

Date of Hearing: April 1, 2019

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Monique Limón, Chair

AB 1186 (Medina) – As Introduced February 21, 2019

**SUBJECT:** Pawnbrokers: fees and charges:

**SUMMARY:** Makes changes to the Financial Code adjusting the fees and charges pawnbrokers may charge. Specifically, **this bill:**

- 1) Adjusts the permitted loan setup fee to the greater of either \$7.50 or 3.5% of the loan amount, not to exceed \$90.  
Existing law permits a pawnbroker to charge a loan setup fee of the greater of \$5 or 3% of the loan amount, not to exceed \$30.
- 2) Increases the permitted handling and storage charges depending on the size of the pawned articles, as specified.  
Existing law permits a pawnbroker to collect a handling and storage charge for pawned articles at the time property is redeemed or a replacement loan is issued. Existing law establishes the maximum amount that may be charged based on the size of pawned articles, as specified.
- 3) Increases the processing charge to \$20 for each pawned firearm.  
Existing law permits a pawnbroker to impose a processing charge in the amount of \$4 for each pawned firearm.
- 4) Increases the maximum noticing fee to up to \$5.  
Existing law permits a pawnbroker to charge a fee in the amount of up to \$3 for preparing a 10-day notice when a pledged item is not redeemed during the loan period.

Existing law requires pawnbrokers to provide written notice to a pledgor when a pledged item is not redeemed during the loan period and extends the pledgor's right of redemption 10 days from the date of the notice. Under existing law, the pawnbroker becomes vested with all right, title, and interest to the pledged article upon the expiration of the 10-day notice period. This bill would make nonsubstantive changes to those provisions.

**FISCAL EFFECT:** Unknown

**COMMENTS:**

**Author's statement:**

California Pawnbrokers come before the Legislature every five years to get legislative approval to adjust their maximum rates and fees to offset the increased costs of operation. Each of the committee offices have been furnished with a report prepared by industry that outlines the operational cost increases since the last adjustment which became effective in 2015 in SB 285 (Block).

Data provided by the California Pawnbrokers Association (sponsor) collected from 144 pawnbrokers comparing cost increases from 2015 to 2017 reveal the following:

Expense Category	Reported % Increase
Employee medical insurance	45%
Business insurance (fire, theft, liability, etc.)	16%
Workman's comp	12%
Janitorial service	17%
Payroll	35%
Security	73%
Employee parking	39%
Storage	15%
Phone/internet/cable	10%
Postage	10%
License Fees (Local Business)	35%
Facility Rent/Lease	35%

Not included in this list are costs for continuing education of employees related to the evolution of the items accepted as collateral for pawn loans, ID changes, computer system upgrades and enhancements and general miscellaneous cost increases.

The sponsor also reports that a Department of Justice listing indicates that there are at least 112 fewer pawnshops in California between 2015 and 2017.

For Californian's seeking to obtain a relatively small dollar loan, pawnbrokers provide fairly quick and easy access to cash while managing long term financial risk. Other unsecured options, which include payday and small dollar lending under the California Finance Law, come with an increased risk of incurring additional fees and charges which may put the borrower in a position of still owing the original principle amount despite having paid more than the original loan amount in fees and charges.

The ability for a borrower to secure a small dollar loan through personal property allows the consumer to manage the risk of default and limit the financial damage should a default occur. Unlike most businesses in California, pawnbrokers must come before the Legislature in order to adjust revenue to meet increases in the cost of doing business. The summary section of this analysis provides a side-by-side look at the proposed increases.

## **REGISTERED SUPPORT / OPPOSITION:**

### **Support**

California Pawnbrokers Association (sponsor)

### **Opposition**

None of file

**Analysis Prepared by:** William Herms / B. & F. / (916) 319-3081