

Pawnbrokers and Title Loans

There aren't a lot of pawn shops in Las Cruces, especially compared to some other cities, but there are plenty of title loan companies ready to "help" you in your time of financial need. Don't use pawn shops or title loan companies! NMSU has a great financial literacy program:

<http://careerservices.nmsu.edu/red-to-green/> If you use it, you should be able to avoid troublesome loan businesses.

Loan sharks are a different matter and are regulated by New Mexico criminal law. A loan shark is defined as someone who loans you money with the understanding that if you're late paying it back or can't pay it, they will use violence or other criminal acts to induce you to find a way. If you get an offer from a loan shark, you need to report it to the police so the District Attorney can consider prosecution.

How do pawn shops work? You take some property of yours that is worth something and give it to them. They pay you part of its value. You can get your stuff back (the legal term for this is "redeem") by paying a higher amount, usually a short time later. If you don't redeem it, the pawnbroker keeps and sells it.

New Mexico law limits the amount you can borrow from a pawn shop to \$2,000 at one time. The law limits the amount of interest to the larger of \$7.50 or 10 per cent of the amount lent for the first month of the loan. After the first month, the pawn shop can charge no more than 4 per cent per month until the loan is paid off. A borrower can negotiate with the pawn shop for an interest rate that is lower than the maximum allowed by law. Remember, 10% for the first month is 120% APR and 4% per month after that is 48% APR!

Under New Mexico law, there is no specific deadline to pay back the loan. That means that the pawn shop and the borrower work out the due date. The due date must appear on the pawn ticket that the shop gives the borrower. If the borrower can't pay the money back by the due date, the pawn shop has to carry out a series of steps. First, it must wait 90 days before the item left there becomes the property of the pawn shop. Then, before the property is

sold, the borrower is entitled to written notice that he or she has 10 more days to pay off the debt and get the item back. If the pawn shop sells the item for more money than the borrower owes the pawn shop, the pawn broker must tell the borrower in writing that money is due to the borrower. If the pawn shop sells the item for less than the amount still due on the loan, the borrower still owes the balance even after the item is sold. Now can you see why this is a bad deal?

How do title loan companies work? The borrower is making a secured loan, like when you buy a new car and borrow the money to pay for it. The difference is that when you own the car, why would you borrow money against it? Borrowers who can't make the payment when it comes due, usually after a month, often pay another fee to extend the loan. This cycle creates a debt treadmill. The amount borrowed averages more than \$800. Also, the lender holds title and may be entitled to repossess the car.

New Mexico is one of only 16 states that explicitly allow car-title lending! (A few other states have loopholes that the industry has exploited).

Repossession of the car is common: 60% of 2008 New Mexico car-title borrowers lost their car that year to repossession. The state doesn't regulate the interest rate charged, so the APR on loans made in 2011 ranged up to 717%!

Karl Rysted, the NMSU Student Legal Aid Attorney, is licensed in Oklahoma, holds a 1-year Public Employee Limited License in New Mexico, and is a former Professor of Consumer Law and Consumer Bankruptcy at the Oklahoma City University School of Law. Mr. Rysted would like to acknowledge the source for the above statistics, the report "Car-Title Lending: The State of Lending in America & its Impact on U.S. Households" by the Center for Responsible Lending, July 2013. For an appointment with Mr. Rysted, please call 646-4419.