

Brooklyn Daily Eagle

In Tough Times, Do Pawnshops Do Better or Worse?

by Brooklyn Eagle (edit@brooklyneagle.net), published 08-20-2010

In Downtown Brooklyn, Gold Remains Key 'Currency'



Ken Conn, of Gem Pawnbrokers on Schermerhorn Street, says that after the financial crisis, "Pawnbrokers were thrown into the mainstream as an alternative way to bank."
Eagle photo by Patrick Egan

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DOWNTOWN BROOKLYN — Mike Galper has time to answer a few questions. He wishes that wasn't the case. In a blink, he'd trade his sleepy afternoon at Downtown Pawnshop on Fulton Street for an irate customer, as long as he had a chance to improve the ragged state of his business.

For decades, pawnshops have provided short-term credit to people with limited options when hard times strike. Relative to other borrowing, pawning an item proves expensive. Now, in a sign that the recession is far from over, especially for the working class, these alternative lending sources are confronting financial problems of their own.

"This is the year that it [the recession] started for pawnshops," said Galper. He runs the Downtown Brooklyn store for his father, Boris, who opened the shop 16 years ago.

Many Fewer Customers

January was their peak month for 2010 with 364 customers. And Galper said that's awful. Four years ago, Downtown Pawnshop served 1,000 customers a month. Since that January peak, the Galpers have been averaging 200 to 300 customers.

Pawnbrokers can either buy an item at a discount for resale or make a loan against its value. New York state law dictates that a loan be no less than four months. That's why pawnbrokers, when talking interest rates, quote the monthly figure of 4 percent.

That's not the way most people talk about interest rates, though. The monthly rate makes the transaction more palatable to the customer.

A loan of a couple of hundred dollars means customers only spend a few bucks a month to retain ownership of their precious items while accessing quick cash. It seems reasonable. But annualize the rate, then add in the extra fees for insurance and storage, and pawn customers are paying well above 50 percent for access to credit.

Compare that to more mainstream loan products. A used-car loan runs about 7.5 percent these days. Credit-card companies are charging about 16.8 percent, according to Index Credit Cards. And most cards allow for a 25-day, interest-free grace period. Pawn customers rack up interest as soon as they walk out the door.

Customers Usually Return

Contrary to popular beliefs, pawn customers usually come back. Few items are sold to satisfy the loan. Mike Galper said his customers retrieve more than 80 percent of what they pawn. Ken Conn of Gem Pawnbrokers on Schermerhorn Street said that only one of every 10 customers forfeits his or her collateral. "We're in the loan business, not the retail business," said Conn.

The soaring price of gold, once a boon for pawnshops, is a major factor in its current problems. As gold's value rose 176 percent over the last five years, pawnbrokers couldn't buy jewelry fast enough. And the clientele did well, too. Now, however, customers have little to pawn.

"Pawnbrokers tend to have long-term relationships with their clients," said Emmett Murphy, a spokesperson for the National Pawnbrokers Association. Both Conn and Galper mentioned the connections they've formed with customers. "Some customers come in here religiously," said Galper. "Pawn, take it out. Pawn, take it out."

He said that his business is barely able to collect enough interest to cover the rent. "If gold keeps going up, the economy is going to keep suffering. Especially on Fulton Street," said Galper.

These neighborhood businesses will continue to count on its regulars. And regulars will count on pawnshops to help them through their financial pinches. Ena James said that she'd been coming to Downtown Pawnshop for years and appreciates the familiarity. "That's why people come to here," she said. "Because they're safe."

She said she makes \$8 an hour caring for the mentally handicapped. It's the city's high cost of living that keeps bringing her back, to fill the gaps in her budget.

She was the only customer for a full hour on a sunny Friday afternoon. She renewed the loan on a piece of jewelry and then scattered down Fulton Street, with only a commitment to pay more interest in the future. Mike Galper left the confines of his bulletproof booth and headed out to the sidewalk for a peaceful smoke amid the hordes of shoppers.

Pawnshops don't always look as we might imagine them. Many stores don't carry what they described as "odd and ends"—cameras, musical equipment and so on. Ken Conn said that Gem Pawnbrokers currently has sound gear, cameras and vintage musical instruments. In the past, the company has sold bought and sold movie props, estate jewelry, grandfather clocks, antique radios and even a suit of armor.

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