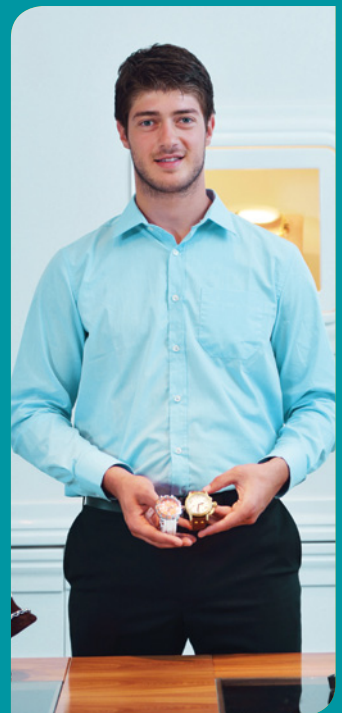




Using a  
pawnbroker...  
just another way  
of borrowing  
money.



Pawnbroking  
today offers  
a modern,  
friendly and  
convenient  
way of getting  
cash quickly.



# PAWNBROKING

A successful and  
established profession



## INTRODUCTION

The origins of pawnbroking can be traced back over 3,000 years to the Chinese and it is the pawnbroker we have to thank for the discovery of the Americas - Christopher Columbus' voyage was funded largely by the proceeds from pawning Queen Isabella of Spain's jewels. The industry as we know it today however, can be traced back to fifteenth century Italy when the noble Medici family was a dominant financial power.

## A succesful and established profession

When the Medici family was split in two, one half of the family became bankers and the other, pawnbrokers. The latter took with them the family crest, which incorporated the now instantly recognisable sign of the pawnbroker, the famous three gold balls. It should come as no surprise that the origins of banking and pawn lending are so closely entwined – taking a pawn is, after all, simply another form of banking.

**Pawnbroking is driven by the need for instant cash, with outlets operating as 'little banks' providing a service ethic comparable with their High Street competition.**

### **Retail Jeweller**

In Britain in the latter stages of the nineteenth century and early twentieth century there were nearly as many pawnbrokers as public houses. The recent upsurge in the industry's fortunes came during the 1980's credit boom and has continued through to today with customers now preferring this convenient form of High Street borrowing – customers whom the banks simply cannot or choose not to serve with the same immediacy and individual tailoring which a pawnbroker offers.

## Who are the customers?

Customers come from all walks of life and borrow money for all sorts of reasons. The main drivers for a customer using a pawnbroker are speed and convenience. Most customers are borrowing to satisfy short-term cash flow needs – and all sections of society tend to be affected by cashflow at various times in the month or year. Larger cash loans against luxury items that customers can do without for a period of time are increasingly common – and proves the point that people of high net worth also use pawnbrokers in preference to waiting longer for lengthy credit checks and long loan application processes. In addition, small businesses increasingly look to bridge cashflow shortages caused by, for example, debtors, tax demands, rent, payroll or business development.



Online pawnbroking companies have also emerged and have seen growth through giving greater flexibility in the variety of pledges they may take - from assets such as designer clothes and handbags, classic cars and even rare paintings.

Pawnbroking is a positive growth story due to the lack of available Bank credit. There are no credit checks, little paperwork and the loan funds are available straight away.





## Pawnbrokers Today

Pawnbroking today offers a modern, friendly and convenient way of getting cash quickly.

A pawnbroking loan is a short term loan secured against something of value that you own. It is therefore, completely different from unsecured borrowing such as payday loans or doorstep lending, which can balloon. Pawnbroking is essentially nothing other than a low value mortgage, and generally cheaper than an overdraft.

Pawnbroking customers pledge property and consider the loan as simply turning their goods temporarily back into cash as they once were. In other words customers feel they are simply, in effect, borrowing from themselves. No fuss, no favours, no extending or creating unsecured credit with the threat of negative credit ratings or 'blacklisting' as it is known if the loan is not repaid. Fully secured, straightforward and transparent credit in minutes at a reasonable cost – these are the attributes that people value from pawnbroking.

If you cannot settle the debt, you will just forfeit your item for the pawnbroker to sell BUT - even then, you get any profit on the sale returned to you if the amount you borrowed was for £75 or more. This sum is called 'the surplus' and is literally that – the surplus funds that are left from the sale of the item after the pawnbroker has deducted his loan, interest and selling costs.

## How It Works

Like banks, a pawnbroker earns interest that is charged on the loan of a pledged item.

In order to accept goods into pawn, a pawnbroker makes an on-the-spot valuation of the goods. The customer and the pawnbroker will agree the sum to be lent and the pawnbroker and the customer complete a loan application process. At the point the customer's details are completed, they receive a document called a 'Pre Contract Information' (SECCI) which highlights the key points of the agreement.

**Around 88% of goods are redeemed - it is not in the pawnbroker's interest for goods not to be redeemed.**

**Daily Express**

The SECCI is in a standard format so that loans from different providers can easily be compared. It allows the customer to confirm that they are happy to accept the terms of the loan. The customer having decided to go ahead with the transaction then signs the actual agreement with details of his rights and protection under the Consumer Credit Act 1974 and the terms and conditions of the loan. The customer also receives as part of the document a pawn-receipt for presentation when redeeming the goods. The document gives full details of the withdrawal notice, and customers are verbally told this and their other rights at the point of sale.





The vast majority of customers we surveyed (95 per cent) were satisfied with the service they received from the pawnbroker they used. Eight in ten customers would use the same company again. Customer service, the speed of the loan decision and convenient location were the things that customers expressed most satisfaction about.

**Personal Finance Research Centre,  
Bristol University**

If you were to walk into a pawnbroker's shop today you could be forgiven for thinking that you had just walked into your local bank or building society.

The agreement is usually (and as a minimum always) for a period of six months. A customer has the right to give notice to withdraw from the agreement within 14 days and also has a right throughout the lifetime of the agreement to make partial or full early repayments. They are entitled to redeem property by payment of the original loan plus the interest amount due at any time during the contract period. When the loan and the interest are paid, the goods are immediately returned to the customer. If the customer has not repaid the loan during this time and the loan was over £100 he will receive notice that the property is due to be sold and giving him a further statutory period of 14 days in which to redeem (the customer will normally however have the option at the end of the contract to renew the loan by the payment of interest only and the rewriting of a fresh agreement).

If the customer does not renew or respond to the notice served, the pawnbroker may take steps to dispose of the goods. Having served the notice of his intention to sell the goods the pawnbroker is obliged in law to obtain the 'true market value' of the goods on the date of sale. This ensures a true price is obtained for the customer for their goods. Where the proceeds of sale are greater than the amount due to the pawnbroker, the balance is due back to the customer. If there is a shortfall, the pawnbroker reserves a legal right to be paid this, though in practice pawnbrokers will hardly ever ask for it.



Contrary to popular myth, only where the loan was for less than £75 (and contract period six months) does the pawnbroker gain title to the goods where the customer has not repaid the loan. Again, contrary to what people may believe, the pawnbroker does not wish to gain title to property as he is in the business of lending money and he wishes far more to see the loan repaid without needing to resort to the sale of property. This way not only is the debt cleared in full, but the customer is happy at the return of his goods and he has possession of them to return again at some stage in the future if he ever needs to borrow again. This is proved by the very high levels of redemption of pledged goods and by the volume of trade that is repeat transactions - nearly always with the same security time and again – a bit like using the pawnbroker as a local ATM machine!



If you were to walk into a pawnbroker's shop today you could be forgiven for thinking that you had just walked into your local bank or building society. Pawnbroking is now a serious alternative to using the services provided by the High Street bank. Customers realise that borrowing money against goods they already own is an affordable alternative to a bank overdraft or other type of loan.

Pawnbroking businesses are on the High Street and are very often also jewellery retailers, giving them a perfect shop set-up for lending and for keeping jewellery goods safely in storage. Consequently, the security that the vast majority of pawnbrokers give loans against is gold, jewellery and watches. This is because they are:

- easy to value
- easy to store
- are a luxury 'can do without' item
- do not perish
- do not generally depreciate
- have an established second-hand market



A pawnbroker will lend in one easy, quick transaction that requires no credit checks or lengthy meetings or form filling. Short-term cashflow is the reason most people use a pawnbroker, where convenience and speed of service are quite unrivalled. A loan will just as often be obtained for some extra spending money as it will be to clear an outstanding telephone bill. It is flexible, transparent, competitively priced and immediate and it is these factors that customers prefer. Repeat business proves that customers are extremely satisfied with the service they receive and enjoy the benefits of the product.

Unless the pawn is for less than £75 and a 6 month contract, when all other unredeemed items are sold- any surplus is returned to the customer.



# Pawnbroking

## Summary of the process



### How much do you need?

Customers can borrow as little as £5, and all they need to do is bring in the item, proof of identity and/or proof of address. This could be a recent bill, driving license and so on. Remember pawnbroking is simply a loan that's secured against your own item left with the pawnbroker as security. The pawnbroker will value your item and decide what they can lend you, typically up to 60% of the second hand saleable value.

### See the pre contract agreement

Customers will be quoted an annual percentage rate (APR). This paper shows the key features of the loan and gives the customer a moment to consider if the product suits their circumstances before going ahead to complete the proper credit agreement.

We've loaned against everything from boats, planes and helicopters to a Picasso and a Lowry.

**James Constantinou**  
Prestige Pawnbroking

### Sign the credit agreement

This document shows a number of things – including the customer's legal protections and rights, the amount being borrowed, monthly interest rate and interest charges, amount to be repaid in £'s, duration of the loan, the right to withdraw and the APR. The credit agreement is also known as the 'pledge ticket or pawn receipt'. The customer signs to say they wish to proceed and the pawnbroker will log a copy of the 'ticket' with the item and put the item in the safe (or secure it elsewhere if it's a larger item).

**The customer immediately receives their money.**

### How long is the loan period?

A pawnbroking loan is usually for 6 months or sometimes 7, but it can be paid off at any time or part payments made. This reduces both the total amount due and the future amount of interest to be paid.

### How do you redeem the loan?

Interest is calculated on a daily basis, this is a legal requirement. The pawnbroker makes their money from interest charged on the loan – just like a bank or other type of lender does. The pawnbroker actually wants you to get your goods back, because they receive full payment and you get the satisfaction of keeping your goods. Also, if you don't collect the goods they have the complication of selling the item and you may not be able to use their services again if the item is no longer available to you to pawn again.

### What are the consequences of failure to redeem the loan?

If you do not redeem your property by the end of the contract, if the loan you received was more than £75 the pawnbroker will sell the item, notify you of sale within 20 days and after deducting what he is owed, return any surplus funds to you (you will need to go and collect these from the pawnbrokers premises or by other arrangement for internet pawns).

If the loan was for £100 or more, you will be notified in writing, of the pawnbrokers intention to sell the property prior to its' sale.

Where any loan is made for £75 or over and it has to be sold upon no-collection, you will receive a letter giving the result of the sale and laying out all the information in respect of the sale (date sold, amount received, amount deducted as owed to the pawnbroker and any surplus/deficit).



## Can I trust the Pawnbroker with my valuables?

The National Pawnbrokers Association (NPA) is recognised and respected by the Office of Fair Trading, and Trading Standards. Each NPA member is visited by either a committee member of many years of service or the Chief Executive and all must comply and be up to date with the law and our Association's Code of Practice. Our members must be of good character with suitable equipment such as computer software to ensure financial calculations are all correct, CCTV security, good quality safes and other compliant systems.

Pawnbrokers fully appreciate that their business survives because of the trust customers have in them when they hand over their property. Legally as a 'bailee for reward' the pawnbroker has a duty of care to his clients and their property. Members of the NPA in particular will have proved themselves to be worthy lenders. In offering secured low risk loans pawnbrokers will never need bailing out as the banks have been.

## Economics and modern living

There is no doubt about it – Charles Dickens did the pawnbroker no favours in his historical portrayal of the industry, but in fairness to him, undoubtedly some Victorians did experience "The worst of times"! However, in the 21st Century, things are considerably different. Pawnbrokers are professional, computerised, issue regulated consumer credit agreements and offer all the standard consumer protections associated with consumer credit lending. Their shops are bright, welcoming and modern. Consequently, the type of customer

now, is a discerning, modern-thinking consumer who chooses to borrow from a pawnbroker for the speed and convenience. Pawn loans satisfy this need perfectly. We all expect things at double quick speed, from internet services to takeaway deliveries, and a pawnbroker is the only secured lending business that provides immediate cash loans. Ordinarily the entire process from the customer's arrival, to leaving with their cash loan, will be completed in under 5 minutes.

The average customer is a person in paid employment who simply has to settle a short-term cashflow need and such customers range from the person wishing to borrow £50 for a few days to the small business owner, or executive, requiring tens of thousands of pounds to finance school fees, higher utility bills, car breakdowns or even that well-deserved holiday!

In addition, a new breed of pawnbroking customer has emerged pawning very valuable high-end goods (such as art, classic or high performance cars, antiques, watches, exquisite diamond and gemstone jewellery, and in a few cases items such as private aeroplanes. They enjoy the immediacy of pawnbroking rather than the long-winded, complex, and sometimes unsuccessful process of trying to borrow from a bank

Welcome to modern pawnbroking – a financial solution and transaction used by many more people of all social ranges than you might realise. No other form of secured borrowing can compete with the hassle free, uncomplicated and immediate cashflow benefit that a pawnbroking loan offers.

You just can't get a bank loan for a couple of months, we just don't have that relationship with them anymore.

**Mark Landsberg**  
handing over keys to his Porsche 911 to pay a tax bill

BBC Breakfast Jan 2012 found Pawnbroking to be a good option for borrowing small sums, short-term and borrowing from the banks to be the most expensive.

## Cost and calculation of Loans

The APR is a calculation of interest for a one year period. So for example 6% per month over 6 months would have an APR of 84.9%. Pawn loans are designed for short term borrowing but the APR calculation gives a method by which borrowers can compare cost between lenders. The typical pawnbroking loan is redeemed after about 3 – 4 months and so most are redeemed early. Many are repaid within thirty days and so for example after one month the customer would typically repay £6 in interest and the £100 loan, totalling £106. The rate will reduce depending on the size of the loan down to perhaps 2 or 3%.

Most pawnbrokers apply no set-up fees or other charges, nor does compound interest apply. It is a very simple and transparent arrangement. They employ staff that can properly assess valuable items at speed.

BBC Breakfast Jan 2012 found Pawnbroking to be a good option for borrowing small sums, short-term and borrowing from the banks to be the most expensive. This is not reflected in the APR because banks do not have to quote an APR on overdraft loans;

If you borrow £100 a month you pay back on average	
Pawnbroking	£108*
Pay Day Loan	£155
Bank Overdraft - unauthorised	£200+
*Pawnbroking percentages change with market competition and may often be less than 8%	

## APRs - Understanding APR's?

The philosophy behind the Annual Percentage Rate (APR) is that by calculating loans on the same basis and expressing this as an annual rate, it would create a level playing field enabling the borrower to compare the real cost of borrowing from one lender to another.

Here is an example of the calculation. Assume that the transaction is for a loan of £100.00 at a monthly rate of 7% i.e. £7.00 per month on a 6 months contract, i.e. it is a single repayment contract with all amounts due repayable as a single lump sum at the end of the contract on redemption. Let us use the actual number of days of the loan rather than months and for this example take the start date as 1st January 2011 with termination date 30th June 2011.

### Use the regulation 5 formula:

$$APR (\%) = 100 \left\{ (1 + C/P)^{365/t} - 1 \right\}$$

C = interest = 42.00  
(6 months at £7.00 per month)

P = loan = 100.00

t = 181 days out of 365 (6 months)

$$\begin{aligned}
 APR(\%) &= 100 \left[ (1 + 42/100)^{365/181} - 1 \right] \\
 &= 100 \left[ (1.42)^{365/181} - 1 \right] \\
 &= 100 \left[ (2.02815) - 1 \right] \\
 &= 100 [1.02815] \\
 &= \mathbf{102.815}
 \end{aligned}$$

We could then say that an APR is a useful tool and of course the recognised mathematical calculation for comparing lending products, but in reality it is not always quite so great at making a comparison between a long and short-term loan product.

Many economists have questioned the use of APRs (an annual measure) in demonstrating the cost of short term loans which were never intended to be taken out for a year. The NPA believes that APRs are not a good measure because they compare secured loans designed for the short term with products like mortgages which are a commitment for up to 25 years. Here are some similar examples to explain this.

**1** You go for a weekend away with the girls, but forget your purse. A friend lends you £50 for the weekend, and you repay her with a glass of wine the following week. You have just paid a % APR which is close to infinity in effect, but are you furious? No, you are delighted she was able to help you out.

**2** You travel to London to see its wonderful parks or galleries, and at the posh hotel reception are told it will be £100 per night. Do you jump up and down and say “Hey, that’s £36,500 a year just for one room !!!” or do you happily sign in, delighted that there is something so clever as a place where you can go for instant accommodation when YOU need it.

**3** Sometimes you travel by train, and travel hundreds of miles for relatively little money per mile. However, trains cannot come to your door at 1:00am and take you directly to the party to collect your stranded teenage child! A taxi will be more expensive per mile, but for the shorter, bespoke journey and immediate availability you are again delighted that the option is available.

The point we are making is that the cost of a product is not always price – and for speed and convenience and immediate accessibility, then certain loan products, such as pawnbroking are just perfect for helping out if you have a short-term cashflow problem.

Most  
pawnbrokers  
apply no set-up  
fees or other  
charges, nor  
does compound  
interest apply.

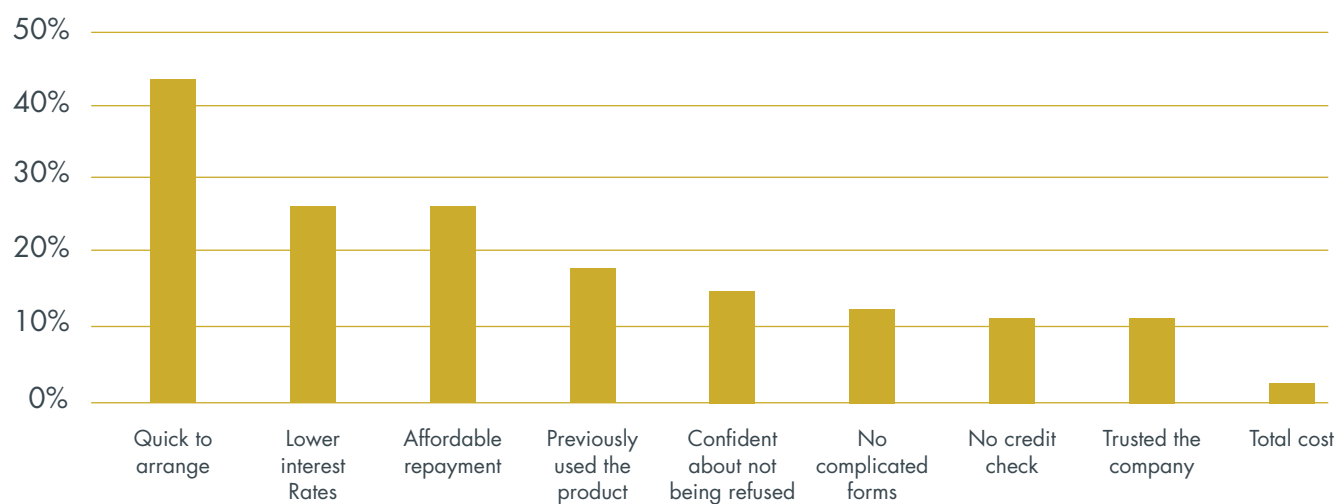




## NPA - Key Facts at a glance

Pawnbroking market	£850m
Average Market Growth	15%
Direct employment in Pawnbroking	10,000+
Pawnbrokers stores	2000+
Average loan	£150 to £200 – 2 to 3 times a year
Loans per year	Over 2 million
Average time to repay	3.5months
Redeem within 14 days	Circa 10%
Sex of customer	Female 59%
Redemption rate	88% redeem
Customer satisfaction	95%
Customers loyal to one Pawnbroker	71%
Complaints to Ombudsman Upheld in 2012	2
Most popular item pawned	Gold ring
Number of UK adults that don't have a bank account	8 million+

### Reasons for taking out agreements



### Growth in the UK Pawnbroking market size/£m



Sources-Apex Insight Nov 2012

Bristol University Personal Finance Research Centre report - Pawnbroking Customers in 2010

Bristol University, Dept for Business Innovation and Skills (BIS) March 2013

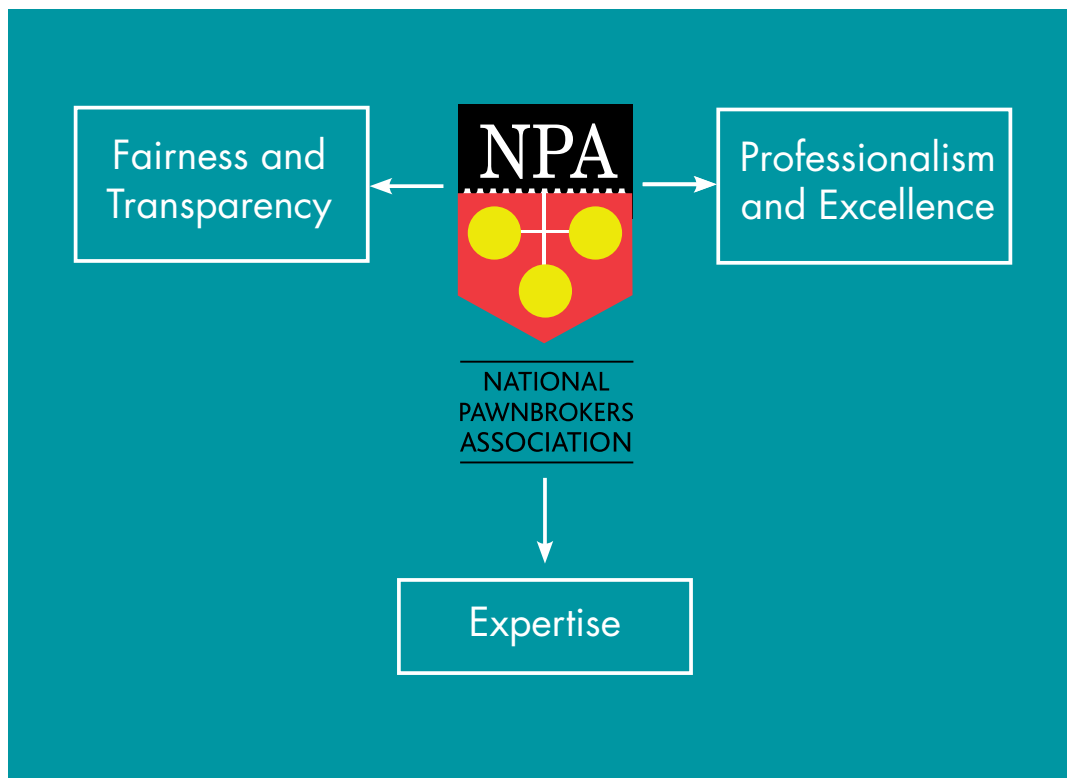
## About the NPA

The NPA was founded in 1892 and incorporated in 1931 as a company limited by guarantee. In June 1989, with the benefit of almost a century of experience, it reviewed and re-wrote its original constitution. The review had several purposes, but was undertaken in particular:

- to take account of the expansion of the pawnbroking industry
- to ensure that its affairs and those of its members were more efficiently regulated
- to protect the public interest

The NPAs values are fairness and transparency, professionalism and excellence, and expertise. All our members are bound by our rules and by a customer code of conduct. Nearly all pawnbrokers are members. However, if they do not display the NPA sign they are not bound by our code.

NPA co-founded the Gold Standard with Police in 2012, a countrywide recognised seal of best practice for the purchasing of precious metals that ensures the very highest standards of conduct in the gold buying industry.







The National  
Pawnbrokers  
Association (NPA) stands  
for fairness and transparency,  
professionalism and expertise

## More Information

The National Pawnbrokers Association (NPA)  
**[www.thenpa.com](http://www.thenpa.com)**

Financial Ombudsman Service  
**[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)**

The Office of Fair Trading (OFT)  
**[www.oft.gov.uk](http://www.oft.gov.uk)**

Money Advice Service (MAS)  
**[www.moneyadvice.service.org.uk](http://www.moneyadvice.service.org.uk)**

Citizens Advice Bureau (CAB)  
**[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)**

Savvy Woman  
**[www.savvywoman.co.uk](http://www.savvywoman.co.uk)**

Find out about consumer rights at  
**[www.oft.gov.uk](http://www.oft.gov.uk)**

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