

Date of Hearing: April 11, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Mike Eng, Chair

AB 424 (Eng) – As Introduced: February 14, 2011

SUBJECT: Pawnbrokers.

SUMMARY: Makes various changes to California's pawnbroker law. Specifically, this bill:

- 1) Defines the term "month" to mean a period of time consisting of 30 consecutive calendar days.
- 2) Clarifies that the pawnbroker may assess \$3 per month on a loan, when the established interest rates total less than that amount.
- 3) Authorizes a pawnbroker to impose a charge of \$1 on any loan for not more than 3 months which does not exceed \$14.99.
- 4) Makes other clarifying and technical changes.

EXISTING LAW

- 1) Defines "pawnbrokers" as every person engaged in the business of receiving goods, including motor vehicles in pledge as security for a loan. (Financial Code, Section 21000)
- 2) Provides for the licensing of pawnbrokers by a chief of police, sheriff, or police commission. (Financial Code, Section 21300)
- 3) Establishes a charge not exceeding three dollars a month on any loan when the monthly charge permitted would otherwise be less than that minimum charge. (Financial Code, Section 21200)
- 4) Allows a charge not exceeding one dollar to be made on any loan for not more than 30 days which does not exceed \$14.99. (Financial Code, Section 21200.5)

FISCAL EFFECT: Unknown.

COMMENTS:

According to the sponsor, the Collateral Loan and Secondhand Dealer's Association, AB 424 would provide conformity in the Financial Code. The terms 90 days, 30 days, 3 months and 1 month refer to time periods that apply to the amount that can be charged per month to loans of a certain time period, the amount of interest that can be charged after a month's expiration on a loan, the amount that can be charged within the first 3 months of a loan, and to notification periods related to loans. Current law uses the term "month" for any period after 90 days when calculating maximum compensation for pawnbroker transactions. Changing the terms will provide uniformity in the Financial Code so the same terminology is used regardless of the

length of time of the loan. The sponsor states, "both pawnbrokers and their customers would more easily be able to ascertain due dates for loans."

This measure transitions language from days to months. Other areas in the financial code and business and professions code uses months instead of days. This change may actually benefit consumers who use pawnbrokers, for example, it will be easier to understand if you walk in on April 10<sup>th</sup> that 4 months from that period (month 1 is a grace period) that you will need to pay back the loan on August 10<sup>th</sup> rather than counting days. Some months have 28 days and some month have 31 days so it clarifies month to month.

Background: Pawnbrokers are regulated on a local, state, and federal level. Pawnbrokers are required to obtain a secondhand dealers license, report all pledged items to law enforcement on a daily basis, and hold pledged items for 30 days before putting the items up for sale.

Pawnbrokers generally function by offering loans to individuals in exchange for items of value. Those individuals may, within a certain period of time, purchase the items back for the amount of the loan plus a certain specified fee. If the time elapses without that payment, the pawnbroker may then sell the items to recoup the amount of the loan, usually only a fraction of its market value. Pawnbrokers may also choose to purchase the item outright.

According to the California Pawnbrokers Association, approximately 85-88% of pawned property is redeemed. Thus, most pawn transactions are short-term loans of 120 days or less. Pawn loans can be a safe way to securely store valuable jewelry, musical instruments, and other valuable items, and have the items insured, at the pawnbroker's expense. Because pawn loans are not reported to major credit bureaus, some borrowers choose pawn loans to avoid impacting their credit scores. Other borrowers seek out pawn loans, because they cannot obtain similar sized loans and similar loan lengths from depository institutions.

#### Related Legislation:

SB 212 (De Leon) (2011 Legislative Session) Would clarify the circumstances under which replacement loans can be taken out by borrowers who are unable to undertake these transactions in person. Pending in Senate Banking & Financial Institutions Committee.

SB 217 (Vargas) (2011 Legislative Session) Would increase the limits on the compensation pawnbrokers are allowed to charge for their services. Authorizes pawnbrokers to charge borrowers the greater of \$3 per month or 2.5% per month on the unpaid principal balance of loans greater than 90 days old, and below \$2,500. Consent item in Senate Banking and Financial Institutions.

#### Previous Legislation:

AB 1357 (Coto) (2010 Legislative Session) Would have increased the limits on the compensation pawnbrokers are allowed to charge for their services. Vetoed by Governor.

SB 580 (Calderon) (Chapter 340, Statutes of 2008) Revises limits on pawnbroker compensation. Provides for a minimum charge of no more than \$3 a month on any loan and prohibits the pawn loan setup fee from exceeding \$5 or 2%, whichever is greater, not to exceed \$10.

AB 264 (Mendoza) (2007-2008 Legislative Session) Would have prohibited a pawnbroker from charging more than 2.5% per month on the unpaid principal balance of any loan and prohibits the pawn loan setup fee from exceeding \$5 or 2%, whichever is greater, not to exceed \$50. Vetoed by Governor.

AB 1297 (Papan) (Chapter 505, Statutes of 2001) Increased the maximum loan setup fee on loans of up to \$50 from \$2 to \$3; increased allowable handling and storage fees from \$3, \$9, and \$18, to \$5, \$10, and \$20, depending on the size of the object; and increased the maximum allowable fee for costs relating to sending a loan expiration notice from \$2 to \$3.

REGISTERED SUPPORT / OPPOSITION:

Support

California Pawnbrokers Association

Opposition

None on file.

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