

The Use of Pawnshops in the US

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The number of pawnshops and their use by Americans has constantly grown in recent years and the market data report that around 6.5 million Americans used a pawn loan at least once in 2013. This type of alternative financial service features a short maturity (on average 1 month), a dollar amount (on average \$150) and a very high APR (up to 240%). The use of such a financial product seems to be more frequent within the unbanked, suggesting that pawnbrokers may be a lender of last resort for their customers.

The study analyses the determinants of the use of pawnshops in the US taking into account a set of financial characteristics of the pawn loan users, including their financial knowledge and controlling for personal characteristics and the availability of pawnshops in the consumers' geographic area.

Data from the FINRA National Financial Capability Study (NFCS) 2012, representing more than 25,000 American adults, have been matched with data from the US Census Bureau, which provided information about the number and the distribution of pawnshops in the US and the population of each of the 50 states and the District of Columbia.

Results from a set of regression analyses showed that the use of pawn loans is more frequent among people with financial difficulties (bankruptcy, foreclosure, difficulties in covering expenses, large drop in income), while higher levels of financial literacy and having used mainstream financial products (e.g., checking accounts and saving accounts) were negatively related with the use of pawn loans. At the same time, the typical user of pawn loans seems to be male, young, and with less education and lower income. Finally, even after controlling for the above-mentioned variables, an easy access to pawnshops increased the likelihood of use. All of these results are consistent with the hypothesis that pawnshops represent the lender of last resort for a population of consumers that are potentially at financial risk, suggesting the need to monitor the practices of the pawnbroking industry in order to guarantee effective consumer protection within the alternative financial services market.

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