

EFFECTS OF PROPOSED CHANGES TO THE PAWNBROKERS ORDINANCE

Prepared for City of Albuquerque
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Executive Summary

The University of New Mexico's Bureau of Business & Economic Research (BBER) was commissioned by the Albuquerque City Council to examine the potential impacts of proposed amendments to the Pawnbroker Ordinance¹. The proposed amendments to the Ordinance aim to both deter property crime and ensure a sound system of making loans.

There are currently 15 pawnshops licensed to operate in the City of Albuquerque. Many are family-owned and operated businesses. In all, pawnshops employ 100 persons in the city. Pawnshops earn income from two sources: interest from small short-term loans secured with pawned goods, with annualized rates up to 69%; and the trade of goods, including the sale of unclaimed pawned items. According to Leadsonline, a used item transaction register operated by the Albuquerque Police Department, pawnshops conducted a total of 224,050 transactions in 2017.

Pawnshops face competition in both lending and trade operations. Competitors in credit operations include consumer lending shops, such as payday and title lenders, and credit card issuers. Competitors in retail and used merchandise include specialty stores (e.g. videogame stores, gun shops), thrift stores, flea markets, and online retailers and sites where used items can be sold (e.g. eBay, Craigslist).

BBER conducted a survey of owners and managers of pawnshops in Albuquerque in August and September 2018. Survey participants expressed concerns that increased regulation of pawnshops without commensurate regulation of competitors would place their businesses at a significant disadvantage. The greatest concern of half of the survey participants is that pawnshops would lose customers concerned with privacy to less regulated competitors. Others expressed concern that pawnshops would incur higher costs because of the increased time needed to conduct transactions; increased staff training; the need to purchase or lease computer and photographic equipment; and higher yearly fees (\$500, up from \$100).

Increased regulations may significantly impact customers. Whether due to higher costs or closure of pawnshops, buyers and sellers of used goods may receive less favorable terms in transactions at pawnshops and competing shops. Also, short-term borrowers concerned with a loss of privacy may turn instead to unsecured sources of credit at significantly higher costs, up to 175% at storefront lenders.

The proposed regulations may allow Albuquerque Police Department to collect more evidence from pawnbrokers on criminals. However, it is also possible that without commensurate regulation of competitors criminal activity may be redirected to other, unregulated outlets.

¹ Council Bill No. CS/3 O-17-50 to amend Art 6, Chapter 13, ROA 1994, "Pawnbroker Ordinance."

Introduction

The City of Albuquerque (the City) requested the assistance of the Bureau of Business and Economic Research (BBER) to conduct a study of the potential impacts of City Council proposed amendments to the Pawnbrokers ordinance. The proposed amendments to the Ordinance add new data collection and reporting requirements, increase registration fees, and articulate the process for violations and fines for pawnshops operating in Albuquerque to both deter property crime and ensure a sound system of making loans. Specifically, the proposed amendments will require pawnshops to photograph both the items being sold or pledged and the owners of the items for each sale or pawn transaction. In addition, pawnshops will be required to capture the owners' fingerprints, so they can be uploaded to Leadsonline, a database used to assist law enforcement in identifying and locating stolen property. To determine the impacts of the proposed amendments to the City's Pawnbroker Ordinance, BBER collected secondary data from the U.S. Census Bureau's Economic Census Data and County Business Patterns, and reviewed files, notes and petitions submitted to the City by pawnshops and the local pawnshop association, as well as those items generated during various City hearings and meetings. BBER staff also conducted a series of interviews with pawnbrokers throughout the city.

Pawnshop Loan and Resale Market in Albuquerque

There are 15 pawnshops in the City of Albuquerque, and most are very small operations, with median employment of three employees. Pawnshops have been operating on average for 30 years. See **Table 1** which provides detail on Albuquerque pawnshops based on the survey data collected by BBER. On average, a pawnshop in Albuquerque makes about 1,274 loans and 229 purchase transactions a month. Many stores are family-owned and operated businesses. Non-family staff are paid an average hourly wage of \$14.41. The shops that hired employees reported that it takes them on average 286 hours to train a new hire. This is because the work requires more skills and knowledge than is typical of retail jobs. Employees of a pawnshop are required to have vast general knowledge and research skills that enable them to determine the value of items that are pawned or sold to the store.

Table 1. Summary of Results of Albuquerque Pawnbroker Survey

N= 14 Pawnbrokers	100% Response Rate
Avg pawns/loans made in a month	1,274
Avg purchase transactions in a month	229
Avg percent of customers that are repeat customers	80%
Avg years in Business	30.6
Median number of employees	3
Avg number of hours to train new employee	284
Avg hourly wage of employees	\$14.41

UNM BBER Albuquerque Pawnbroker Survey

Employees need to gain the trust of the store owner, so they can negotiate the value of loans or purchases of items, maintain records, and comply with reporting and other regulatory requirements. Pawnshops in Albuquerque are regulated by state and local statutes as a non-depository small loan lender. Employees of pawnbrokers must demonstrate understanding of these regulations as it relates to their lending practices. In Albuquerque pawnbrokers are required to acquire a \$5,000 bond with City of Albuquerque and pay a \$100 permit fee to receive their license. Additionally, pawnbrokers will carry adequate insurance to cover their liabilities and the inventory of goods that they are holding as collateral.

There are two sources of income for a pawnshop: the interest from the loans they make and the retail sales of their inventory. Like many other retailers and used good stores, pawnshops typically carry inventory that is a mix of used and new goods that appeal to their customer base. What distinguishes pawnbrokers from other retail or used good stores is the fact that they make loans to people based on the value of a pledged/pawned item.

A pawn transaction is best described as a small loan agreement with an item that becomes collateral. The pawned item is described as a “pledged good”. State law sets the parameters of pawnshops licensing and registration with local governments. The principle value of a pawn loan is capped at \$2,000 and the interest rate is capped at 10% of the principal for the first 30 days², with the unpaid principal subject to an interest rate of 4% per month for the duration of the pawn transaction³. The effective interest rate for a loan that is outstanding for 12-months is 69.3%.

These loans appeal to a broad base of borrowers who need relatively small short-term loans and wish to avoid a lengthy lending approval process. As noted, lending is capped at \$2,000, but the pawnbrokers interviewed report that most loans are for less than \$500. The process is relatively discrete and meets well the needs of borrowers who do not qualify for other types of loans that require them to go through credit checks, have a bank account or a steady income stream to support the extension of credit. Pawnshops are in competition with title loans or loans under \$2,000 from payday lenders, where annual interest rates are capped at 175%, effective January 1, 2018.

Pawnbrokers with whom we spoke estimate that interest from loans accounts for an average of 39% of a shop’s revenues (see Table 2). The second source of revenue for pawnshops are retail operations, this includes sales of items that are not redeemed, which accounts for about 25% of total revenues, and buying and selling of new and used products, which accounts for the remaining 36%. In Albuquerque, customers of pawnshops are largely repeat customers, with pawnbrokers estimating on average that 80% (see Table 1) of their customers fall into this category.

Pawnshops in Albuquerque can offer a variety of shopping experiences and carry various types of inventory to support their retail business. They often specialize in used and other goods that appeal to customers who frequent their stores. For instance, a store may choose to offer an

² If an item is worth less than \$75 a fee of \$7.50 can be charged instead of the 10% interest rate.

³ If the borrower is unable to pay back the loan within 90 days after the loan is due or 120 days after it was pawned (whichever is later) the pawnbroker can sell the item pawned.

assortment of antiques and jewelry, or they might model themselves after a game and hunting store featuring an assortment of new and used guns. Many also sell electronics or tools.

The inventory of pawnshops consists not only of pawned items that are not redeemed but also of goods purchased directly from the public or other businesses, and new items purchased from wholesalers that are offered for sale at retail. Pawnshops can offer a variety of shopping experiences based on the consumers they want to attract. In their retail activities, pawnshops compete with antique and used good shops, that may offer a variety of specialty items or a thrift store or bargain basement experience. Table 2 provides a breakdown of the sources of pawnshop revenues as estimated by BBER, based on a survey of 15 Albuquerque pawnbrokers.

Table 2. Sources of Albuquerque Pawnbroker Revenue

Sources of revenue	Percent of total revenue
N= 12 Pawnbrokers	
Interest and all fees from Pawns/loans	39%
Sales of pawned items that are not redeemed	25%
Buying and selling used products	21%
Other (i.e. new retail products)	15%
	100%

UNM BBER Albuquerque Pawnbroker Survey, 2018

Pawnshop Regulations in Other Cities and States

There are other cities, including Denver, and states such as California, Arizona and Utah that have also implemented regulations for pawnshops. The main difference compared to the Ordinance proposed for Albuquerque is that policies in most other municipalities and state regulate not only pawnshops but other businesses that also deal in used goods, although not always in the same way.

In some places, both pawnshops and second-hand stores are required to report their transactions to a database, but they may not require both to take fingerprints of their customers. Second-hand stores may be required to hold used items for less time than a pawnbroker, and in some cases a second-hand store can avoid reporting requirements if they exclusively deal in books or other items that are deemed unlikely to be stolen and resold to one of these shops. In California, Utah and Colorado sellers/pledgers of used goods are required to sign documentation when trading in goods to certify that they are the rightful owners of the property being sold or pawned.

The experience of Allentown, Pennsylvania is well-documented and may be worth examination. Last year, a law was proposed in which all pawnshops, second-hand dealers and precious metal dealers were required to fingerprint and photograph everyone selling merchandise at their stores. Many small businesses felt this would hurt their business and was unnecessary for goods that are not likely to be stolen such as vinyl records. The city of Allentown is now investigating how the Ordinance might damage businesses. (Opilo, 2018).

Juneau, Alaska is another city that has implemented regulations pawnshops and other secondary retailers. While pawnshops there were already required to report all the items they were receiving, regulations were stiffened in response to a rise in theft and accusations that pawnshops were trafficking stolen goods. An Ordinance for other businesses that buy commonly stolen items, such as video game stores, jewelries, or antiques was also put in place.

Reactions to the new ordinances were mixed. Some complied with them as described, while others chose to stop accepting items that could be potentially stolen (e.g., tools, jewelry) and to focus on non-regulated goods such as clothing, and books. A lot of stores were affected by the need to upgrade their technology to comply with what was required. While some shops have closed because they were unable to adapt to these changes, crime has decreased, according to the local police department (Miller, 2018). Other states and cities such as California, Denver, CO, Tucson, AZ and Utah also require reporting of items being sold and fingerprints of sellers and pledgers at pawnshop as well as second-hand stores in some cases.

In California, state law regulates the activities of pawnbrokers and second-hand dealers, as well as specifically regulating used items that are notorious for being stolen, as identified by the state's Justice Department using crime statistics. This procedure allows California to update on a yearly basis, a list of items that are being traded in used markets that need to be reported to their digital database. If a second-hand store deals in any of these items, they must report it to the states database. In fact, California regulates builders tools and requires that anyone who buys and trades these items report it to the state. California and the City of Denver, CO require pawnbrokers and second-hand dealers to report their transactions to a database.

The Pawnshop Industry and Regulation

In general, at a national level, the pawnshop industry has performed poorly over the last five years. This is a counter-cyclical industry, which thrives during recessions. The recovery and growth of the national economy over the last few years combined with the decline in gold prices have both adversely affected the pawn industry, which flourished during the 2008 recession. The National Pawnbroker Association (NPA) provides assistance to the industry to develop through meetings as well as lobbying in

Washington DC. The NPA has projected that as the economy continues to improve, the pawnshop industry will continue losing clients who will no longer need loans since they are able to access other credit options (e.g. banks) or who will have the resources to buy new goods instead of used ones. The pawnshop industry is one of the most regulated in the US, something that may dissuade entry into this industry (Alvarez, 2017).

The main source of competition for pawnshops is other financial entities such as commercial banks, credit card issuers and consumer lending shops (such as payday lenders and title lenders). Nationally, approximately 42% of pawnshop business revenues comes from lending money, a slightly higher share than the 39% documented in the BBER Albuquerque survey of pawnshops. Nationally, 55% of total revenues come from merchandise sales. (Alvarez, 2017).

In the buying and selling of merchandise, the competition for pawnshops is primarily specialty used good stores, thrift shops, used videogames stores, and antique stores (Alvarez, 2017); although eBay, Craigslist and similar webpages are important competitors in the sale of used goods. One of the main concerns of the pawnshop industry is that more regulation may make them even less competitive with less-regulated retail stores both because of the impact on their costs of doing business and because the regulation (e.g., photographing) may deter potential customers.

Studies on the Pawn Industry and Regulation

The pawn industry, which is estimated to be important to at least 10% of the population nationally (Shackman & Tenney, 2005), presents challenges to researchers precisely because of the efforts pawnshops make to protect the anonymity of their customers. The few existing articles offer a relevant overview of the situation; however, none goes deep enough on specific topics.

In the article *Markets for Stolen Property: Pawnshops and Crime* there is some discussion of the correlation between pawnshops and crimes such as robbery, burglary, and larceny. One of the main opportunities for criminals in pawnshops is the ease at which they can provide false information or a fake identification. The article mentions that States that place specific regulations on pawnshops, such as caps on interests and fees tend to have less pawnshops and as a result, less crimes involving theft. The article estimates that a 10% increase or decrease in the number of pawnshops will increase or decrease respectively the number of crimes by 1% (Miles, 2008). In Albuquerque, there are currently only 15 pawnshops providing this loan service, so a loss of more businesses also means less credit access to people who have very little options already.

Shackman and Tenney (2005), analyze the impact of government regulations on the supply of pawn loans. The study focuses on the effects on pawnshops of two types of regulations: an interest rate ceiling and a requirement to return excess proceed from the sale of collaterals to the original owner. The research question relates to whether these regulations would reduce

the number of pawnshops, the size of loans, the number of hours pawnshops operate among others. As a conclusion, these regulations were found to be restrictions for economic activity, this as a result reduces the supply of pawn loans. Shackman and Tenney define this industry as having an inelastic demand with an elastic supply, damaging mainly the people needing to borrow money from pawnshops (Shackman & Tenney, 2005). The inelastic demand for pawn loans indicates that the customers who borrow money from pawnshops in Albuquerque are in fact likely to have no other options outside of higher interest rate loans if more pawnshops close.

In *Where Have All the Hot Goods Gone? The Role of Pawnshops* the argument is that increasing regulation has limited effects on the reduction of crime but have a larger impact on pawnshops and its legitimate customers. According to the article there is no evidence that the use of closed-circuit televisions, fingerprints or photographs, decrease the number of criminals using pawnshops to get rid of their stolen goods or as a result displaces criminals to other less regulated industries such as antique dealers, secondhand stores, flea markets, or precious metal stores.

An important issue that effects the effectiveness of such regulation is that few items are unique or have serial numbers or other ways of differentiating them making the finding of stolen articles harder. As a result, a lot of money and time is used in recording pawned items that might not be found due to the lack of serial numbers on them. Even when items do have serial numbers they are not always recorded by their owners and thus are hard to track down if they are stolen. The article concludes that it is better to invest police efforts on catching criminals rather than creating more regulations for pawnshops. A more regulated pawn industry creates, as a result, a less cooperative pawn industry (Fass & Francis, 2004).

This last article gets at the heart of the issue regarding the impacts of regulation of pawnbrokers. Banks and traditional lending institutions are not set up for serving a low-income market that has immediate needs for a little cash. If 10% of the population who turn to pawnbrokers to get cash to buy food, pay the rent, etc. are discouraged from using the pawnshops by additional regulation, most will turn to other lenders such as pay day lenders and title companies who readily serve this population, but with loans that have notoriously high and onerous interest rates. They may also resort to other methods of getting quick cash. As the last research article explores, pawnshops can indeed be a place where thieves go to dispose of stolen property and get cash, but there are other outlets. The research cited here suggests that regulating pawnshops is not an effective crime deterrent.

Discussion of the Impacts of the Proposed Changes in the Regulations for Albuquerque Pawnbrokers

The proposed changes to pawnshop regulations in Albuquerque include changes to what pawnshops need to record and report for every pawn or purchase transaction, increases yearly licensing fees, additional background checks to the licensing process, and new protocols for determining violations and fines for non-compliance. Currently, pawnshops are required to record physical descriptive information of customers selling or pawning items along with their

driver's license information, and descriptions of the items being sold/pawned along with their model and serial numbers. This information is recorded on a ticket that is stored at the pawnshop and are uploaded to the Leadsonline database. The Leadsonline database allows the police department to search for items that have been reported stolen or reported to be used in other crimes and can search information items and people from other states to collect information and evidence they need to solve crimes. The proposed Ordinance adds additional reporting requirements that will require pawnshop owners to photograph items (and their serial numbers when available), take a photograph of their customers every time they sell or pawn something over \$10 in value, and take a thumbprint of the customer to be kept on record after their first pawn/sell transaction with the store. The photographs and thumbprints will be added to reports submitted to Leadsonline by pawnbrokers.

The proposed Ordinance will raise the cost of doing business for most pawnbrokers in Albuquerque and it is likely to deter customers from using pawnshops. The cost of obtaining or renewing a pawnbroker license is proposed to increase from \$100 to \$500, an increase of \$400 per year or 400%. However, the major cost impact on pawnshops is likely to be related to the necessary upgrades to their point of sale systems to accommodate thumbprints and photographs and creating a new transaction system that employees will have to be trained on. Pawnshops in Albuquerque have been in business for an average of 30 years and many of them are working with transaction software and computer systems that have not been upgraded for many years and may now need to be upgraded to handle photographs and fingerprints.

Upgrading a single workstation computer could cost \$149 to \$845, along with finger print scanner (\$91 or more per device), a camera, and receipt printer if the pawnbroker doesn't already have these, with the additional cost of \$800 or up to \$4,000 for the software which could have an annual subscription fee of more than \$800. The median number of employees pawnshops have is three (see table 1), and most shops need two points of sale to accommodate loan/sell transactions and retail sales simultaneously. There are point of sale bundles available for \$2,595 per workstation that include hardware and software necessary.

It is difficult to estimate what the average pawnshop would have to spend to upgrade, because it depends on software features owners may want to add as well if they are going to need new hardware. However, it is clear there will be notable increases in costs for many pawnshops in the first year and possibly every year after the proposed Ordinance is enacted as currently proposed. Table 3 is a table of yes and no questions asked of the pawnshop owners. As can be seen from the table, most of the shops are not currently set up to handle the reporting requirements currently being proposed, however some have begun to fingerprint and photograph items and customers.

One out of the fourteen pawnshops interviewed had begun to take fingerprints of customers who were from out of state and four said that they already had the capability (equipment and program) to take fingerprints if they were required to do so; while six said their point of sale program could handle photographs or fingerprints (see table 3). Although some shops already have some of the equipment and software to comply with the proposed ordinance, some of those shops may have to purchase additional equipment to implement it at all work stations (or

may choose to add to new work stations), in addition to investing time to train employees on the new protocols. Pawnbrokers were also asked to rank their concerns with the proposed Ordinance changes and explain why they ranked their concerns in the order that they choose.

Table 3

Survey Question	Yes	No
Do you currently take fingerprints of customers?	1	13
Do you currently take photos of customers?	0	14
Do you currently photograph or photocopy ID's?	5	9
Do you currently photograph serial numbers of items?	1	13
Do you currently photograph items?	3	11
Do you have the capability to take fingerprints?	4	9
Do you have a program you use to create customer profiles?	12	1
Does your program handle photos or fingerprints?	6	7

N=14

Source: BBER Survey of ABQ Pawnshops 2018

Table 4 shows how pawnbrokers ranked statements about the proposed changes to the Pawnbroker Ordinance. The list of concerns was created from initial interviews with pawnbrokers and notes, comments and petitions submitted to the City of Albuquerque throughout the process of creating the proposed Ordinance changes. The pawnshop owners were given a sheet of paper that had the statements in randomized orders to rank them.

Six of the twelve shop owners who answered the question ranked loss of customers to other trade/used good stores as their number one concern, while being required to photograph their customers was ranked as the number one concern by two of the shop owners. When the pawnbrokers were asked to explain their ranking of their concerns, there were clear indications that requiring them to comply with the new regulations could send their customers elsewhere. Customers who want to get a loan could go to a payday lender, title loan company or bank who offers credit card or loans; or they could choose to sell their property to other used goods stores and avoid having their pictures or fingerprints enter a police database.

Requiring photographs of customers and having them leave a thumbprint were each ranked as the second most concerning issue by three pawnshop owners. Photographing customers who are pawning/selling an item was ranked in the top three concerns for ten of the shop owners, reflecting the sentiment that pawnbrokers don't want to upload more information about their customers, both for concern of their customers' privacy, and the expense of upgrading their systems. Regarding the increase in registration fees, only three shop owners ranked that as their first or second concern; the majority (eight of the twelve who answered) ranked this in their fifth to eight concerns. Many pawnbrokers felt that the increase from \$100 to \$500 was too steep.

Table 4

Ranking of Concerns	1st	2nd	3rd	4th	5th	6th	7th	8th
Loss of customers to other trade/used good stores	6	0	0	0	2	2	2	0
Increase of registration fees	1	2	0	1	1	1	3	3
Requiring customers to leave a fingerprint imprint	1	3	0	0	1	4	0	3
Requiring uploads of photos	1	1	2	2	2	2	1	1
Requiring photographs of items	0	2	3	3	1	2	1	0
Requiring photographs of serial numbers	0	0	1	3	5	0	2	1
Fine's for non-compliance	1	1	1	1	0	1	3	4
Requiring photos of customers	2	3	5	2	0	0	0	0

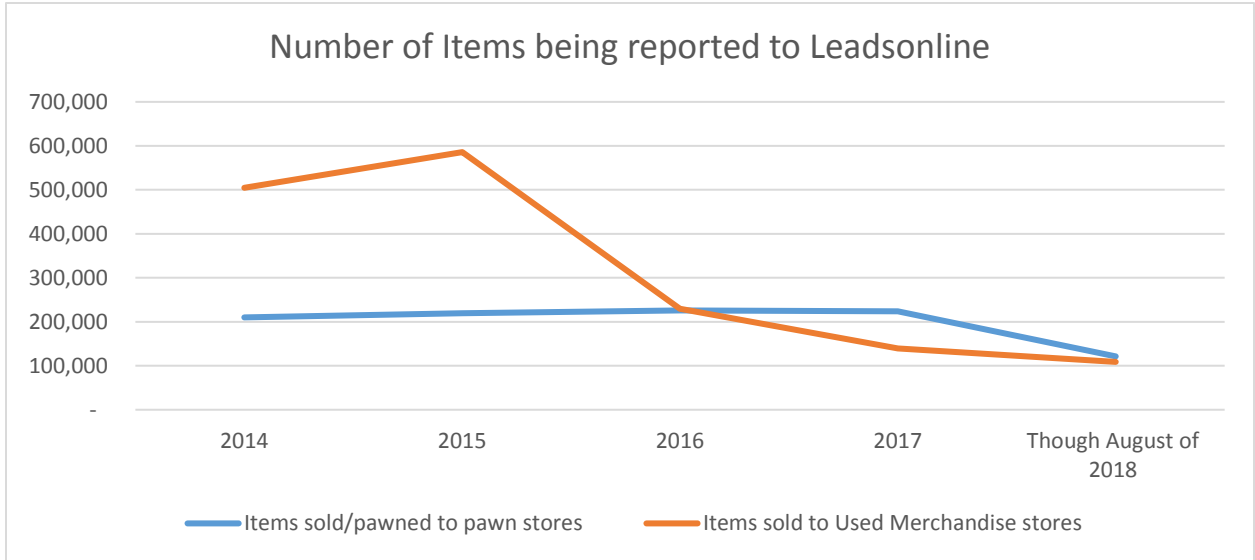
N= 12

Source: BBER Survey of ABQ Pawnshops 2018

According to the 2016 Census County Business Patterns data there were 47 used merchandise stores in Bernalillo county and 27 all other non-depository credit intermediation establishments in 2016. The City of Albuquerque's Leadsonline data base has 35 second-hand stores reporting into the system, however, many of these stores reporting are electronic kiosks that pay people for their used phones and electronics and send information to the database automatically. The remaining stores are not required to report by law, so they may not be reporting all their buy transactions.

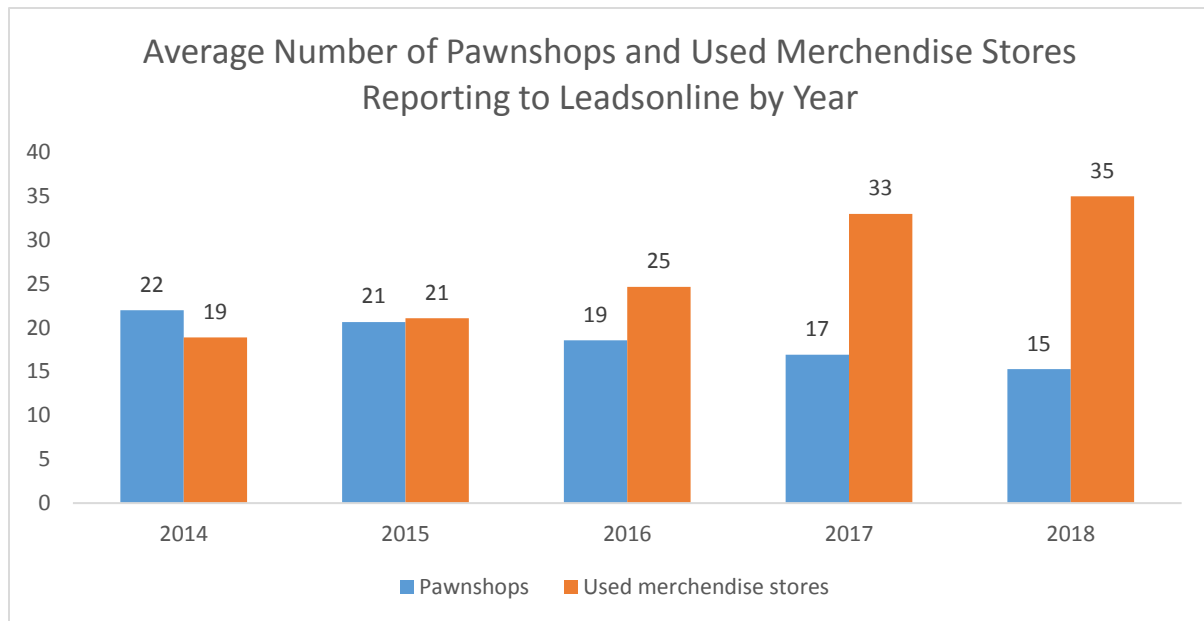
In interviews with Albuquerque's Police Department, it was revealed that some stores such as national chain used games stores have begun reporting purchases to the Leadsonline data base because their own concerns with receiving stolen property. Figure 1 shows the number of items being reported to Leadsonline. In 2014 and 2015 there were over 500,000 items being reported to the database by second-hand stores, by 2016 only 229,000 items were being reported. This number is closer to how many items are being reported in by pawnshops. APD could not explain why second-hand stores were not reporting as many items into the system although the number of stores reporting in were increasing. In 2017, the number of items being reported by the 33 used good stores fell below the number of items reported by pawnshops. Figure 2 shows the number of used good stores and pawnshops that are reporting into Leadsonline.

Figure 1



Source: APD Leadsonline data 2014 to 2018

Figure 2 shows us a clear pattern of growth in the number of used merchandise stores reporting to Leadsonline along with a decline in the number of Pawnshops reporting in Albuquerque. However, the previous graph, Figure 1, shows there has been a sharp decline in items being reported to Leadsonline beginning in 2016. It is not clear why this is the case, it maybe because used merchandise stores are able to pick and choose what they want to report since they are not required to report everything.

Figure 2

Source: APD Leadsonline data 2014 to 2018

The lack of regulation of other used merchandise stores, and the pattern seen in the Leadsonline data, suggest that it is indeed possible that with additional regulations of pawnshops, more used merchandise sales could move into other second-hand stores. Here it is unclear if the items will continue to be uploaded to the Leadsonline database and thus limiting the effect of the new legislation on tracking used and stolen items through the Leadsonline database. Additionally, the proposed legislation could increase the competitive advantage of other second-hand good stores and thus further increase their market share for the sale of those goods. Consumers are also likely to have fewer credit options as pawnshop continue to close and could be limited to higher rate interests loans offered by title loan or payday lending businesses. Figure 2 shows the number of pawnshops in a steady decline from 22 shops in 2014 to just 15 in 2018, while the number of used merchandise stores increased from 19 to 35 during the same period, indicating that pawnshops are already facing more competition than they have in the past.

The limited literature available does name pawnshops as places for thieves to sell stolen goods; however, it also notes that they are not the exclusive buyers of stolen property and that regulation of pawnshops does not necessarily mean lower crime rates (Fass & Francis, 2004). Although there is a correlation between fewer pawnshops in a jurisdiction and lower crime rates, there would have to be a 10% decrease in the number of pawnshops to lower the crime rate by 1% (Miles, 2008). Albuquerque only has 15 pawnshops within its city limits, so a 10% decrease in the number of shops would likely just result in less credit access for those who need to make ends meet, buy a tank of gas to get to work, or pay a bill before their next pay check. Pay day lenders and title loan companies are the alternative for many of these customers. And while they may not be fingerprinted or photographed while securing a loan through these

alternative sources, they could get locked into revolving debt with high interests rates, and the possibility of losing their transportation to work.

Conclusion

The result of our analysis has led us to several general conclusions. The following are the points that has led to these conclusions:

- There are 15 licensed pawnshops currently operating in the City of Albuquerque. Many are family-owned and operated businesses. In all, pawnshops employ 100 persons in the city.
- Pawnshops earn income from two sources: interest from small short-term loans secured with pawned goods; and the trade of goods, including the sale of unclaimed pawned items.
- Pawnshops have competitors in both lending and trade operations that operate in what are, in most cases, significantly less regulated environments.

Given the differences in regulatory standards, the proposed amendments to the Pawnshop Ordinance would likely have substantial adverse impacts on pawn businesses.

- Customers concerned with privacy may redirect their business away from pawnshops to less regulated competitors that are not required to collect the same personal information.
- Pawnshops will incur higher costs due to increased time needed to conduct transactions; increased staff training; the need to purchase or lease computer and photographic equipment; and higher yearly fees (\$500, up from \$100).

The proposed amendments may also adversely impact customers.

- Due to higher operational costs and/or closure of pawnshops, buyers and sellers of used goods may receive less favorable terms in transactions at pawnshops and competing shops.
- Short-term borrowers concerned with a loss of privacy may turn to unsecured sources of credit at significantly higher costs, up to 175% at storefront lenders.

The impacts of the proposed amendments on the trade of stolen goods is uncertain.

- The proposed regulations would allow Albuquerque Police Department to collect more evidence from pawnbrokers on criminals.
- However, without commensurate regulation of competitors, criminal activity may be redirected to other outlets, where less information is collected than is currently required at pawnshops.

Appendix

New Mexico Pawnshop Legislation

Pawnshops in Albuquerque are regulated under the Albuquerque Code of Ordinances (Chapter 13 Article 6), and the New Mexico Statutes (Chapter 56, Article 12). As described by these documents, a pawnshop is “the location or premises at which a pawnbroker regularly conducts his business”. The Albuquerque Code of Ordinances specifies that the activities a pawnbroker may carry are “lending money on the deposit or pledge of personal property”, “purchas[ing] personal property with the expressed or implied agreement or understanding to sell it back at a stipulated price”, or “purchasing items of gold, silver, platinum or other precious metals or gems and reselling the product”. The documents also specify the permits required by pawnbrokers to operate, including the payment of a bond and an inspection fee. Not complying with the laws can result in the pawnshop getting a warning or being fined. (Albuquerque Code of Ordinances, 2012)

Industry Data Analysis

The pawnshop industry in Albuquerque is well-established. It has been able to help a sector of the population that needs small loans and does not have access to credit. The pawnshops industry is dedicated to both giving small collateralized loans as well as buying and selling used items (as well as selling unrecovered collaterals). At the same time, pawnshops are considered an easy place for criminals to sell stolen items (Miles, 2008).

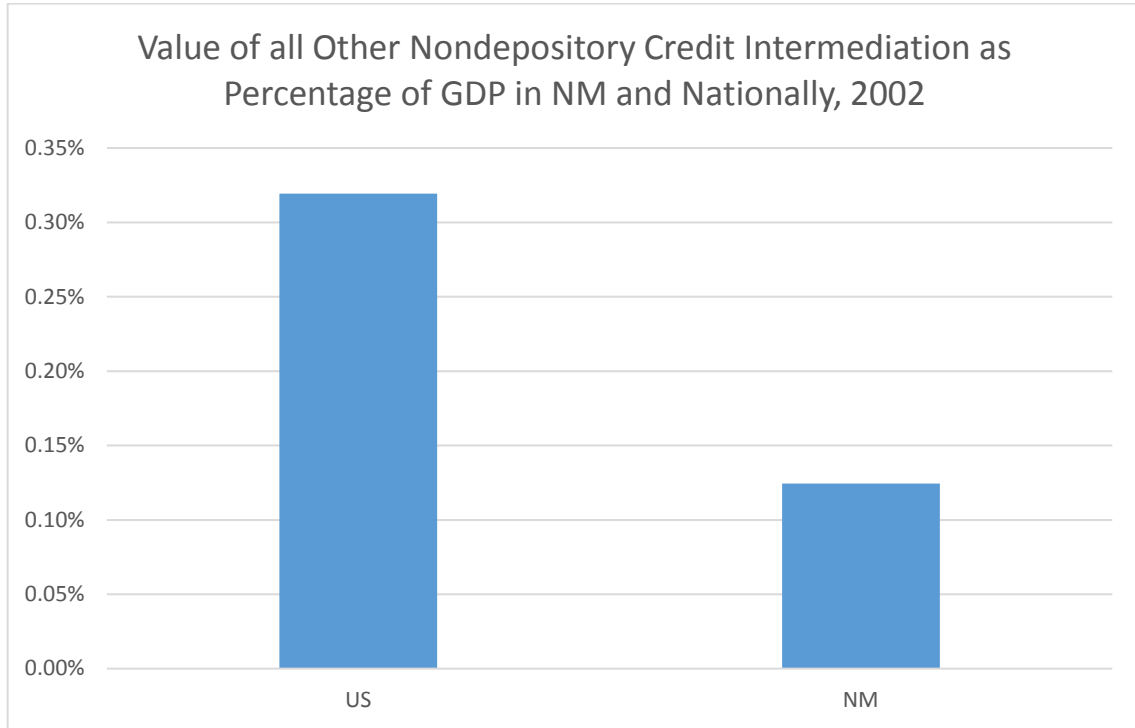
Pawnshops are both a used merchandise store and a lending establishment in one, which means their business is affected by the trends in two industries. Looking at how these industries have performed over the last couple of years is helpful in trying to predict the future of these industries. Taking into consideration the all other non-depository credit intermediation industry⁴, the industries total value of sales is a small part of the state’s Gross Domestic Product at .12%, even in comparison to the industries share of Gross Domestic Product nationally where it comprises .32% (as seen in Figure 3). Due to the small number of stores in New Mexico there is not much publicly available information on the industry.

Figure 4 presents data for different geographies on the growth in the number of used goods stores between 2002 and 2007 and from 2007 to 2012. The growth in the number of used merchandise stores in Albuquerque and Bernalillo County during the period leading up to the Great Recession was more than 9%, versus a tepid growth of 4.3% for the state and a small decline of 0.4% for the US. Growth in the number of used merchandise stores slowed markedly in the New Mexico geographies after 2007. Nationally, however, the industry recovered, achieving growth of 4.5%. Except for the 2002 to 2007 period in the US, the divergence between the US and NM geographies is consistent with the differences in overall economic performance. Used merchandise stores in the US and in NM grew as the economy boomed, while growth of

⁴ Pawnshops are grouped into this category in the North American Industrial Classification System.

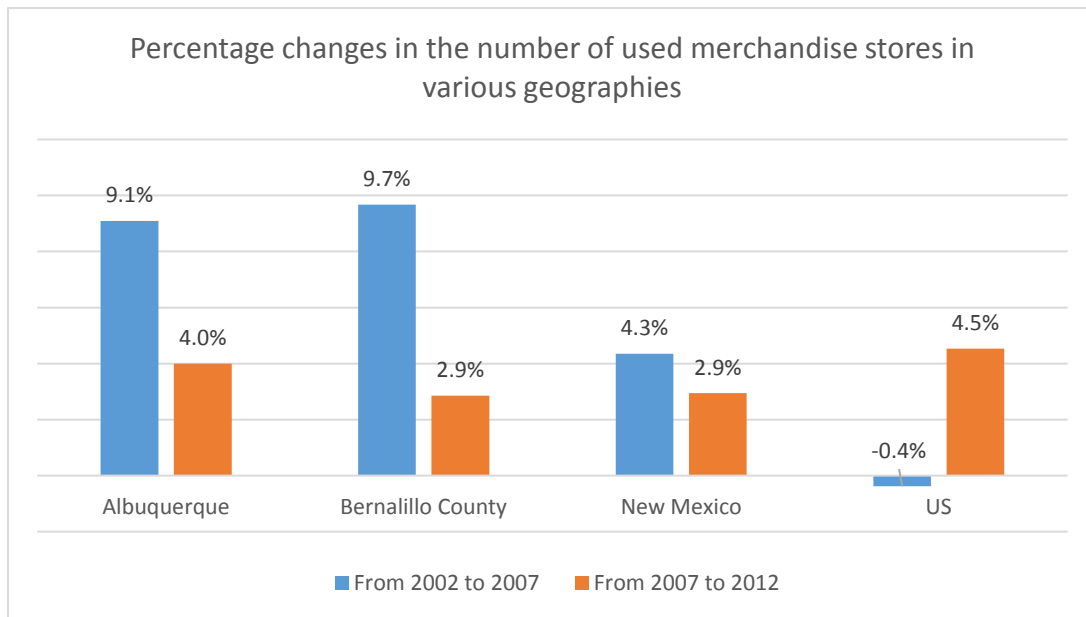
these stores in NM geographies slowed markedly as the economy generally stagnated after 2008.

Figure 3: Value of sales between United States and New Mexico



Source: U.S. Census Bureau. (2002). Economic Census & Bureau of Economic Analysis (2002).

Figure 4: Percentage changes in the number of used merchandise stores in various geographies



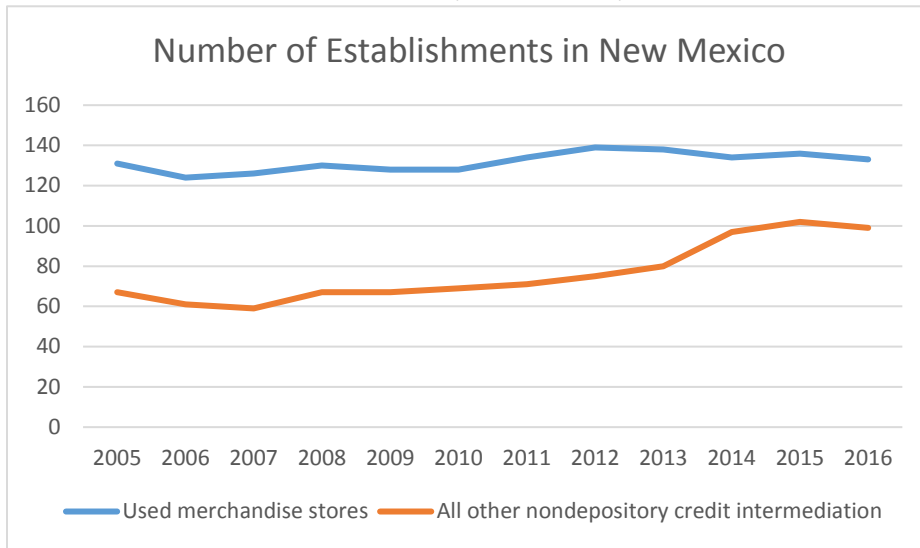
Source: U.S. Census Bureau. (2002, 2007, 2012). Economic Census.

Pawnshops are not classified under used merchandise stores but rather under the non-depository credit intermediation industry. Specific to New Mexico is the fall in the number of establishments in this industry before the 2008 crisis and the subsequent rise since the Great Recession.

Figure 5 charts the trends for both used merchandise and all other non-depository credit intermediation establishments for NM as whole from 2005 to 2016. Note that the number used merchandise establishments fell slightly after 2005 but recovered thereafter to peak at around 140 stores in 2012. Since then, the trend, which coincides with a gradual improvement in the economy, has been flat or negative. By contrast, the number of all other non-depository credit intermediation establishments, which declined from 2005 through 2007 steadily increased through 2015, with a slight decline in 2016.

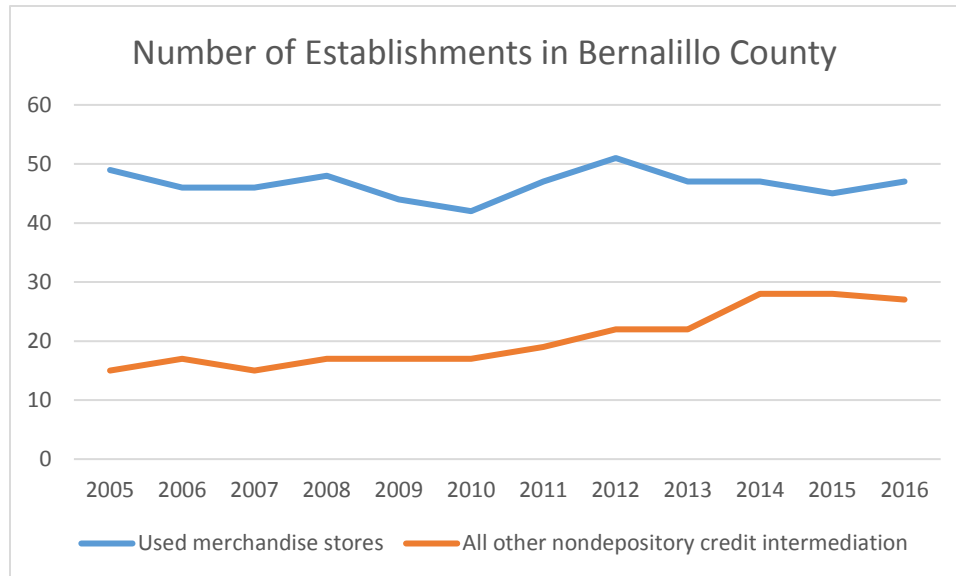
Figure 6 presents similar data for Bernalillo County. Here used merchandise establishments, which numbered 49 stores in 2005, shrank in number to 42 by 2010 and were 51 in 2012, thereafter slowly declining to 47 in 2016. As was true statewide all other non-depository credit intermediation establishments increased from 15 in 2005 to 28 in 2015 and 27 in 2016. While pawnshops are classified under the non-depository credit intermediation industry, they have a lot of company, most notably from title loan companies. As can be seen in Figure 7. Although there is no more recent information in that aspect, it could be assumed that following the national trend and the trend in the used merchandise store industry, the number of establishments in this industry has fallen or remained the same.

Figure 5 Number of Establishments in Used Merchandise and All Other Non-depository Credit Intermediation Industries, New Mexico, 2005 to 2016



Source: U.S. Census Bureau. (2005 to 2016). County Business Patterns.

Figure 6 Number of Establishments in Used Merchandise and All Other Non-depository Credit Intermediation Industries, Bernalillo County 2005 to 2016



Source: U.S. Census Bureau. (2005 to 2016). County Business Patterns.

Figure 7 non-depository credit intermediation industry

2017		Corresponding Index
NAICS	Entries	
522298	Agricultural credit institutions, making loans or extending credit (except real estate, sales financing)	
522298	Agricultural lending (except real estate, sales financing)	
522298	Banks, industrial (i.e., known as), nondepository	
522298	Car title lending	
522298	Commodity Credit Corporation	
522298	Edge Act corporations (except international trade financing)	
522298	Factoring accounts receivable	
522298	Federal Home Loan Banks (FHLB)	
522298	Industrial banks (i.e., known as), nondepository	
522298	Industrial loan companies, nondepository	
522298	Morris Plans (i.e., known as), nondepository	
522298	National Credit Union Administration (NCUA)	
522298	Pawnshops	
522298	Plans, Morris (i.e., known as), nondepository	
522298	Purchasing of accounts receivable	
522298	Short-term inventory credit lending	

Source: U.S. Census NAICS Definition

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Utah State Law. (2007)