long time, often quantified with some precision. Although not understood with the same level of specificity, the broader neighborhood costs are becoming recognized as facts of life in the nation's metropolitan regions. The link between payday lending and neighborhood crime, in fact, should come as no surprise. How we choose to respond to that connection, if we choose to respond at all, remains to be determined.

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Charis E. Kubrin is an associate professor of sociology at George Washington University and a research affiliate at the George Washington Institute of Public Policy. Her research focuses on neighborhood correlates of crime, with an emphasis on race and violent crime. Charis is coeditor of *Crime and Society: Crime, 3rd Edition* (Sage, 2007) as well as coauthor of *Researching Theories of Crime and Deviance* (Oxford University Press, 2008) and *Privileged Places: Race, Residence, and the Structure of Opportunity* (Lynne Rienner, 2006). Her work has been published in various academic journals, including *American Journal of Sociology*, *City and Community*, *Criminology*, *Criminology & Public Policy*, *Homicide Studies*, *Journal of Quantitative Criminology*, *Journal of Research in Crime and Delinquency*, *Justice Quarterly*, *Men and Masculinities*, *Social Forces*, *Social Problems*, *Social Science Quarterly*, *Sociological Perspectives*, *Sociological Quarterly*, and *Urban Studies*. In 2005, Charis received the American Society of Criminology's Ruth Shonle Cavan Young Scholar Award.

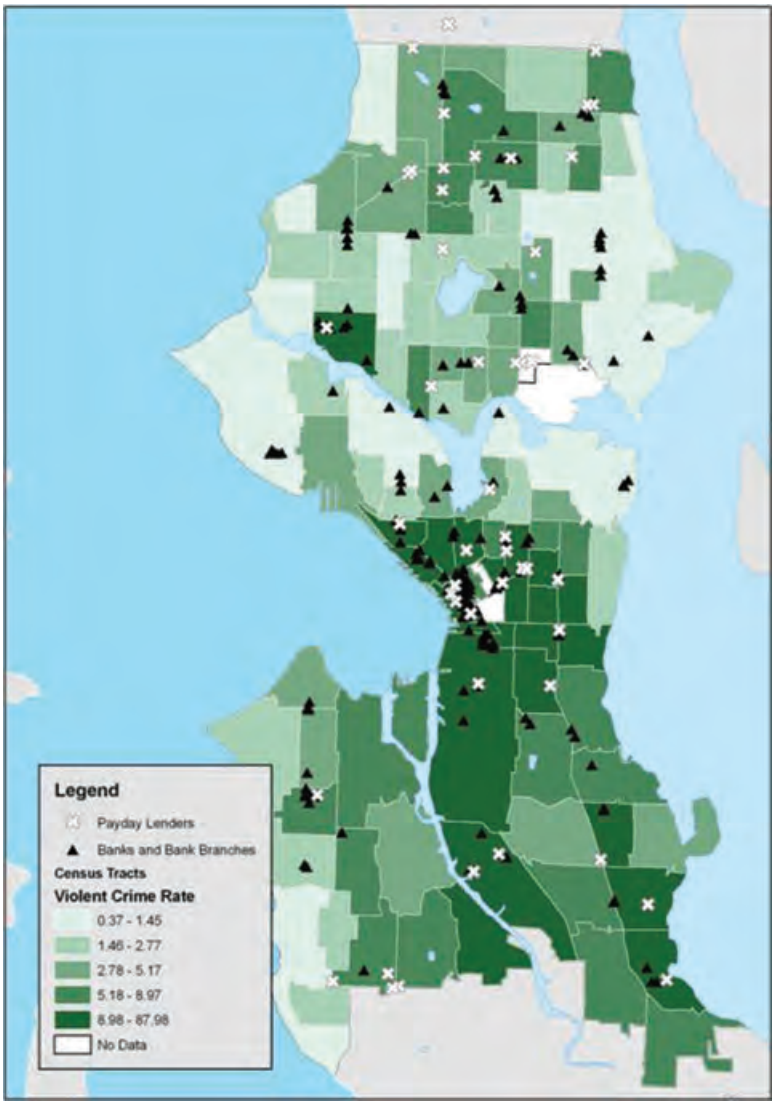
Gregory D. Squires is a professor of sociology and public policy and public administration at George Washington University. His research has focused on racial inequality and uneven metropolitan development with a focus on the role of financial institutions in shaping the opportunity structure in the nation's metropolitan regions. Recent publications include *Privileged Places: Race, Residence, and the Structure of Opportunity* (Lynne Rienner, 2006) and *The Integration Debates: Competing Futures for American Cities* (Routledge, 2010). He currently serves on the Social Science Advisory Board of the Poverty & Race Research Action Council, the Board of the Woodstock Institute, and the Advisory Board of the Fair Housing Legal Support Center at John Marshall Law School.

Steven M. Graves teaches a wide range of geography courses at California State University, Northridge. His primary research interests are in cultural and economic geography, but he also has ongoing research projects involving access to healthy foods, popular culture, and the vernacular built environment. Recent publications include a variety of studies on the site location strategies of predatory lenders as well as the origin and spatial history of hip-hop music.

Graham C. Ousey is the Arts and Sciences Distinguished Professor of Sociology at the College of William and Mary. His current research focuses on testing theories of the social ecology of violence, the links between criminal offending and victimization, and factors associated with cross-national variation in punitive attitudes. His previous research appears in numerous outlets, including *Criminology*, *Social Problems*, *Journal of Research in Crime and Delinquency*, *Journal of Quantitative Criminology*, *Justice Quarterly*, *Journal of Interpersonal Violence*, *Homicide Studies*, *Violence & Victims*, *The Sociological Quarterly*, and *Social Forces*.

APPENDIX A

Payday Lenders, FDIC Banks, and Violent Crime Rates in Seattle, Washington



APPENDIX B

First-Stage Model of Payday Lenders (ln)

Excluded Instrument	Coefficient	Standard Error
FDIC banks per 1,000 (ln)	.262***	.046
Controls		
Neighborhood disadvantage	−.015	.021
Young male rate (ln)	.069	.038
Residential instability index	.014	.023
Female-headed households	.002	.004
Central business district	−.043	.059
Population size	−.000008	−.000007
Summary results for first-stage regression		
Partial R^2 of excluded instrument	.234	
F test of excluded instrument (1,108 degrees of freedom)	33.00*	
Anderson canon. corr. underid. test	27.15*	

***$p < .001$.

City Council
STAFF REPORT

TO: **Mayor Shepherd, City Council, and Executive Staff**

FROM: **Spencer W. Brimley**
Development Services Manager
Spencer.Brimley@clearfieldcity.org (801) 525-2785

MEETING DATE: **February 23, 2016**

SUBJECT: Discussion and Possible Action on:

FSP 1511-0006 a request by Anita White, for a Final Subdivision Plat approval located at 591 S. State Street (TIN: 12-003-0037). The property is approximately 0.658 acres and lies in the C-2 (Commercial) zoning district.

RECOMMENDATIONS

Move to **approve as conditioned**, **FSP 1511-0006:** A request by Anita White, for a Final Subdivision Plat approval located at 591 S. State Street (TIN: 12-003-0037), based on the discussion and findings in the Staff Report

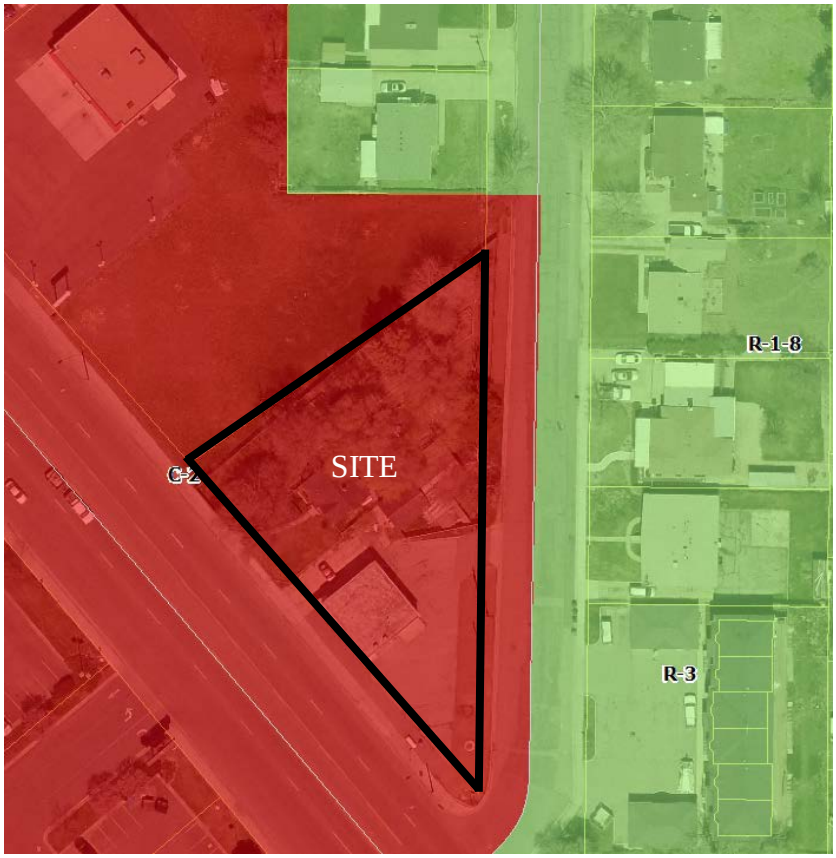
PROJECT SUMMARY

Project Information	
Project Name	White Subdivisions
Site Location	591 S State Street
Tax ID Number	12-003-0037
Applicant	Anita White
Owner	Anita White
Proposed Actions	Two lot commercial subdivision
Current Zoning	C-2 (Commercial)
Land Use Classification	Commercial
Site Acreage	0.658 acres

Surrounding Properties and Uses:		Current Zoning District	Comprehensive Plan Land Use Classification
North	Westbridge Auto LLC	C-2 (Commercial)	Commercial
East	Residential	R-1-8 & R-3 (Residential)	Residential

South	Kent's Market/Residential	C-2 (Commercial)/R-3 (commercial)	Mixed Use
West	Kent's Market	C-2 (Commercial)	Mixed Use

Vicinity and Zoning Map



ANALYSIS

Planning Commission Recommendation

The Planning Commission, at their meeting on Wednesday, February 3, 2016 approved the preliminary subdivision plat and recommended approval of the final subdivision plat for FSP 1511-0006, a request by Anita White, for a Final Subdivision Plat approval located at 591 S. State Street (TIN: 12-003-0037). The property is approximately 0.658 acres and lies in the C-2 (Commercial) zoning district.

Background

Anita White submitted a request for a two lot subdivision located at 591 S. State Street, (TIN: 12-003-0037). The parcel currently has two uses on the property with three buildings. There is a commercial building located on the southern portion of the property closes to State Street and the northern portion of the property is occupied with Ms. White's home and garage.

The plat and property were established, according to Davis County records, in 1981. The property is a legal lot of record, but requires subdivision approval in order to allow it to be divided into two separate parcels. Staff has spoken with the Clearfield City utilities and they have provided confirmation that there is only one connection for this property. The owner/applicant is required to obtain a separate connection for each lot included in the subdivision proposal. Due to the simplistic nature of the plat, the Preliminary Subdivision Plat and Final Subdivision Plat are identical.

There is no sidewalk along the eastern boundary of the property (500 E). The sidewalk has been installed on the property to the north and continues into the residential area. Staff has considered these and other improvements and is recommending the applicant sign an agreement to defer these improvements. Since the property is not experiencing new development with this proposal, staff considers it appropriate to require the improvements, at such time that the property is redeveloped.

Typical subdivision requirements would mandate the installation of public improvements as well as any necessary infrastructure improvements to provide for sounds and safe development. Since there is no proposal to develop, only to subdivide the subject property, staff is recommending the property execute an agreement to defer improvements in this instance. Staff is supportive of the property owner signing an improvement agreement to defer the installation of improvements at a future date. The request to subdivide does not increase impacts to drainage, but rather organizes the property into two separate lots. Public Works and Engineering have done an initial review of the property and will complete final technical review following a decision by the City Council.

Comprehensive Plan and Zoning
The future land use map shows the parcels are master planned commercial. The zoning is C-2 (Commercial). There is no documentation or adopted Ordinance that indicates the property has ever been rezoned to any other designation.

Regardless of its zoning, however, the property may be subdivided with its existing zoning, subject to meeting the commercial standards. The proposal meets the minimum C-2 zoning standards. The purposes for which this property is being reviewed as a subdivision does not require a rezone approval since the applicant is subdividing in order to participate in a financial strategy to keep and maintain her home. The residential and commercial building will remain on their respective lots, if the subdivision is approved.

Subdivision Plat Approval
The City Engineer has reviewed the plat, and is anticipating improvement drawings detailing sidewalk, curb, and gutter improvements along 500 E, along with estimate for said improvements. Planning has performed a review of the plat, and has determined that the lots contain the necessary square footage and meet all requirements listed in the C-2 Zone.

Public Comment
No public comment has been received to date.

CONDITIONS OF APPROVAL

1) The applicant shall correct the Plat to include all red-lines from Planning, Engineering, and Public Works Departments, including but not limited to necessary easements, addresses, and other call-outs as required.

2) Applicant shall provide proof of separate wet and dry utility connections for each lot in the proposed subdivision.

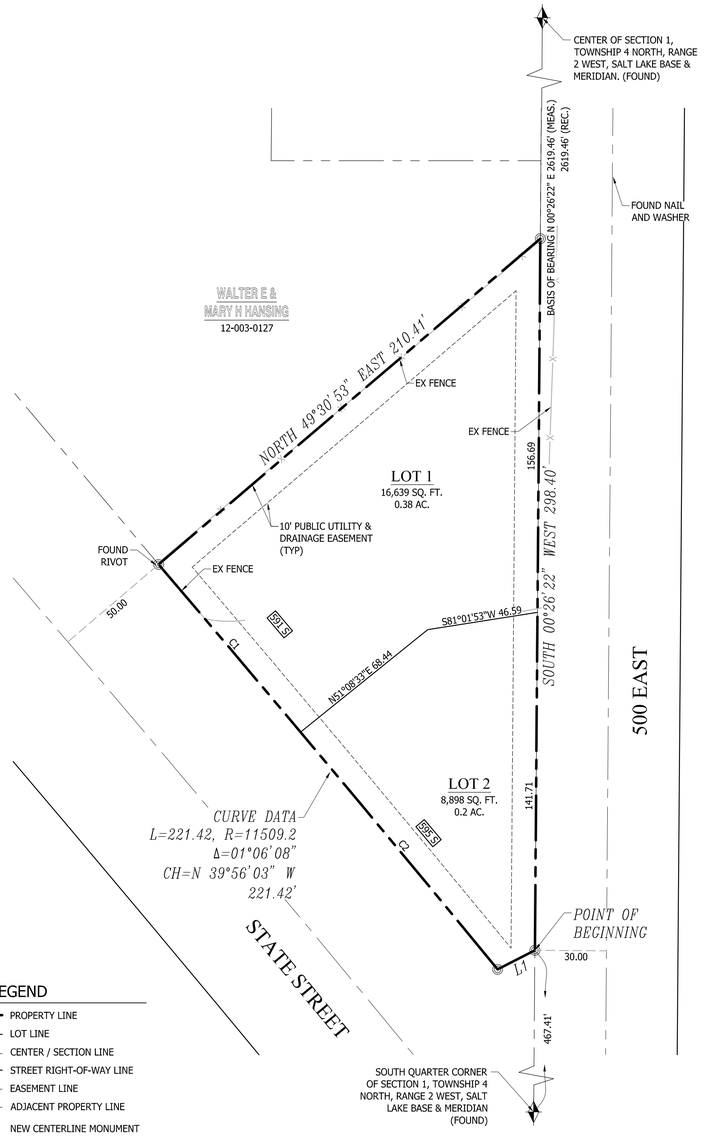
3) Pursuant to the Subdivision Ordinance 12-4-5, an estimate of public improvements (as outlined in 12-4-6), shall be submitted, reviewed and approved by the City Engineer prior to obtaining building permits.

4) An Escrow agreement will be subject to approval by the City Engineer and City Attorney and an escrow account shall be established prior to recordation of the Final Plat, or a signed and executed Improvement Agreement for all required improvements including, detention areas, calculations and installation of sidewalk, curb, and gutter improvements that shall be required at the time new construction is proposed for either lot.

5) The applicant shall provide proof of having obtained and of having maintained, as may be periodically requested by the City, all applicable local, state, and federal permits.

ATTACHMENTS

1. White Final Subdivision Plat

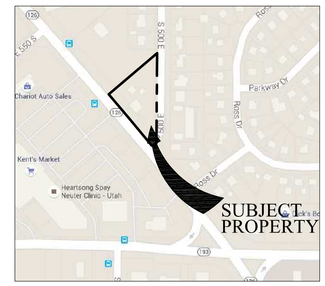


WHITE SUBDIVISION

LOCATED IN THE SOUTHWEST QUARTER OF SECTION 1,
TOWNSHIP 4 NORTH, RANGE 2 WEST, S.L.B.&M.,
CLEARFIELD CITY, DAVIS COUNTY, UTAH

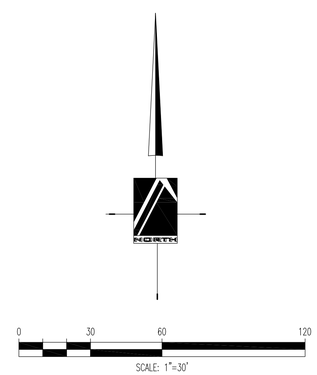
CURVE TABLE					
CURVE	LENGTH	RADIUS	DELTA	CHORD BRG	CHORD
C1	92.09	11509.20	0°27'30"	N40°15'22"W	92.09
C2	129.33	11509.20	0°38'38"	N39°42'18"W	129.33

LINE TABLE		
LINE	LENGTH	BEARING
L1	17.54	S62°52'18"W



VICINITY MAP

NORTH



LEGEND

- PROPERTY LINE
- LOT LINE
- CENTER / SECTION LINE
- STREET RIGHT-OF-WAY LINE
- EASEMENT LINE
- ADJACENT PROPERTY LINE
- NEW CENTERLINE MONUMENT
- SECTION CORNER
- PU&DE — PUBLIC UTILITY & DRAINAGE EASEMENT
- SET 5/8" REBAR WITH A ORANGE PLASTIC CAP, OR NAIL & WASHER STAMPED PINNACLE 191517

SURVEYOR'S CERTIFICATE

I, STEPHEN J. FACKRELL DO HEREBY CERTIFY THAT I AM A PROFESSIONAL LAND SURVEYOR, AND THAT I HOLD CERTIFICATE NO. 191517 AS PRESCRIBED UNDER LAWS OF THE STATE OF UTAH. I FURTHER CERTIFY THAT BY AUTHORITY OF THE OWNERS, I HAVE MADE A SURVEY OF THE TRACT OF LAND SHOWN ON THIS PLAT AND DESCRIBED BELOW, AND HAVE SUBDIVIDED SAID TRACT OF LAND INTO LOTS, HEREAFTER TO BE KNOWN AS: WHITE SUBDIVISION AND THAT THE SAME HAS BEEN CORRECTLY SURVEYED AND STAKED ON THE GROUND AS SHOWN ON THIS PLAT. I FURTHER CERTIFY THAT ALL LOTS MEET FRONTAGE WIDTH AND AREA REQUIREMENTS OF THE APPLICABLE ZONING ORDINANCES.

BOUNDARY DESCRIPTION

BEGINNING AT A POINT ON THE WEST LINE OF 500 EAST STREET, SAID POINT BEING LOCATED NORTH 00°26'22" EAST 467.41 FEET FROM THE SOUTHEAST CORNER OF THE SOUTHWEST QUARTER OF SECTION 1, TOWNSHIP 4 NORTH, RANGE 2 WEST, SALT LAKE BASE & MERIDIAN; AND RUNNING THENCE SOUTH 62°52'18" WEST 17.54 FEET TO THE NORTHEASTERLY LINE OF STATE STREET; THENCE NORTHWESTERLY 221.42 FEET ALONG THE ARC OF A 11509.2 FOOT RADIUS CURVE TO THE LEFT THROUGH A CENTRAL ANGLE OF 01°06'08" (CHORD BEARS NORTH 39°56'03" WEST 221.24 FEET) ALONG SAID NORTHEASTERLY LINE; THENCE NORTH 49°30'53" EAST 210.41 FEET TO SAID WEST LINE OF 500 EAST; THENCE SOUTH 00°26'22" WEST ALONG SAID WEST LINE 298.40 FEET TO THE POINT OF BEGINNING.

CONTAINS 25,535 SQ. FT. / 0.586 ACRES / 2 LOTS

DATE

STEPHEN J. FACKRELL
LICENSE NO. 191517

OWNER'S DEDICATION

I, THE UNDERSIGNED OWNER OF THE HEREON DESCRIBED TRACT OF LAND, HEREBY SET APART AND SUBDIVIDE THE SAME INTO LOTS AS SHOWN ON THIS PLAT, HEREAFTER KNOWN AS WHITE SUBDIVISION.

IN WITNESS WHEREOF _____ HAVE HEREUNTO SET _____ THIS _____ DAY OF _____ A.D. 20_____.

ANITA WHITE

ACKNOWLEDGMENT

STATE OF UTAH)
COUNTY OF DAVIS)

ON THE____DAY OF _____A.D., 20___, PERSONALLY APPEARED BEFORE ME, THE UNDERSIGNED NOTARY PUBLIC, IN AND FOR SAID COUNTY OF DAVIS IN SAID STATE OF UTAH, THE SIGNER ( ) OF THE ABOVE OWNER'S DEDICATION, ____IN NUMBER, WHO DULY ACKNOWLEDGED TO ME THAT_____ SIGNED IT FREELY AND VOLUNTARILY AND FOR THE USES AND PURPOSES THEREIN MENTIONED.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC
RESIDING IN DAVIS COUNTY

WHITE SUBDIVISION

LOCATED IN THE SOUTHWEST QUARTER OF SECTION 1,
TOWNSHIP 4 NORTH, RANGE 2 WEST, S.L.B.&M.,
CLEARFIELD CITY, DAVIS COUNTY, UTAH

PINNACLE
Engineering & Land Surveying, Inc.
2720 North 350 West, Suite #108
LAYTON, UT 84041
Phone: (801) 773-1910
Fax: (801) 773-1925

DAVIS COUNTY RECORDER

ENTRY NO._____FEE PAID_____FILED FOR RECORD AND RECORDED THIS _____ DAY OF _____, 20___AT _____ IN BOOK _____ OF OFFICIAL RECORDS PAGE _____

DAVIS COUNTY RECORDER

BY _____
DEPUTY RECORDER

CITY ATTORNEY'S APPROVAL

APPROVED THIS _____ DAY OF _____, 20___, BY THE CLEARFIELD CITY ATTORNEY.

CLEARFIELD CITY ATTORNEY

PLANNING COMMISSION APPROVAL

APPROVED THIS _____ DAY OF _____, 20___, BY THE CLEARFIELD CITY PLANNING COMMISSION.

CLEARFIELD CITY PLANNING COMMISSION

CITY ENGINEER'S APPROVAL

APPROVED THIS _____ DAY OF _____, 20___, BY THE CLEARFIELD CITY ENGINEER.

CLEARFIELD CITY ENGINEER

CITY COUNCIL APPROVAL

APPROVED THIS _____ DAY OF _____, 20___, BY THE CLEARFIELD CITY COUNCIL.

ATTEST:

CLEARFIELD CITY RECORDER

CLEARFIELD CITY MAYOR

15-072

CLEARFIELD CITY ORDINANCE 2016-02

AN ORDINANCE AMENDING TITLE 11 OF THE CLEARFIELD CITY CODE PERTAINING TO PAWN SHOPS

PREAMBLE: This Ordinance amends Title 11, Chapter 13 of the Clearfield City Code addressing pawn shops.

BE IT ORDAINED BY THE CLEARFIELD CITY COUNCIL:

Section 1. Enactment:

Title 11, Chapter 13 of the Clearfield City Code is hereby amended by adding Section 35 to read as follows:

11-13-35: PAWN SHOP AND SECONDHAND BUSINESSES

A. Pawn and Secondhand Businesses:

1. No pawn or secondhand business shall be located within one mile (5,280 feet) of any other pawn or secondhand business. The distance shall be measured in a straight line between the closest property lines of the lots upon which they are located.
2. A pawn or secondhand business shall not be located within eight hundred eighty feet (880') from any non-depository lending establishment.

Section 2. Repealer: Any provision or ordinances that are in conflict with this ordinance are hereby repealed.

Section 3. Effective Date: These amendments shall become effective immediately upon passage and posted as prescribed by law.

Passed and adopted by the Clearfield City Council this 23rd day of February, 2016.

CLEARFIELD CITY CORPORATION

_____

Mark R. Shepherd, Mayor

ATTEST:

_____

Nancy R. Dean, City Recorder

VOTE OF THE COUNCIL

AYE:

NAY:

Staff Report

To: Mayor Shepherd and City Council Members

From: JJ Allen, Assistant City Manager

Date: February 17, 2016

Re: 4th of July Entertainment Contract

I. RECOMMENDED ACTION

Approve the performance contract with Alex Boyé for the 2016 4th of July celebration, and authorize the Mayor's signature to any necessary documents.

II. DESCRIPTION / BACKGROUND

Clearfield's 4th of July celebration is an annual highlight for the community. Over the years, we've enjoyed some great concerts, and for 2016 we're excited to bring in Alex Boyé. With his "Africanized" pop music, Alex is a rising YouTube star. He competed in Season 10 of *America's Got Talent,* and also sang for several years with the Mormon Tabernacle Choir. Under the proposed performance contract, Alex will perform for nearly two hours, leading up to the fireworks show.

The City Attorney has reviewed the performance contract and revised it to address the concerns of the City.

III. FISCAL IMPACT

The fee for the performance is $25,000 and will require an amendment to the FY16 budget. The hope is to receive donations sufficient to offset a large portion of this expense. Those fundraising efforts are underway, but their success cannot be guaranteed.

IV. SCHEDULE / TIME CONSTRAINTS

Alex Boyé will not guarantee the performance date until the contract is approved and the initial 50% deposit is received. Since he does have other offers for the 4th of July, it is in the City's interest to get him under contract sooner than later.

V. LIST OF ATTACHMENTS

- Alex Boyé Performance Contract

BOYE CENTRAL, LLC CONTRACT #1002

Alex Boye Performance Contract

THIS PERFORMANCE CONTRACT is entered into on the date reflected on the signature page below, by and between CLEARFIELD CITY (hereinafter referred to as the "Buyer") and BOYE CENTRAL, LLC (hereinafter referred to as "Alex Boye") to provide a performance at the event known as the Clearfield City Fourth of July Celebration in a manner consistent with the terms and conditions as set forth below.

WHEREAS, Buyer conducts the event known as the Clearfield City Fourth of July Celebration; and

WHEREAS, Buyer desires to hire Alex Boye, as an independent contractor, to provide the entertainment, generally described below as the "performance" at the Clearfield City Fourth of July Celebration; and

WHEREAS, Alex Boye desires to provide such performance at the Clearfield City Fourth of July Celebration;

NOW THEREFORE AND IN CONSIDERATION of the mutual promises set forth herein, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Buyer hereby engages Alex Boye to provide a performance at the Clearfield City Fourth of July Celebration upon the following terms:

1) Date of Performance: July 4, 2016

2) Place of Performance: Fisher Park Entertainment Stage

3) Buyer Name and Contact Information:

Clearfield City Corporation
55 S. State Street
Clearfield Utah 84015

City Contacts:	Nancy Dean, City Recorder
Office:	801.525.2714
Email:	nancy.dean@clearfieldcity.org

4) On-Site Contact/Event Planner and Contact Information:

City Contact:	Marliss Scott – PR/Marketing/Special Events,
Office:	801.525.2796
Cell:	801.510.0115
Email:	mscott@clearfieldcity.org

5) Alex Boye Contact/Authorized Agent:

Contact:	Sasha Simmons, Authorized Agent for Alex Boye
Telephone:	801-414-3932
Email:	sasha4alexboye@gmail.com

6) Load-in and set up time:

A) Buyer will make available and provide access to the performance stage and set up area for Alex Boye beginning at 3:00 p.m. on that date of the performance for the purpose of load-in and set up.

B) Buyer will arrange for load-in to occur at the closest doorway or point of access to the performance area and will allow up to five (5) vehicles to be permitted to remain parked within the loading area.

C) Alex Boye acknowledges and affirms that the Buyer's making of the stage area available for load-in and set up at 3:00 p.m. on the date of the performance is acceptable and will afford Alex Boye the time necessary to load-in and set up.

7) Sound check must be completed by: Buyer will make available and provide access to and support related to sound check equipment for Alex Boye at 3:00 p.m. on the date of the performance. Alex Boye agrees to begin the sound check and will complete all necessary sound checks by 5:30 p.m. on that date of the performance.

8) Time of Performance: Alex Boye acknowledges and affirms that the anticipated start time for the performance is 8:00 p.m., with an estimated end time of 9:55 p.m. Both Buyer and Alex Boye recognize that slight variations in the start and end time are likely to occur, and that both parties acknowledge and affirm that a total time of performance will be as close as reasonably possible to one hour and fifty-five minutes.

9) Performance Fee: $25,000.00

A) Buyer acknowledges and affirms that a *non-refundable* deposit of $12,500.00 must be sent **immediately**, which shall be defined as within 24 hours of execution of this Agreement, to hold the date of July 4, 2106.

B) Buyer acknowledges and affirms that Buyer will send the non-refundable deposit described above by certified mail to ensure tracking capability.

C) Buyer acknowledges and affirms that the balance of $12,500.00 is due **15 days prior** to date of performance.

D) Alex Boye provides Buyer with the following information relative to ensuring payment of Performance fee:

i. Buyer will make all checks payable to:
Boye Central, LLC
1876 Arborfield Circle, Sandy, Utah 84092

ii. Wire transfer information:
America First Credit Union
Routing Number: 324377516
Account Number: 7750847

10) Breaks: Neither the Buyer or Alex Boye anticipate a break in the performance, with the exception of industry standard breaks within the set list of songs.

11) Hospitality: Buyer shall provide:

A) **Water**: (12) 12-ounce water bottles placed ON STAGE for exclusive use of Alex Boye during set up and performance.

B) **Green Room:** The City will provide a private room within the Clearfield Aquatic & Fitness Center located approximately 300 yards northwest from the back of the stage.

C) **Dinner/Food:** Buyer will make available a 6:00 p.m. reservation for Alex Boye and four (4) additional guests at a private V.I.P. dinner table that is anticipated to include selected military officers and distinguished guests.

In lieu of joining the selected military officers and distinguished guests at 6:00 p.m. at the V.I.P. dinner table, and with notice provided to Marliss Scott at the cell phone number provide in paragraph 4 above by 5:00 p.m. on the date of the performance, Buyer will deliver hot meals on the evening of the performance for five (5) adults, suitable for the venue, served one hour prior to Alex Boye taking the stage.

D) **Parking:** Buyer will provide a single reserved parking stall for Mr. Boye.

12) Technical Requirements:

A) Alex Boye shall provide:

1) All instruments and backline necessary for the performance.

B) Buyer shall provide:

1) Power: (10) 20 amp circuits, near stage, for exclusive use of Alex Boye, at no charge to Alex Boye.

2) Stage: A 16 x 24 stage (or larger) at least 2 feet tall. Stage must be locked down and sturdy, and seams must be covered with gaff tape.

3) A floor plan of the performance area showing stage location and room setup. Ceiling height and square footage must be listed, and power source locations identified.

4) Buyer acknowledges and affirms that Buyer will provide an LED Video Screen measuring at least eight (8) feet by fifteen (15) feet in size.

13) Hotel: Alex Boye acknowledges and affirms that Buyer will not pay for any related hotel expenses.

14) Travel Expenses: Alex Boye acknowledges and affirms that Buyer will not pay for any related travel expenses.

15) Venue, Performance, and Music Licensing:

A) Buyer acknowledges and affirms that Buyer has or will have obtained all necessary performance licenses necessary for this performance, and hereby agrees to indemnify and hold harmless BOYE CENTRAL LLC and Alex Boye, against all liability, loss, damages, claims, and expenses (including attorney's fees) arising out of any claim based on Buyer's obligation to obtain all necessary performance licenses for this performance.

B) Alex Boye represents and warrants that he is knowledgeable about the copyright laws of the United States as applicable to the Performance, and that Alex Boye shall not perform any copyrighted materials of others during

Performance without full compliance with such applicable copyright laws. In the event that Alex Boye breaches this representation, warranty and covenant, Alex Boye hereby agrees to indemnify and hold harmless Buyer and its employees, guests and agents from and against all liability, loss, damages, claims, and expenses (including attorney's fees) arising out of such breach.

16) Special Songs and Set List: Buyer acknowledges and affirms that because the Alex Boye custom arrangements and medleys are unique, crowd-tested, and are part of the Alex Boye show experience, Alex Boye reserves the right to select the set list from his large repertoire.

17) Cancellation:

A) Buyer acknowledges and affirms that the deposit is **non-refundable**, as more fully set forth above, in paragraph 9.

B) Buyer acknowledges and affirms that if Buyer cancels the performance for any reason not included in paragraph 18 below, Buyer shall pay Alex Boye any remaining amount owing in the total performance fee of $25,000.00 described in paragraph 9 above by the performance date as complete and total liquidated damages.

C) Alex Boye acknowledges and affirms that if Alex Boye cancels the performance for any reason not included in paragraph 18 below, Alex Boye will immediately notify the City representative listed in paragraph 3 above, and return all money received from Buyer within 10 days of Alex Boye's notice of cancellation.

18) Force Majeure: Either party shall be excused for non-performance due to accidents, riots, strikes, epidemics, terrorism, acts of God, or any other large-scale, legitimate condition beyond the control of the affected party or that places either Buyer or Alex Boye at risk of injury. Alex Boye and Buyer agree to renegotiate this contract to their

mutual satisfaction in the event that force majeure conditions prevent the performance on the original dates.

19) Weather: This is a rain or shine performance. Except as for provided in paragraph 18, Alex Boye affirms that he will perform regardless of the weather conditions.

20) Pyrotechnic or pyrotechnic devices: Pyrotechnic or pyrotechnic devices of any kind are strictly prohibited by the City. Use of any such devices during the performance shall be deemed a material breach of this Agreement and is grounds for nonpayment pursuant to this Agreement.

21) Insurance: Buyer warrants and represents that they have, or shall obtain, sufficient personal injury and property damage liability insurance with respect to Buyer's liabilities that may arise from the Clearfield City Fourth of July Celebration.

22) Indemnification:

A) Notwithstanding the availability and policy limits of any insurance, Alex Boye shall defend, indemnify and hold harmless the City and its elected officials, officers, agents, representatives and employees ("City's Indemnified Parties") against any claims made or legal actions brought against any City's Indemnified Party(ies) by any person or entity as a result of injuries, damages, expenses and losses actually or allegedly incurred by such a person or entity ("Liabilities") arising out of or relating to Alex Boye's performance or failure to perform pursuant to this Agreement, except where the Liabilities are the result of the Indemnified Party's own direct and sole negligence. Alex Boye's obligation shall include the cost of the City's Indemnified Party(ies)' defense against such claims or actions. This obligation shall survive the termination, completion or expiration of this Agreement.

B) The City shall defend, indemnify and hold harmless Alex Boye, his representatives, agents or employees ("Alex Boye's Indemnified Parties") against any claims made or legal actions brought against any Indemnified Party(ies) by any person or entity as a result of injuries, damages, expenses and losses actually or allegedly incurred by such a person or entity ("Liabilities") arising out of or relating to the City's performance or failure to perform pursuant to this Agreement, except where the Liabilities are the result of the Alex Boye's Indemnified Party's own direct and sole negligence. The City's obligation shall include the cost of Alex Boye's Indemnified Party(ies)' defense against such claims or actions. This obligation shall survive the termination, completion or expiration of this Agreement.

21) Attorney Fees: If any disputes arise with regards to this event, Alex Boye shall be reimbursed for attorney fees if they are the prevailing party in any legal action that Alex Boye deem necessary.

22) Taxes: Alex Boye is engaged as an independent partnership and shall assume and pay, and hold Buyer harmless therefrom, any and all anticipated taxes, including, but not limited to, Utah income tax withholding, FICA withholding, workers compensation withholding and federal and state unemployment insurance, and will comply with all reporting requirements in connection therewith.

23) Merchandising: Alex Boye shall, during the day of the performance, be allowed to sell any goods, products, and merchandise within Fisher Park. Alex Boye will retain 100% of all gross sales of any goods, products, and merchandise sold.

24) Promotion:

A) Buyer and Alex Boye agree that promotion of the performance is in the best interest of both parties.

B) Buyer and Alex Boye shall be entitled to advertise and promote the appearance of Alex Boye and the Performance.

C) Buyer and Alex Boye agree to provide, within reason, marketing support materials, logos, brand images, videos, and sound bites to each other upon request.

D) Buyer and Alex Boye acknowledge that each party will rely on the terms hereof in all such promotions, advertising, and the release of information containing the names, dates and time of the Clearfield City Fourth of July Celebration and the performance of Alex Boye through verbal, written print, or electronic means.

E) Buyer and Alex Boye acknowledge and agree that the parties may use their name, photographs, likeness, logos, and any other promotional materials in all such promotions, advertising or other activities used to increase attendance at the Clearfield City Fourth of July Celebration.

F) *Notice of Promotion:* Buyer and Alex Boye agree to notify the other party to the best of their ability when either party uses the others name, photographs, likeness, or logos, in promotional materials. Each party will be respectful of the wishes of the other party if a concern is expressed by either party regarding the use of the name, photographs, likeness, or logos of the other in any promotional material.

25) General: This agreement will be governed and construed in accordance with the laws of the State of Utah. This agreement constitutes the entire agreement between the Parties.

BOYE CENTRAL, LLC CONTRACT #1002

I have read and agree to all terms as written in this Agreement, dated this ___ day of February, 2016.

Buyer :

By_____
(signature)

_____
(printed name)

_____
(date of signature)

Alex Boye:

By_____
(signature)

_____
(printed name)

_____
(date of signature)

CLEARFIELD CITY RESOLUTION 2016R-06

A RESOLUTION APPROVING AN INTERLOCAL COOPERATIVE AGREEMENT BETWEEN LAYTON CITY AND CLEARFIELD CITY CULINARY WATER AND STORM WATER DRAINAGE UTILTIY SERVICES FOR NEW LAYTON BUILDING (1700 NORTH 2200 WEST, LAYTON, UT)

WHEREAS, Layton has a proposed development known as Layton Farms Storage located at approximately 1576 North 2200 West, Layton, which is contiguous to the common boundary with Clearfield; and

WHEREAS, Layton does not have all the necessary utilities readily available to the development, namely culinary water; and

WHEREAS, Layton and Clearfield are desirous of cooperating in providing necessary utilities along and near the common boundaries; and

WHEREAS, because of the availability of culinary water facilities, it is more economical and convenient for the property located in Layton to be serviced through Clearfield rather than Layton at the present time, and it is not expedient for Layton to develop these utilities at this time; and

WHEREAS, an Interlocal Cooperation Agreement is necessary to govern the terms and conditions under which Clearfield will provide the maintenance and oversight of said utilities; and

WHEREAS, the Clearfield City Council has reviewed the attached Interlocal Cooperation Agreement and finds that it is able to cooperate with Layton to provide said utilities.

NOW THEREFORE BE IT RESOLVED, by the Clearfield City Council, that the attached Interlocal Cooperation Agreement is approved and the Mayor is hereby authorized to execute the agreement.

DATED this 23rd day of February, 2016.

CLEARFIELD CITY CORPORATION

_____

Mark R. Shepherd, Mayor

ATTEST:

_____

Nancy R. Dean, City Recorder

VOTE OF THE COUNCIL

AYE:

NAY:

City Council
STAFF REPORT

TO: **Mayor Shepherd, City Council, and Executive Staff**

FROM: **Spencer W. Brimley**
Development Services Manager
Spencer.Brimley@clearfieldcity.org (801) 525-2785

MEETING DATE: **February 23, 2016**

SUBJECT: Discussion and Possible Action on:

Interlocal Cooperative Agreement for a utility service for culinary water to be provided to the Layton Farms storage facility, located at approximately 1576 North 2200 West, in Layton Utah.

RECOMMENDATIONS

Approve the interlocal copperative agreement with Layton and Clearfield City for the purpose of providing culinary water to a storage facility located in Layton. Culinary water will be provided until Layton City's water system is available to serve the property.

PROJECT SUMMARY

Project Information	
Project Name	Layton Farms, Storage Facility
Site Location	1576 North 2200 West
Tax ID Number	10-041-0026
Applicant	Layton City, Ashley Thoman
Owner	Chris Loock, Developer
Proposed Actions	Approve Interlocal Cooperative Agreement with Layton City for culinary water
Current Zoning	No zoning (Layton City)
Land Use Classification	N/A
Site Acreage	8.02 acres

Layton City vicinity map

ANALYSIS

Background

A request from Layton City in 2014 was for culinary water service for a proposed development in Layton, to be known as Layton Farms Storage. The property is located at approximately 1500 North 2200 West in Layton, on the eastern boundary of Clearfield City. The property is approximately 8.02 acres in size and sits adjacent to a C-2 (commercial) zoning district, and R-1-8 (residential) zoning district and an R-1-0 (residential) zoning district. Clearfield City has received a request to provide culinary water to this property until such time as Layton City's water system can provide the service.

The need for Clearfield City to provide water to a project in Layton City requires execution of an agreement between Clearfield City, Layton City, and the developer. Clearfield and Layton have worked together to formulate an agreement that is agreeable to both parties and allows for the development of this facility, with Layton City being required to provide water to this facility at a future date. Staff has provided a copy of the agreement that has been reviewed by Engineering, Legal and the Executive staff. It is the conclusion of staff that the agreement provides control for all parties involved and protection for Clearfield City to provide culinary water service to the property. The interlocal agreement set parameters and requirements for

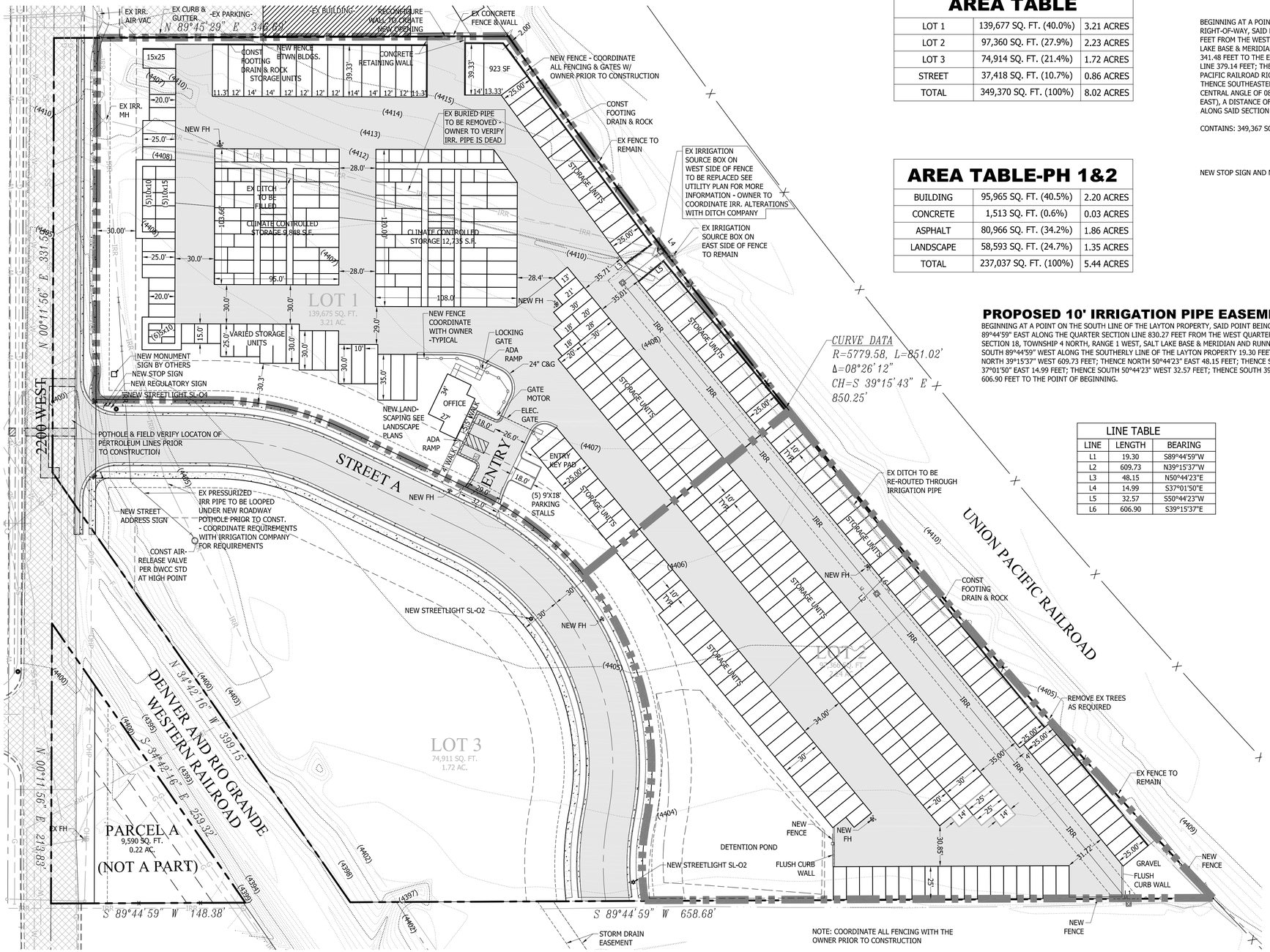
the service to be provided. The agreement is broken down into a few parts for ease in administering the terms of the agreement. Staff has provided a breakdown of each section for reference.

Interlocal Agreement
The agreement is comprised of 4 sections that create the requirements and obligations for the agreement. Each section has additional explanation to provide protection and security for Clearfield City proceeding forward. The following are the sections of the agreement:

1. **Culinary Water Service**
    a. This section discusses the specific requirements for the culinary water connection and provides the basis whereby Layton will provide their own water to this facility, at the time that such water is available.
2. **Fire Protection**
    a. Layton will provide the appropriate fire protection for the property and will determine the placement of hydrants for this purpose.
3. **Future Development**
    a. The agreement for water is specific to the property provided in this report. Clearfield has the right to review any and all expansions and to impose appropriate fees for development, at the expense of the property owner.
4. **Conditions of Utility connection**
    a. Utility service with Clearfield must be established for the site. All site plan requirements from Layton City must be completed prior to CofO being issued.

ATTACHMENTS

1. Site Plan
2. Interlocal Cooperative Agreement



SITE PLAN

AREA TABLE

LOT 1	139,677 SQ. FT. (40.0%)	3.21 ACRES
LOT 2	97,360 SQ. FT. (27.9%)	2.23 ACRES
LOT 3	74,914 SQ. FT. (21.4%)	1.72 ACRES
STREET	37,418 SQ. FT. (10.7%)	0.86 ACRES
TOTAL	349,370 SQ. FT. (100%)	8.02 ACRES

AREA TABLE-PH 1&2

BUILDING	95,965 SQ. FT. (40.5%)	2.20 ACRES
CONCRETE	1,513 SQ. FT. (0.6%)	0.03 ACRES
ASPHALT	80,966 SQ. FT. (34.2%)	1.86 ACRES
LANDSCAPE	58,593 SQ. FT. (24.7%)	1.35 ACRES
TOTAL	237,037 SQ. FT. (100%)	5.44 ACRES

BOUNDARY DESCRIPTION

BEGINNING AT A POINT ON THE EASTERLY LINE OF THE DENVER & RIO GRANDE WESTERN RAILROAD RIGHT-OF-WAY, SAID POINT BEING NORTH 89°44'59" EAST ALONG THE QUARTER SECTION LINE 228.40 FEET FROM THE WEST QUARTER CORNER OF SECTION 18, TOWNSHIP 4 NORTH, RANGE 1 WEST, SALT LAKE BASE & MERIDIAN AND RUNNING THENCE NORTH 34°42'16" WEST ALONG SAID RIGHT-OF-WAY, 341.48 FEET TO THE EAST LINE OF 2200 WEST STREET; THENCE NORTH 00°11'53" EAST ALONG SAID EAST LINE 379.14 FEET; THENCE NORTH 89°45'29" EAST 313.69 FEET TO THE WESTERLY LINE OF THE UNION PACIFIC RAILROAD RIGHT OF WAY AND A POINT IN THE ARC OF A 5779.58 FOOT CURVE TO THE LEFT; THENCE SOUTHEASTERLY ALONG SAID RIGHT OF WAY AND THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 08°26'12" (CENTER BEARS NORTH 54°57'23" EAST, CHORD BEARS SOUTH 39°15'43" EAST), A DISTANCE OF 851.02 FEET TO SAID QUARTER SECTION LINE; THENCE SOUTH 89°44'59" WEST ALONG SAID SECTION LINE 658.68 FEET TO THE POINT OF BEGINNING.

CONTAINS: 349,367 SQ. FT. / 8.02 AC.

NOTE

NEW STOP SIGN AND NEW REGULATORY SIGN TO BE INSTALLED AS DIRECTED BY LAYTON CITY.

PROPOSED 10' IRRIGATION PIPE EASEMENT

BEGINNING AT A POINT ON THE SOUTH LINE OF THE LAYTON PROPERTY, SAID POINT BEING NORTH 89°44'59" EAST ALONG THE QUARTER SECTION LINE 830.27 FEET FROM THE WEST QUARTER CORNER OF SECTION 18, TOWNSHIP 4 NORTH, RANGE 1 WEST, SALT LAKE BASE & MERIDIAN AND RUNNING THENCE SOUTH 89°44'59" WEST ALONG THE SOUTHERLY LINE OF THE LAYTON PROPERTY 19.30 FEET; THENCE NORTH 39°15'37" WEST 609.73 FEET; THENCE NORTH 50°44'23" EAST 48.15 FEET; THENCE SOUTH 37°01'50" EAST 14.99 FEET; THENCE SOUTH 50°44'23" WEST 32.57 FEET; THENCE SOUTH 39°15'37" EAST 606.90 FEET TO THE POINT OF BEGINNING.

LINE TABLE

LINE	LENGTH	BEARING
L1	19.30	S89°44'59"W
L2	609.73	N39°15'37"W
L3	48.15	N50°44'23"E
L4	14.99	S37°01'50"E
L5	32.57	S50°44'23"W
L6	606.90	S39°15'37"E

LEGEND

NOT ALL ITEMS IN THE LEGEND MAY BE APPLICABLE

- BOUNDARY LINE
- CENTERLINE
- SETBACK LINE
- EASEMENT LINE
- EX. IRRIGATION LINE
- EX. LAND DRAIN
- EX. OVERHEAD POWER LINE
- EX. STORM DRAIN
- EX. SANITARY SEWER
- EX. SECONDARY WATERLINE
- EX. TELEPHONE LINE
- EX. GAS LINE
- EX. CULINARY WATERLINE
- EX. FENCE
- P.O.B. POINT OF BEGINNING
- EX. EXISTING
- WV WATER VALVE
- SSMH SANITARY SEWER MANHOLE
- FH FIRE HYDRANT
- SDCB STORM DRAIN CATCH BASIN
- SD BOX STORM DRAIN BOX
- UP UTILITY POLE
- SECTION CORNER
- MONUMENT
- CONTROL POINT
- 4246.11 EX. SPOT ELEVATION
- 4250 EG CONTOUR LINE
- XX.XX TBC ELEVATION
- BAR & CAP OR NAIL & WASHER TO BE SET
- EXISTING ASPHALT

PINNACLE
Engineering & Land Surveying, Inc.
Layton • West Bountiful • Mount Pleasant • St. George
2720 North 350 West, Suite #108
Layton, UT 84041
Phone: (801) 773-1910
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LAYTON FARM
SITE PLAN
FOR: CHRIS LOOCK
1500 NORTH 2200 WEST
LAYTON, UT
13-078

LICENSED PROFESSIONAL ENGINEER 343593 STEPHEN P. BOTT 12/21/15 UTAH

REVISION	BY	DATE
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R9		

SURVEYED BY ENS/CGN
DESIGNED BY SPB/SD 01/07/16
DRAWN BY SPB/SD 01/07/16
APPROVED BY SJF

CALL BLUESTAKES
1-800-662-4111
AT LEAST 48 HOURS BEFORE DIGGING

SHEET 6 OF 27

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INTERLOCAL COOPERATIVE AGREEMENT

for

Utility Services at Layton Farms Storage Development

This agreement is entered into this _____ day of _____, 2016, by and between Layton City, a Utah municipal corporation (hereafter referred to as "Layton"), and Clearfield City, a Utah municipal corporation (hereafter referred to as "Clearfield").

WHEREAS, Layton has a proposed development known as Layton Farms Storage located at approximately 1576 North 2200 West, Layton, UT, and bearing Davis County Tax ID# 10-041-0026 (hereafter referred to as the "Property"), which is contiguous to its common boundary with Clearfield; and

WHEREAS, Layton does not have all the necessary utilities readily available to the Property, namely culinary water, and Clearfield has agreed that they will provide this utility to the Property under the terms and conditions enumerated herein; and

WHEREAS, Layton and Clearfield are desirous of cooperating in providing necessary utilities along and near the common boundaries; and

WHEREAS, because of the availability of culinary water facilities, it is more economical and convenient for the Property located in Layton to be serviced through Clearfield rather than Layton at the present time, and it is not expedient for Layton to develop these utilities at this time; and

WHEREAS, pursuant to the authority and provisions of the Interlocal Cooperation Act, Title 11, Chapter 13 of the Utah Code Annotated, Layton and Clearfield are willing to cooperate in planning for and implementing a method for efficiently providing culinary water services, and provide for the maintenance and oversight of said utilities.

NOW, THEREFORE, the parties hereby agree as follows:

1. **Culinary Water Service.** Layton Farms Storage, located at 1576 North 2200 West, and as shown on Exhibit "A" (parcel ID no. 10-041-0026) will be allowed by Clearfield to connect to Clearfield's culinary water system for the purpose of providing domestic water service for the Property, which includes water for fire protection. The water shall be metered as required by Clearfield and the costs thereof[1] shall be paid to Clearfield by the Property's owner. The developer's Engineer and Layton City will determine the size requirements of the culinary water service line so as to provide the necessary volume of water for the domestic service as well as fire protection; however those determinations shall be subject to the review and final approval by Clearfield City (including but not limited to the size and location of said connections).

---

1 Layton and the owner of the Property have been notified that Clearfield is currently considering and may soon enact legislation which would impose higher utility rates for services provided to properties not located within Clearfield's boundaries, which the Property here would be subject to.

At the time of connection, the property owner is responsible to pay Clearfield for the cost of the water meter as well as for culinary water impact fees[2], and will continue to be responsible for the payment of Clearfield City's monthly culinary water utility fees.

If it is determined that culinary water system improvements are necessary to provide adequate domestic and fire service, the costs of those improvements shall be at the expense of the Property's owner and not Layton or Clearfield. Clearfield may also require that any fire lines be metered. Clearfield will exercise its same standard of care for the maintenance of its facilities servicing this property.

At the time when Layton's culinary water service becomes available to the Property, the Property's owner(s), at their own expense, shall connect to Layton's culinary water system and disconnect from Clearfield's system. Prior to Layton providing any water to the Property, Clearfield shall be notified and allowed to inspect the disconnection from its system before any backfilling takes place in order to verify whether the Property's owner has appropriately performed its responsibility to disconnect and cap the connection to Clearfield's system.

2. **Fire Protection.** Layton shall provide fire protection for the property. Therefore, the Layton City Fire Department shall determine the placement of all fire hydrants on the site. Layton City Fire shall also determine the required fire flow for the development. Clearfield will evaluate their system's capacity to deliver the required fire flow by use of computer model. The necessary on-site fire flow testing will be conducted by a licensed engineer and all costs associated with any testing, evaluation, or system improvements necessary to provide the required flow shall be at the expense of the Property's owner.

3. **Future Development.** Connection of utility services is limited to the parcel identified on Exhibit "A" only. Clearfield City reserves the right for site plan review of all additional phases at time of development, to ensure the utility services will be sufficient to serve additional phases. Should the additional phases of development cause an increase in services to the extent that system upgrades are required (as determined by Clearfield) to accommodate the proposal, any such improvements shall be at the property owner's expense and the anticipated increase in demand shall be subject to Clearfield's impact fees then in effect.

4. **Conditions for Utility Connection.** Prior to utility connection, all application, project review, and impact fees shall be paid in full and the property owner must establish an account for utility services with Clearfield. Additionally, fencing as shown on construction documents, including the approved site plan, shall be installed prior to Layton issuing a certificate of occupancy for the building.

2 Current estimates are approximately $265 for the meter and $9,556 in impact fees based upon a one inch meter (a larger meter, service line or other necessary improvements could result in higher fees).

5. **Terms.** This Agreement shall remain in effect for Fifty (50) years. It may be modified at any time by written agreement of the parties. This Agreement may be renewed at any time upon written agreement by the parties.

Executed on the day and date above.

LAYTON CITY	CLEARFIELD CITY
_____	_____
Mayor	Mayor
ATTEST:	ATTEST:
_____	_____
_____	_____
Reviewed and approved as to proper form and compliance with applicable law.	Reviewed and approved as to proper form and compliance with applicable law.
_____	_____
City Attorney	City Attorney

CLEARFIELD CITY RESOLUTION 2016R-07

A RESOLUTION EXPRESSING CLEARFIELD CITY'S SUPPORT OF LEGISLATION TO TAX AND REGULATE ELECTRONIC CIGARETTES

WHEREAS, Electronic Nicotine Delivery Systems (ENDS), also known as Electronic Cigarettes (E-Cigarettes), vapes, or vape pens, typically contain nicotine, a highly addictive substance; and,

WHEREAS, nicotine has immediate bio-chemical effects on the brain and body, is toxic in concentrated doses, and has been known to affect the youth brain disproportionately; and,

WHEREAS, the FDA has found that the inhaled and second-hand vapor created by ENDS contain a number of chemical compounds which are suspected of being harmful to humans; and,

WHEREAS, from 2013 to 2015, the percentage of 8th to 12th graders in Utah using ENDS has nearly doubled; with 10.2% of surveyed students (22,000) reporting being regular users of these products; and,

WHEREAS, youth are actively targeted to acquire and use ENDS through flavoring and colors in ENDS liquids and advertising with celebrities and music that are appealing to youth; and,

WHEREAS, there are currently no federal or state regulations that prevent advertising of ENDS to minors; and,

WHEREAS, in Utah, ENDS liquids containing nicotine are not taxed as a tobacco product, even though the nicotine contained in ENDS liquids is derived from tobacco; and,

WHEREAS, ENDS liquids are inexpensive and affordable for youth; and,

WHEREAS, the sale via the Internet of ENDS liquids containing nicotine to non-licensed persons is not prohibited in Utah, as is the sale of all other tobacco products; and,

WHEREAS, studies indicate that absent statutes prohibiting the sales of ENDS liquids containing nicotine on the Internet, online vendors regularly sell those liquids to teens age 14 to 17; and,

WHEREAS, research indicates that in Utah the Internet is a highly popular means through which youth acquire ENDS liquid; and,

WHEREAS, State Statute will protect youth from the use of and exposure to Electronic Nicotine Delivery Systems (Electronic Cigarettes) if it provides the following stipulations: a) advertising restrictions that limit the means by which ENDS mechanisms and liquids can be advertised; b) taxation of ENDS liquids containing nicotine at the same level as the tax on other

tobacco products, which will increase their price and deter youth from purchasing those liquids; and c) prohibition of the Internet sale of ENDS liquid containing nicotine to unlicensed persons, which will deter the sale of those liquids to youth by Internet vendors;

NOW THEREFORE BE IT RESOLVED by the Clearfield City Council that it will support legislation during the 2016 Legislative Session which will include the aforementioned stipulations to protect youth and urge State Legislators to do the same with their vote in favor of such legislation.

Passed and adopted by the City Council at its regular meeting on the 23rd day of February, 2016.

ATTEST	CLEARFIELD CITY CORPORATION
_____	_____
Nancy R. Dean, City Recorder	Mark R. Shepherd, Mayor

VOTE OF THE COUNCIL

AYE:

NAY:

LEGISLATIVE GENERAL COUNSEL
₵ Approved for Filing: P. Owen ₵
₵ 02-11-16 12:14 PM ₵

ELECTRONIC CIGARETTE PRODUCTS, NICOTINE INHALERS, AND RELATED REVENUE AMENDMENTS

2016 GENERAL SESSION

STATE OF UTAH

Chief Sponsor: Paul Ray

Senate Sponsor: _____

LONG TITLE

General Description:

This bill modifies provisions related to the regulation and taxation of electronic cigarette products and nicotine inhalers and how related revenues are to be spent.

Highlighted Provisions:

This bill:

- creates the Rural Health Care Access Restricted Account funded primarily from revenues from the taxation of electronic cigarette products and nicotine inhalers;
- creates a pilot project funded from the Rural Health Care Access Restricted Account;
- modifies definition provisions;
- modifies invoice requirements;
- addresses licensing issues;
- imposes a tax on certain electronic cigarette products and nicotine inhalers;
- creates the Electronic Cigarette Product and Nicotine Inhaler Restricted Account;
- addresses deposit and use of revenues from the taxation of electronic cigarette products and substances and nicotine inhalers;
- includes electronic cigarette products as tobacco paraphernalia;
- provides a repeal date for the Rural Health Care Access Restricted Account and pilot project; and

H.B. 333

28 ▸ makes technical changes.
29 **Money Appropriated in this Bill:**
30 None
31 **Other Special Clauses:**
32 This bill provides a special effective date.
33 **Utah Code Sections Affected:**
34 AMENDS:
35 **59-14-102**, as last amended by Laws of Utah 2013, Chapter 148
36 **59-14-403**, as renumbered and amended by Laws of Utah 1987, Chapters 2 and 3
37 **59-14-801**, as enacted by Laws of Utah 2015, Chapter 132
38 **59-14-802**, as enacted by Laws of Utah 2015, Chapter 132
39 **59-14-803**, as enacted by Laws of Utah 2015, Chapter 132
40 **63I-2-226**, as last amended by Laws of Utah 2009, Chapter 334
41 **76-10-104.1**, as last amended by Laws of Utah 2013, Chapter 278
42 ENACTS:
43 **26-9-6**, Utah Code Annotated 1953
44 **59-14-804**, Utah Code Annotated 1953
45
46 *Be it enacted by the Legislature of the state of Utah:*
47 Section 1. Section **26-9-6** is enacted to read:
48 **26-9-6. Rural Health Care Access Restricted Account -- Pilot project.**
49 (1) As used in this section:
50 (a) "Public school" means:
51 (i) a school, including a charter school, that:
52 (A) is directly funded at public expense; and
53 (B) provides education to qualifying children for any grade from grade 1 through grade
54 12; or
55 (ii) a school, including a charter school, that provides:
56 (A) preschool or kindergarten to qualifying children, regardless of whether the
57 preschool or kindergarten is funded at public expense; and
58 (B) education to qualifying children for any grade from grade 1 through grade 12, if

59 each grade, from grade 1 to grade 12, that is provided at the school, is directly funded at public
60 expense.
61 (b) "Restricted account" means the Rural Health Care Access Restricted Account
62 created in Subsection (2).
63 (2) There is created a restricted account within the General Fund known as the "Rural
64 Health Care Access Restricted Account."
65 (3) (a) The restricted account shall be funded by:
66 (i) deposits into the restricted account made under Section 59-14-804;
67 (ii) appropriations of the Legislature; and
68 (iii) other contributions to the restricted account.
69 (b) Interest earned on the restricted account shall be deposited into the General Fund.
70 (4) From money appropriated by the Legislature, the department shall administer the
71 restricted account to fund the pilot project created under Subsection (5).
72 (5) (a) The department shall administer a pilot project that shall begin July 1, 2016, and
73 end June 30, 2019.
74 (b) Under the pilot project, the department shall expend money from the restricted
75 account to fund the cost, at schools designated by the State Board of Education as being located
76 in rural areas where access to health care is limited, of at least three school nurses or athletic
77 trainers who:
78 (i) are licensed under:
79 (A) Title 58, Chapter 31b, Nurse Practice Act; or
80 (B) Title 58, Chapter 40a, Athletic Trainer Licensing Act;
81 (ii) are employed at a public school; or
82 (iii) provide physical and mental health services to students at the public school and to
83 the community, including veterans, through face-to-face contact or telehealth services provided
84 through the Utah Education and Telehealth Network, created in Section 53B-17-105.
85 Section 2. Section **59-14-102** is amended to read:
86 **59-14-102. Definitions.**
87 As used in this chapter:
88 (1) "Cigarette" means a roll for smoking made wholly or in part of tobacco:
89 (a) regardless of:

90 (i) the size of the roll;
91 (ii) the shape of the roll; or
92 (iii) whether the tobacco is:
93 (A) flavored;
94 (B) adulterated; or
95 (C) mixed with any other ingredient; and
96 (b) if the wrapper or cover of the roll is made of paper or any other substance or
97 material except tobacco.
98 (2) "Cigarette rolling machine" means a device or machine that has the capability to
99 produce at least 150 cigarettes in less than 30 minutes.
100 (3) "Cigarette rolling machine operator" means a person who:
101 (a) (i) controls, leases, owns, possesses, or otherwise has available for use a cigarette
102 rolling machine; and
103 (ii) makes the cigarette rolling machine available for use by another person to produce
104 a cigarette; or
105 (b) offers for sale, at retail, a cigarette produced from the cigarette rolling machine.
106 (4) "Consumer" means a person that is not required:
107 (a) under Section 59-14-201 to obtain a license under Section 59-14-202; or
108 (b) under Section 59-14-301 to obtain a license under Section 59-14-202.
109 (5) "Counterfeit cigarette" means:
110 (a) a cigarette that has a false manufacturing label; or
111 (b) a package of cigarettes bearing a counterfeit tax stamp.
112 (6) "Importer" means a person who imports into the United States, either directly or
113 indirectly, a finished cigarette for sale or distribution.
114 (7) "Indian tribal entity" means a federally recognized Indian tribe, tribal entity, or any
115 other person doing business as a distributor or retailer of cigarettes on tribal lands located in the
116 state.
117 (8) "Little cigar" means a roll for smoking:
118 (a) made wholly or in part of tobacco;
119 (b) that uses an integrated cellulose acetate filter or other similar filter; and
120 (c) that is wrapped in a substance:

121 (i) containing tobacco; and
122 (ii) that is not exclusively natural leaf tobacco.
123 (9) (a) Except as provided in Subsection (9)(b), "manufacturer" means a person who
124 manufactures, fabricates, assembles, processes, or labels a finished cigarette.
125 (b) "Manufacturer" does not include a cigarette rolling machine operator.
126 (10) "Moist snuff" means tobacco that:
127 (a) is finely:
128 (i) cut;
129 (ii) ground; or
130 (iii) powdered;
131 (b) has at least 45% moisture content, as determined by the commission by rule made
132 in accordance with Title 63G, Chapter 3, Utah Administrative Rulemaking Act;
133 (c) is not intended to be:
134 (i) smoked; or
135 (ii) placed in the nasal cavity; and
136 (d) except for single-use pouches of loose tobacco, is not packaged, produced, sold, or
137 distributed in single-use units, including:
138 (i) tablets;
139 (ii) lozenges;
140 (iii) strips;
141 (iv) sticks; or
142 (v) packages containing multiple single-use units.
143 (11) "Nicotine" means a poisonous volatile alkaloid derived from tobacco.
144 (12) "Nontherapeutic nicotine inhaler" means a nicotine inhaler that is not approved for
145 nicotine replacement therapy by the United States Food and Drug Administration.
146 [~~(11)~~] (13) "Retailer" means a person that:
147 (a) sells or distributes a cigarette to a consumer in the state; or
148 (b) intends to sell or distribute a cigarette to a consumer in the state.
149 [~~(12)~~] (14) "Stamp" means the indicia required to be placed on a cigarette package that
150 evidences payment of the tax on cigarettes required by Section 59-14-205.
151 [~~(13)~~] (15) (a) "Tobacco product" means a product made of, or containing, tobacco.

152 (b) "Tobacco product" includes:
153 (i) a cigarette produced from a cigarette rolling machine;
154 (ii) a little cigar; or
155 (iii) moist snuff.
156 (c) "Tobacco product" does not include a cigarette.
157 [~~(14)~~] (16) "Tribal lands" means land held by the United States in trust for a federally
158 recognized Indian tribe.
159 Section 3. Section **59-14-403** is amended to read:
160 **59-14-403. Duplicate invoice requirements -- Failure to comply -- Penalties.**
161 [~~All persons~~] A person dealing in taxable cigarettes [~~or~~], tobacco products, electronic
162 cigarette products as defined in Section 59-14-802, or nontherapeutic nicotine inhalers who
163 [~~purchase or receive~~] purchases or receives these commodities from outside the state, whether
164 the product is delivered through a wholesaler or distributor in this state, or by drop shipment or
165 otherwise, shall mail or deliver a duplicate invoice of all those purchases or receipts to the
166 commission within 10 days after receipt of the commodities if requested by the commission.
167 Failure to furnish duplicate invoices or receipts as requested is subject to the penalties provided
168 under Section 59-1-401.
169 Section 4. Section **59-14-801** is amended to read:
170 **Part 8. Electronic Cigarette Products and Nicotine Inhaler Licensing and Taxation Act**
171 **59-14-801. Title.**
172 This part is known as the "Electronic Cigarette Products and Nicotine Inhaler Licensing
173 and Taxation Act."
174 Section 5. Section **59-14-802** is amended to read:
175 **59-14-802. Definitions.**
176 As used in this part:
177 (1) "Cigarette" means the same as that term is defined in Section 59-14-102.
178 (2) (a) "Electronic cigarette" means:
179 (i) an electronic device used to deliver or capable of delivering vapor containing
180 nicotine to an individual's respiratory system;
181 (ii) a component of the device described in Subsection (2)(a)(i); or
182 (iii) an accessory sold in the same package as the device described in Subsection

183 (2)(a)(i).
184 (b) "Electronic cigarette" includes an e-cigarette as defined in Section 26-38-2.
185 (c) "Electronic cigarette" does not include a battery or battery charger that is sold
186 separately from the electronic cigarette.
187 (3) "Electronic cigarette product" means an electronic cigarette or an electronic
188 cigarette substance.
189 (4) "Electronic cigarette substance" means any substance, including liquid containing
190 nicotine, used or intended for use in an electronic cigarette.
191 (5) "Enforcing agency" means the Department of Health, a county health department,
192 or a local health department, when enforcing:
193 (a) Title 26, Chapter 42, Civil Penalties for Tobacco Sales to Underage Persons; or
194 (b) Title 26, Chapter 57, Electronic Cigarette Regulation Act.
195 (6) "Licensee" means a person that holds a valid license to sell electronic cigarette
196 products.
197 (7) "License to sell an electronic cigarette product" means a license issued by the
198 commission under [~~Subsection 59-14-803(3)~~] Section 59-14-803.
199 Section 6. Section **59-14-803** is amended to read:
200 **59-14-803. License to sell an electronic cigarette product or nicotine inhaler.**
201 [~~(1) Except as provided in Subsection (2), a person may not sell, offer to sell, or~~
202 ~~distribute an electronic cigarette product in Utah without first obtaining a license to sell an~~
203 ~~electronic cigarette product from the commission under this section.~~]
204 [~~(2) A person that holds a valid license to sell cigarettes under Section 59-14-201, or a~~
205 ~~person that holds a valid license to sell tobacco products under Section 59-14-301, may,~~
206 ~~without obtaining a separate license to sell an electronic cigarette product under this part, sell,~~
207 ~~offer to sell, or distribute an electronic cigarette product in Utah in accordance with this part.~~]
208 [~~(3) Except as provided in Subsection (6), the commission shall issue a license to sell~~
209 ~~an electronic cigarette product to a person that:~~]
210 [~~(a) submits an application, on a form created by the commission, that includes:~~]
211 [~~(i) the person's name;~~]
212 [~~(ii) the address of the facility where the person will sell an electronic cigarette~~
213 ~~product; and~~]

214 [~~(iii) any other information the commission requires to implement this chapter; and~~]
215 [~~(b) pays a fee:~~]
216 [~~(i) in the amount of $30; or~~]
217 [~~(ii) if renewing the person's license, in the amount of $20.~~]
218 [~~(4) A license described in Subsection (3) is:~~]
219 [~~(a) valid only at one fixed business address;~~]
220 [~~(b) valid for three years;~~]
221 [~~(c) valid only for a physical location; and~~]
222 [~~(d) renewable if a licensee meets the criteria for licensing described in Subsection (3).~~]
223 (1) A manufacturer or distributor of an electronic cigarette product or nontherapeutic
224 inhaler, who is responsible for the collection of tax on an electronic cigarette product or
225 nontherapeutic inhaler under this chapter, and a retailer of an electronic cigarette product or
226 nontherapeutic inhaler:
227 (a) shall register with the commission;
228 (b) shall be licensed by the commission under Part 2, Cigarettes; and
229 (c) is subject to the requirements, procedures, and penalties described in Part 2,
230 Cigarettes.
231 (2) A fee may not be charged for registration and licensing of a manufacturer, jobber,
232 distributor, or retailer of an electronic cigarette product or nontherapeutic inhaler in addition to
233 the cigarette license if such a license is required.
234 (3) The commission shall require any manufacturer, wholesaler, retailer, or any other
235 person subject to this section, and who is responsible for the collection of tax on an electronic
236 cigarette product or nontherapeutic inhaler under this chapter, to post a bond as a prerequisite
237 to registering. The bond shall be in a form and an amount determined by the commission. If
238 the bond is required under Section 59-14-201, the bond may be a combination, the minimum
239 amount of which shall be $1,000.
240 [~~(5)~~] (4) The commission shall, after notifying a licensee, revoke a license described in
241 Subsection [~~(3)~~] (1) if an enforcing agency determines the licensee has violated a provision of:
242 (a) Title 26, Chapter 42, Civil Penalties for Tobacco Sales to Underage Persons; or
243 (b) Title 26, Chapter 57, Electronic Cigarette Regulation Act.
244 [~~(6)~~] (5) If the commission revokes a person's license to sell an electronic cigarette

245 product or nontherapeutic nicotine inhaler under Subsection [~~(5)~~] (4), the commission may not
246 issue a license to sell an electronic cigarette product or nontherapeutic nicotine inhaler, a
247 license to sell cigarettes under Section 59-14-201, or a license to sell tobacco under Section
248 59-14-301 to the person until one year after:
249 (a) the day on which the time for filing an appeal of the revocation ends, as determined
250 by the enforcing agency; or
251 (b) if the person appeals the enforcing agency's decision to revoke the license to sell an
252 electronic cigarette product, the day on which the enforcing agency's decision to uphold the
253 revocation is final.
254 [~~(7)~~] (6) If the commission revokes a person's license under Subsection [~~(5)~~] (4), the
255 commission shall also revoke the person's license to sell cigarettes under Section 59-14-201, if
256 any, and the person's license to sell tobacco under Section 59-14-301, if any.
257 [~~(8) The commission may make rules in accordance with Title 63G, Chapter 3, Utah~~
258 ~~Administrative Rulemaking Act, to establish the additional information described in~~
259 ~~Subsection (3)(a)(iii) that a person must provide in the application described in Subsection~~
260 ~~(3)(a).~~]
261 [~~(9)~~] (7) It is a class B misdemeanor for a person to violate Subsection (1).
262 Section 7. Section **59-14-804** is enacted to read:
263 **59-14-804. Taxation of electronic cigarette product and nicotine inhalers.**
264 (1) As used in this section:
265 (a) "Manufacturer's sales price" means the amount the manufacturer of an electronic
266 cigarette product or nontherapeutic nicotine inhaler charges after subtracting a discount.
267 (b) "Manufacturer's sales price" includes an original Utah destination freight charge,
268 regardless of:
269 (i) whether the electronic cigarette product or nontherapeutic nicotine inhaler is
270 shipped f.o.b. origin or f.o.b. destination; or
271 (ii) who pays the original Utah destination freight charge.
272 (2) There is levied a tax upon the sale, use, or storage of an electronic cigarette product
273 or nontherapeutic nicotine inhaler in the state.
274 (3) The tax levied under Subsection (2) shall be paid by the manufacturer, jobber,
275 distributor, wholesaler, retailer, user, or consumer.

276 (4) For an electronic cigarette product or nontherapeutic nicotine inhaler, the rate of the
277 tax under this section is .86 multiplied by the manufacturer's sales price.
278 (5) (a) There is created within the General Fund a restricted account known as the
279 "Electronic Cigarette Product and Nicotine Inhaler Tax Restricted Account."
280 (b) The Electronic Cigarette Product and Nicotine Inhaler Tax Restricted Account
281 consists of:
282 (i) the revenues collected from a tax under this section; and
283 (ii) any other appropriation the Legislature makes to the Electronic Cigarette Product
284 and Nicotine Inhaler Tax Restricted Account.
285 (c) For each fiscal year beginning with fiscal year 2016-17 and subject to appropriation
286 by the Legislature, the Division of Finance shall distribute money from the Electronic Cigarette
287 Product and Nicotine Inhaler Tax Restricted Account as follows:
288 (i) $1,000,000 to the Department of Health to be distributed to local health departments
289 in accordance with Section 26A-1-116;
290 (ii) $1,000,000 to the Rural Health Care Access Restricted Account created in Section
291 26-9-6; and
292 (iii) the remainder of the money collected under this section to the Uniform School
293 Fund.
294 Section 8. Section **63I-2-226** is amended to read:
295 **63I-2-226. Repeal dates -- Title 26.**
296 (1) Section 26-9-6 is repealed July 1, 2019.
297 (2) Title 26, Chapter 46, Utah Health Care Workforce Financial Assistance Program, is
298 repealed July 1, 2017.
299 Section 9. Section **76-10-104.1** is amended to read:
300 **76-10-104.1. Providing tobacco paraphernalia to minors -- Penalties.**
301 (1) For purposes of this section:
302 (a) "Provides":
303 (i) includes selling, giving, furnishing, sending, or causing to be sent; and
304 (ii) does not include the acts of the United States Postal Service or other common
305 carrier when engaged in the business of transporting and delivering packages for others or the
306 acts of a person, whether compensated or not, who transports or delivers a package for another

307 person without any reason to know of the package's content.
308 (b) "Tobacco paraphernalia":
309 (i) means any equipment, product, or material of any kind which is used, intended for
310 use, or designed for use to package, repackage, store, contain, conceal, ingest, inhale, or
311 otherwise introduce a cigar, cigarette, electronic cigarette product as defined in Section
312 59-14-802, or tobacco in any form into the human body, including:
313 (A) metal, wooden, acrylic, glass, stone, plastic, or ceramic pipes with or without
314 screens, permanent screens, hashish heads, or punctured metal bowls;
315 (B) water pipes;
316 (C) carburetion tubes and devices;
317 (D) smoking and carburetion masks;
318 (E) roach clips[~~:~~], meaning objects used to hold burning material, such as a cigarette,
319 that has become too small or too short to be held in the hand;
320 (F) chamber pipes;
321 (G) carburetor pipes;
322 (H) electric pipes;
323 (I) air-driven pipes;
324 (J) chillums;
325 (K) bongs; and
326 (L) ice pipes or chillers; and
327 (ii) does not include matches or lighters.
328 (2) (a) It is unlawful for a person to knowingly, intentionally, recklessly, or with
329 criminal negligence provide any tobacco paraphernalia to any person under 19 years of age.
330 (b) A person who violates this section is guilty of a class C misdemeanor on the first
331 offense and a class B misdemeanor on subsequent offenses.
332 Section 10. **Effective date.**
333 This bill takes effect on July 1, 2016.

Legislative Review Note
Office of Legislative Research and General Counsel