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PAWNBROKER TO BANKER?

The leading provider of payday loans to cash-strapped Minnesotans expands its financial services — but consumer advocates aren't happy.

BY SHERYL JEAN
Pioneer Press

Brad Rixmann's face may be familiar as the pawnbroker who pitches gold chains, DVDs and other used wares on late-night television commercials.

He's changed the face of pawnshops in Minnesota over the past 15 years, lending a touch of retail glitz to a business fueled by down-on-your-luck transactions at high loan rates. His Pawn America stores are big, bright and clean. Gleaming guitars hang on the wall. Rows of neat shelves are stocked with stereos, power drills and other merchandise traded for cash.

Now Rixmann wants to transform payday lending, a business that provides quick cash to strapped people at a high cost that's attracted plenty of criticism.

PayDay America, Rixmann's creation, is part of a new breed of businesses pushing the boundaries of banking. They include giants like Wal-Mart, which aim to cater to the millions of U.S. consumers whose needs aren't met by traditional banks.

PayDay America already has state clearance to morph beyond its core business of making small loans — a couple of hundred dollars is typical — to deals worth as much as \$100,000. It can also offer savings accounts, mortgages and provide other services as what regulators call an "industrial loan company."

It's a lender's fantasy: charging triple-digit annual percentage rates on richer loans to a built-in customer base.

"I see this as a tremendous advantage to provide our customers more products and services," Rixmann, 40, said. "We want to build this into a financial institution. Most people don't see us as a real financial services company."

And some want to keep it that way. Consumer activists, certain lawmakers and bankers are worried that industrial loan companies are nothing more than a giant legal loophole. It opens the floodgates, they say, for opportunistic players to prey on consumers, not to mention chisel away at a market now controlled by traditional banks.

"It's hard to imagine a payday lender becoming a bank, and treating the community fairly and actually providing services that meet the community's needs," said Jordan Ash, adviser for financial justice for the Association of Community Organizations for Reform Now in St. Paul.

BIGGEST PAYDAY LENDER

Rixmann grew up in Edina. He never finished college, opting for the family commercial real estate business. He became intrigued by pawnshops, and opened an outlet in Robbinsdale in 1991. Today Pawn America is the largest pawnshop chain in Minnesota and one of the nation's largest privately owned chains.

It wasn't too much of a stretch from pawnshops, which essentially are lenders, to payday lending.

PayDay America is the biggest payday lender in Minnesota, with 11 locations opened statewide since 2000. Rixmann is majority owner of the separate businesses.

PayDay America lends people money against their next paycheck or a fixed-income source, such as a Social Security check. The average loan is about \$300 for two weeks, at fees of \$20 to \$30.

Payday loans have attracted criticism because of their high cost when expressed as an annual percentage rate — as if the cost were spread over a year. APRs can range from 200 percent to 1,000 percent, according to the Federal Deposit Insurance Corp. (FDIC).

PayDay America said it made \$34.4 million in loans last year, generating \$2.7 million in fees and interest. Its number of loans has increased an average of 25 percent a year.

Payday lending has surged in the past decade, and outlets have migrated from blighted urban areas to suburban strip malls. In Minnesota, payday loans totaled \$37.2 million to nearly 143,000 people in 2004, the most recent state totals available. That's up from \$1 million in loans to 4,107 borrowers in 1999.

Nationally, payday lending is a much bigger business: More than \$50 billion in loans were made last year.

This fact may explain the growth of short-term lending options: A study last year by ACNielsen found that more than one-quarter of working Americans live paycheck to paycheck.

Several customers at PayDay America outlets in the Twin Cities said they've needed cash in a hurry to cover large or unexpected expenses such as a car insurance payment, medical expenses and the death of a loved one.

"I was in a little bind," said Maynard Branson of Cottage Grove, who recently repaid a PayDay America loan. "My energy bill got a little high — about \$1,000 — this winter. I figured this would be easier than going to the bank."

RANGE OF SERVICES

Rixmann's battle plan for PayDay America includes:

- Allowing existing borrowers to get loans via telephone.
- Financing purchases made at Pawn America stores within a year and eventually to other pawnshops nationwide.

- Offering savings accounts to customers within two years.

Under its new status, PayDay America already is making loans up to \$750 at higher fees and interest vs. its previous cap of \$350. It may offer loans up to \$1,500 at a later time, Rixmann said.

"I think we can provide all of the services for a lot less than anyone else can," Rixmann said. "We offer the payday loan product at a rate that most other payday lenders say they could never remain in business. We control our bad debt."

The formula is pretty basic: More products and services should draw more customers and help boost revenue and profit margins.

PayDay's much larger, publicly traded Atlanta-based counterpart CompuCredit Corp. has started adding services such as installment loans, car loans and credit cards to its more than 500 payday-lending outlets.

"The real bottom line is that if you have more than one type of product being sold through your store then you can spread out your fixed costs through a greater number of transactions," said Bob Rochford, deputy general counsel for Financial Service Centers of America, an industry trade group. A pure payday lender needs about 300 monthly transactions to turn a profit, while a diversified lender needs just 180, he said.

RISKY BUSINESS

Federal regulators view payday lending as risky. A year ago, the FDIC limited payday loans to six per person per year and suggested that lenders find alternative financing to help customers who max out.

Consumer activists think a payday lender — called worse than a loan shark by some — expanding under an industrial loan license is bad news for consumers.

It's "part of a long string of efforts by payday lenders to evade whatever the protections are," said Jean Ann Fox, director of consumer protection for the Consumer Federation of America. "The question is whether the Minnesota Legislature intended for small loan companies to make loans that are beyond the limits of their payday loan laws."

Minnesota's Deputy Commerce Commissioner Kevin Murphy acknowledged a legal loophole, which has let many companies skirt fee and expansion restrictions under payday loan and check-cashing licenses. Five payday loan and check cashing companies in Minnesota have become industrial loan companies since 2003.

PayDay America will face new risks and increased regulation, which could mean more paperwork that will likely require more time, expertise and expense.

Regulators will closely watch PayDay America to ensure that it has enough capital to cover more loans, that its lending practices are sound and that troubled loans are controlled. The company will be subject to many of the same regulations as banks, such as financial examinations by regulators and federal privacy and money-laundering laws.

Rixmann is optimistic. Pawn America and CashPass — a prepaid debit card business he founded in 2003 — already fall under many state and federal regulations, he said.

He also noted that PayDay America's loan qualification system and its in-house collections department help keep loan losses down. The automated qualification system crunches a consumer's financial information and determines if the person is approved for a loan, for what amount and interest rate.

Last year, the company wrote off about \$954,000, or 3,069 loans, as losses because they weren't likely to be repaid. But unlike many of its smaller rivals, its collections staff got customers to repay part or all of 1,303 of those loans, recovering nearly \$566,000 to lower its losses and increase its profits.

MORE LOCATIONS

In addition to more services, Rixmann wants to add more locations to peddle them. This year, he plans to open four new PayDay Americas, including its first out-of-state location in Sioux Falls, S.D. New outlets are connected to or located near a Pawn America store.

He's also spiffing up appearances. New and relocated outlets will look more like the Fridley location, which resembles a trendy bank-meets-loft look complete with concrete floor, exposed pipes and pendant lights hanging from the ceiling.

Longer term, Rixmann said a name change may be in order. Pawn America and PayDay America don't quite capture the broader services that he envisions. Besides, even retail glitz can't erase a bad image.

"Pawn is a dirty word," Rixmann said. "We just can't get away from the stigma."

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