HOW PAWNSHOPS WORK

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A pawnbroker makes loans on personal property left as collateral. The property can be redeemed when the loan plus interest is repaid.

The interest rates for pawnshops, which may be regulated by state or local laws, may range from 5% to 6% a month. Loans can usually be renewed, but only if the interest for the original period has been paid.

Pawnbrokers will accept a variety of personal property as collateral. Usually, items that are small or of modest value (jewelry, clocks, computers, camcorders, silverware, etc.) Brokers won't lend more money than they think they can get if the pledged item is not redeemed and has to be sold.

When a pledged item is not redeemed, brokers are required to notify pawners that the loan period has expired and to give them a final opportunity to redeem their personal property before the broker has the right to sell the item. In some jurisdictions, brokers may keep all the money received from the sale of the unredeemed pledge. In other cases, the broker may only keep the original loan and any interest due, but must turn any excess over to the pawner.

In many states, pawnbrokers are required by law to file with the local police a daily list of items that have been pledged. They must report and give a description of the object along with serial number and other points of identification.

This gives the police an opportunity to check these pledge items against any list of reported stolen items. In somebody buys a stolen item from a pawnbroker, it must be returned, and the broker must refund the purchase price to the customer.

DEBT LIMIT. Installment debt should not exceed 10% of take-home pay. A debt ratio of 20% indicates trouble ahead. However, when computing for your debt ratio, you must not include mortgage payments in the amount of debt.