

2013 HOUSE INDUSTRY, BUSINESS, AND LABOR

HB 1357

2013 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee Peace Garden Room, State Capitol

HB 1357
January 28, 2013
Job 17794

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Usury and pawnbrokers

Minutes:

Attachments #1 & 2

Hearing opened.

Representative Kreun: Introduced the bill. Page 2, line 1, is the only change. We are asking for a change from \$1,000 to \$10,000. This is a new segment of business as far as retail goes. This is a viable retail portion of these stores. Pawn brokerage is a relatively small portion of their business. Banks do not want to deal with small loans for a couple thousand dollars. This becomes a market available to certain individuals. The interest rates vary from 5 to 7 percent. They fall under some of the usury laws. What happens to some of the individuals who use this, they can get only \$1,000 for their merchandise even if it is worth more. If they cannot come back in time, they lose the rest of the value. These are non-recourse loans, so there is no impact on their credit rating no matter what happens. It does not get turned over to collections. The reason for the increase is a business decision.

Representative Ruby: In this limitation, is this only on the pawning/loaning side, or is it also on the purchasing side?

Representative Kreun: This is only for the pawning/loaning side.

Representative Gruchalla: With a bank when you get a loan for real property, the requirements are different. For pawnbrokers, if we raise the limit to \$10,000 would they have the same requirements if they are dealing in real property?

Representative Kreun: All interactions are documented. Most is even video transferred. They are inspected by the law enforcement. There is always the concern of stolen merchandise.

Representative Gruchalla: (5:46) Real property has other banking requirements. Someone could borrow \$10,000 through this bill and buy real property without having to go through the other requirements.

Representative Kreun: (6:25) I don't think that would be as easy as it sounds.

Chairman Keiser: When we go to \$10,000, do we bring into play any of the banking requirements?

Representative Kreun: I'll refer that question to the banking people.

Support:

Ken Tupa with the North Dakota Pawnbrokers Association: (7:44) (Distributed attachment #1.) Offered background on pawn loans. Up until the 1950s pawn brokers were considered the main source of consumer credit. Pawn loans are short-term loans secured by collateral such as jewelry or tools. This type of loan does not require a credit check or impact a consumer's credit. Many people depend on pawn brokers to meet the needs not met by other financial institutions. What was handed out to you, attachment 1, is a letter from Jay Couture, the President of the North Dakota Pawnbrokers Association. He highlighted some of the elements in the written testimony provided by Jay Couture.

Representative Gruchalla: I heard the percentage of 3 to 5%. What would be the annualized rate if someone were to borrow \$1,000 from a pawnbroker?

Ken Tupa: I will defer that to a pawn broker.

Representative N. Johnson: How long has the \$1,000 been the limit?

Ken Tupa: I believe that was put there in 2001, along with the definition of a transaction. For context, the price of gold today is \$1,600 per ounce. In 2001, it was likely less than \$400.

Chairman Keiser: When an individual comes to a pawnbroker, they have two options: sell, or put it into a pawn agreement. Right now with the \$1,000 limit, a diamond worth \$20,000, the person would have to sell it or would have to settle for the lower amount.

Ken Tupa: That is correct. The third option would be to sell the ring to a jewelry store. What we're asking for here is to be able to provide that form of consumer credit.

Chairman Keiser: There is no limit on the sale price?

Ken Tupa: That is correct, to my knowledge.

Nicholas Couture with Jay's Pawn Shops: There were questions about loans for trailer houses, etc. We stay away from them because we have to have the collateral physically on our premises.

Chairman Keiser: How many transactions are you losing because of this limitation?

Nicholas Couture: About three a week. A lot of it does pertain to gold. When gold was \$300 per ounce, rings and things were less. Now the same ring is worth more. When they hear that we can only go up to a \$1,000 they get upset. They like to borrow money and then come back and pick it up.

Representative Sukut: (15:30) What is the typical length of a pawn contract?

Nicholas Couture: The typical loan is thirty days. We have yet to have a loan go a year.

Representative Sukut: If a customer has a thirty-day contract but cannot pay off the loan at the end of the period, do you give him an extension?

Nicholas Couture: If he could pay the interest fee which is 7% and take another month.

Chairman Keiser: What is the actual interest rate annualized? Is it 5-7% each month?

Nicholas Couture: Each month.

Chairman Keiser: So on \$10,000 that would be \$700 per month.

Representative N. Johnson: Scenario. If I came in with a \$15,000 ring but I only wanted to borrow \$2,000. Is that a bad way to do it?

Nicholas Couture: You can borrow the amount you need even though the collateral is worth more.

Chairman Keiser: This is a huge increase. Why do we need to go to \$10,000 rather than \$5,000?

Nicholas Couture: Looking ahead with a lot more expensive items coming in, this allows us to stay competitive in the future.

Representative Boschee: (18:15) Is there a national average of what the limit is state by state?

Nicholas Couture: It varies state by state. In Las Vegas they hold items for three months. There is no limit on the dollar amount

Chairman Keiser: Requested data from surrounding states regarding limits.

Representative Kasper: (18:57) If someone comes in with a \$10,000 ring and borrows \$2,000 against it for a one-month contract. If the person cannot pay the interest at the end of the month, and can't pay the loan back, do they lose their collateral? Does the law require you to extend it?

Nicholas Couture: It can be extended. The contract is for a minimum of 30 days. I honor the contract. If they want to extend it, I have to honor the contract.

Representative Kasper: If I have a thirty day contract and cannot pay back the loan or the interest, do you have the option not to renew the contract?

Nicholas Couture: The pawnbroker would have the option not to renew.

Representative Kasper: (20:17) We have a public at risk by a pawnbroker that wrote a 30-day contract with the hope that the property is his.

Nicholas Couture: That is possible.

Representative Becker: So if a person has a \$10,000 ring and borrows \$1,000 but cannot pay it back at the end of the month. At the end of 30 days, they owe \$1,070. Do you keep the ring and give them the difference in the value or do you just keep the ring?

Nicholas Couture: We would keep the ring. We wouldn't be in business for 27 years doing that.

Representative Amerman: How is the interest rate regulated? Could you raise it to 9% and then have a better chance of keeping these higher end items?

Nicholas Couture: There is no regulation on interest rate in North Dakota. We regulate each other as far as competition goes. People come in and check the rate.

Chairman Keiser: The state of North Dakota does have a usury rate law. This is exclusion to that law. This allows them to charge 7% per month because it is an exclusion up to the \$1,000 or \$10,000 limit.

Representative Boschee: Back to Rep. Becker's scenario: at what point does the property become yours to sell, or is there a time period that the person comes due on their loan?

Nicholas Couture: If the loan is for 30 days, we usually have a 10-day grace period. After 10 days it goes on our pull list for about a week. So they have about 2 weeks to let me know their intentions. After that, if I don't hear from them, I assume they don't want it.

Representative Kasper: (24:10) Under our law, could you write a ninety-day loan? Are you limited to a 30-day loan?

Nicholas Couture: We are limited to 30 days.

Representative Kasper: Would you have an objection to be able to write a ninety-day loan?

Nicholas Couture: No

Chairman Keiser: This is seen as a consumer friendly law. If the exclusion were \$10,000, what would you give me as a maximum?

Nicholas Couture: I'd give you 80% on a ring.

Chairman Keiser: If I default, my loss is \$2,000 vs. \$9,000 with the law as it is now. This would benefit the customer.

Nicholas Couture: It allows us to be more competitive with the other stores that don't have to follow the same regulations that we do.

Chairman Keiser: If it is only \$1,000, I only have to come up with \$70 additional to reclaim it. When you lend me \$10,000, that amount is \$700.

Dana Bohn, Greater North Dakota Chamber of Commerce: Distributed written testimony from Jon Godfread, (attachment #2). (27:24)

Neutral: none

Hearing closed.

Representative Becker: It gives the consumer more options. There are risks, but the consumer may not have other choices.

Representative Becker motions for a do pass.

Representative Amerman: Representative Kreun is out, and he may want to have it held.

Representative Kasper: Would like us to consider some amendments on this bill. If we are increasing the amount of the loan, we should consider increasing the time of the loan.

Representative Ruby: They can always extend by paying the interest. Seconded motion.

Chairman Keiser: I do think we might consider requiring pawnbrokers to give two thirty-day extensions where the interest can be carried forward. If this is your only choice and you have an item worth \$10,000, the most you can get right now is \$1,000. That is not a good deal.

Representative Ruby: If they can extend that and the interest is accruing, now they are 3 months later with 3 times the interest. If they couldn't come up with it the first time, can they come up with it later?

Representative Kasper: Right now, the pawnbroker can take the item after 30 days if you don't pay the interest. When you're getting into larger items, a required extension of two additional 30 days should be added before they can foreclose. I am more for requiring an extension.

Representative Ruby: If we are going to require them to extend it, are we going to require that the interest is carried as well? Now we are tying up more of their funds. The other thing is, they could go to a jewelry store. I don't know that we're limiting everyone else as much as the pawnbroker.

Representative Kasper: (34:00) This opens up potential for abuses. An extension would be a legitimate add-on to this bill. If a person brings in a large item and needs the money, the odds of them being able to pay back a \$5,000 loan in 30 days are very small. I hope we look at some type of extension.

Chairman Keiser: (35:50) In the example, the item is \$10,000 and the loan is for \$8,000. To extend it 30 days and then to reclaim it would be a mistake. Your expenses would have been \$2,100.

A Roll Call vote was taken: Yes 13, No 0, Absent 2. (Reps. Louser & M. Nelson)

Do Pass carries.

Carrier: Representative Gruchalla

Date: 1-28-2013

Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1357**

House Industry, Business, and Labor Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider Consent Calendar

Motion Made By Becker Seconded By Ruby

Representatives	Yes	No	Representatives	Yes	No
Chairman George Keiser	✓		Rep. Bill Amerman	✓	
Vice Chairman Gary Sukut	✓		Rep. Joshua Boschee	✓	
Rep. Thomas Beadle	✓		Rep. Edmund Gruchalla	✓	
Rep. Rick Becker	✓		Rep. Marvin Nelson		
Rep. Robert Frantsvog	✓				
Rep. Nancy Johnson	✓				
Rep. Jim Kasper	✓				
Rep. Curtiss Kreun	✓				
Rep. Scott Louser					
Rep. Dan Ruby	✓				
Rep. Don Vigesaa	✓				

Total Yes 13 No 0

Absent 2

Floor Assignment F Gruchalla

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1357: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **DO PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING).
HB 1357 was placed on the Eleventh order on the calendar.

2013 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1357

2013 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

HB 1357
March 19, 2013
Job Number 20114

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to usury and pawnbrokers

Minutes:

Testimony Attached

Chairman Klein: Opened the hearing.

Representative Kreun: Introduced the bill. (2:25-6:25)

Jon Godfread, Greater North Dakota Chamber of Commerce: Written Testimony Attached (1).

Ken Tupa, North Dakota Pawn Brokers Association: Written Testimony Attached (2).

Jay Couture, Owner of Jay's Pawn Shop: In support of the bill. He answered questions about the pawn business. (17:25-29:50)

Bob Entringer, Commissioner of the Department of Financial Institutions: Said his interest is simply because of questions on usury that come to their department. They don't regulate pawnbrokers but they do get all the questions.

Chairman Klein: Closed the hearing.

Senator Andrist: Moved a do pass.

Senator Laffen: Seconded the motion.

Roll Call Vote: Yes - 7 No - 0 Absent - 0

Floor Assignment: Senator Klein

**2013 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1357**

Senate Industry, Business, and Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Andrist Seconded By Senator Laffen

Senators	Yes	No	Senator	Yes	No
Chairman Klein	x		Senator Murphy	x	
Vice Chairman Laffen	x		Senator Sinner	x	
Senator Andrist	x				
Senator Sorvaag	x				
Senator Unruh	x				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Klein

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1357: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1357 was placed on the Fourteenth order on the calendar.

2013 TESTIMONY

HB 1357

HB 1357
January 28, 2013

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1-28-2013
HB 1357

From Jay Couture.
Owner Jay's Pawn Shops (27 years experience).
President, North Dakota Pawnbrokers Association (NDPA)

Chairman Keiser and members of the House IBL Committee:

The ND Pawnbrokers Association supports the increase to the pawn loan limit proposed in HB 1357. While the current limit of \$1000.00 is adequate to serve many pawn loans, the increase is necessary to meet many other customer needs.

Currently, in cases where a customer needs more than \$1000.00, several pawn tickets may be needed, one for each item such as jewelry, tools, electronics, etc. However, there are times where several pawn tickets for individual items are not possible. For example, a 3 carat diamond ring, a gold Rolex, a 100 oz. bar of silver, or a 10 oz. bar of gold. Consequently, we cannot satisfy the customer's loan needs because of the \$1000 limit.

As the above listed items are presented as collateral for pawn, the pawnbroker's option and the customer's only choice is offering and accepting the \$1000.00 limit or denying the loan. It isn't fair for the customer and frankly does not reflect well on pawnbrokers. All of this can be quite frustrating for the customer and pawnbroker.

\$1000.00 is not what it used to be. The popularity of pawn television series have brought renewed attention to this form of consumer credit. Increasing the limit to \$10,000 is probably over due, and is necessary.

Thank you for your consideration of this bill. The NDPA fully support this adjustment to the current statute.

Sincerely,

Jay Couture
President, NDPA

Testimony of Jon Godfread
Greater North Dakota Chamber of Commerce
HB 1357
January 28, 2013

Mr. Chairman and members of the committee, my name is Jon Godfread and I am here today representing the Greater North Dakota Chamber of Commerce, the champions for business in North Dakota. GNDC is working on behalf of our more than 1,100 members, to build the strongest business environment in North Dakota. GNDC also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce. As a group we stand in support of HB 1357.

HB 1357 seeks to modernize the pawnbroker regulations in our state. Under current law, both pawnbrokers and consumers are limited to a pawn loan of \$1,000, regardless of the value of the merchandize. As you might imagine this limit can be restrictive to both the business owner and consumer. A pawn loan is really a collateralized loan; an individual brings in merchandise the pawnbroker estimates the value, and negotiates a pawn value.

This is a transaction between two willing parties. Pawn loans are traditionally held for 60 days, and generally on high end goods such as jewelry, high end watches, riding lawn mowers, gold coins (right now an ounce of gold is selling for approximately \$1,600). As you can imagine the \$1,000 threshold can be reached very quickly. Should the consumer default on the pawn loan, the pawnbroker is then entitled to the merchandise. It is also important to note that pawn transactions do not involve the credit bureaus in any way, if the loan is defaulted on the pawn business keeps the merchandize and the consumer keeps the money. It's a non-recourse transaction, if the consumer walks away the pawn business does not come after him for repayment or debt collet, the business simple keeps the collateral.

The pawn business fills a need within our communities, especially here in North Dakota. We now have a transient workforce but our goal is for many of them to put down roots in our state. However, given some of the issues job seekers might have faced in other states, being upside down on their house, facing foreclosure, having debt of all kinds, a pawn loan maybe the only way some people can make ends meet until they get on their feet in North Dakota.

Increasing this limit to \$10,000 is a benefit for both the pawn business and the consumer as it will allow consumers more options in their pawn dealings, and allow the pawn broker to pay a fair price for their goods.

Thank you for the opportunity to appear before you today in support of HB 1357, I urge this committee to recommend a Do Pass. I would happily attempt to answer any questions.



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HB 1357
March 19, 2013

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Champions  Business

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HB 1357
March 19, 2013
Senate IBL Committee
Ken Tupa, ND Pawnbrokers Association

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