

Minnesota Pawnshop wants to change industry's image

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Star Tribune

Published Feb. 2, 2003 PAWN02

Every rock and roller who makes a bargain with the world seems to end up doing business with Brad Rixmann.

More than a dozen electric guitars line the walls of Rixmann's Pawn America store in Bloomington. Towering speakers and amplifiers crowd the aisles, and the shelves are overflowing with keyboards, sound mixers, saxophones and the occasional drum set.

But Pawn America is more than a way station for the detritus of "American Idol" wannabes. Increasingly, the 15-store chain is where bargain hunters descend in search of deals on jewelry, electronics and tools. Most retailers reported dismal results in 2002, but retail sales at Burnsville-based Pawn America surged 18 percent.

"Our growth is coming from people who would normally never think of shopping in a pawn store," said Rixmann, 37.

But retail sales are only half of Pawn America's business. Like most pawnshops, it is a lender of last resort. That fact, a host of other stereotypes associated with pawnshops, and a maze of regulations that govern them, have proven to be among the biggest obstacles to Rixmann's growth plans.

Pawn America already has fought -- and lost -- two expensive legal battles to open stores in Minneapolis, and its efforts to open a second St. Paul store have met stiff opposition.

When Rixmann applied recently to open a new Pawn America store on Suburban Avenue on St. Paul's East Side, the City Council hastily adopted a moratorium on new businesses in the area. A week after the moratorium was introduced, the council granted an exemption for Krispy Kreme Doughnuts Inc.

A doughnut shop is good for the neighborhood, said Kathy Lantry, a city council member for the area. A pawnshop is not.

"Don't tell me they're providing a valuable service," Lantry said of pawnshops. "They're ripping off poor people."

That attitude is one reason Cash-N-Pawn Inc., another Minnesota-based chain, is expanding outside the state.

"We would love to open more stores in Minnesota," Cash-N-Pawn CEO Jack Hartsoe said. "But I can't afford to invest \$500,000 in site planning only to have a city change its

zoning."

Pawnshops may be only the second-oldest profession, but for much of history they've long been held in the same regard as the first. It is an image burnished by Hollywood -- consider Rod Steiger in the 1964 film "The Pawnbroker" -- but grounded in reality, too. For a long time, pawnshops really were seedy outlets frequented by thieves on their way out of town.

All that began to change two decades ago, when some investors, backed by Wall Street, spotted an opportunity to bring economies of scale to what was already a profitable business.

The dark, disorganized stores tucked away in the most desperate urban neighborhoods gave way to larger, cleanly lighted spaces located in suburban shopping centers and backed by sophisticated marketing and advertising campaigns. Pawnshop operators willingly adopted computerized reporting systems to crack down on trading in stolen goods, and a trade association was formed. In addition to lobbying, it developed a code of ethics designed to help clean up the industry's image.

Between the early 1980s and 2000, the number of pawnshops operating in the United States more than doubled, to about 14,000. Today, Texas-based Cash America Inc. operates more than 400 pawnshops in 18 states and abroad.

Minnesota has about 150 pawnshops, though fewer than 50 are members of the National Pawnbrokers Association.

A big reason for the growth: a sharp increase in the number of U.S. households that don't have bank accounts. By some estimates, as many as 20 million adults do not have a savings or checking account. Instead, they cash their paychecks or personal checks at cash-checking outlets, use money orders to pay their bills, and turn to "fringe bankers" such as pawnshops and payday loan outlets when they need to borrow money.

"The credit rating for a typical pawnshop customer does not make them eligible for mainstream credit," said Robert Caskey, a Swarthmore College professor and author of "Fringe Banking: Check-Cashing Outlets, Pawnshops and the Poor." "These are people who live with no savings."

### **Changing image**

Rixmann also thought pawnshops were unsavory, unsafe places until he visited one for the first time in 1990. After a year of research and planning, and only after a long conversation with his family's pastor, Rixmann opened his first store in Robbinsdale. It was in the same location as another pawn store, which had been shut down by city officials for running an illegal poker game in its basement.

Rixmann's first store had no merchandise to sell, little money to lend, and an owner who

still needed to learn a lot about appraising merchandise. During his first month, Rixmann lent \$2,600 to one woman for two diamond rings. He sold them for \$2,300, a huge loss given that most for-sale items in a pawnshop are marked up 100 percent.

Despite the inauspicious beginning, Pawn America's business soared. "I couldn't raise money fast enough to open new stores," Rixmann said. He borrowed money from private individuals, often at interest rates as high as 30 percent, and his own home went into foreclosure three times as he plowed all profits back into the business. "My wife went to the sheriff's auction twice to redeem the mortgage," he said.

Like the large, publicly traded pawnshops, Rixmann set out to spruce up the industry's image and attract new customers. His stores, which feature bright yellow awnings and signs, are located on high-traffic streets in the suburbs. Most Pawn America stores are about 8,000 square feet, though his newest, in Fridley, is 17,000 square feet. Male store employees are required to wear ties.

Pawn America will do loans as large as \$100,000, though its largest loan to date is about \$40,000. Customers have taken loans against a Picasso painting and a Rolls-Royce automobile, but most transactions are much smaller.

In 2002, Pawn America's 15 stores averaged 500 pawn transactions per day and lent an average of \$40,000 per day. The average loan was about \$100, and the average effective interest rate, which includes service charges, on a typical 30-day loan was 24 percent.

Early on, however, Rixmann concluded that Pawn America's future lay in positioning itself as a retailer first and a lender second. His decision to advertise on local television stations led to a split with early investors, who went on to start Cash-N-Pawn.

Rixmann's strategy is the opposite of most pawnbrokers, who consider themselves lenders first and retailers by default, said Hartsoe of Cash-N-Pawn. In practice, that means lending out as little as possible against a television or a watch. Lending too much means running the risk that a customer won't reclaim those items, leaving the pawnbroker with merchandise he or she may or may not be able to sell.

Rixmann said he's willing to lend more than other pawnshops because Pawn America has developed a retail identity, and retail sales are key to the chain's future growth.

That explains why the average loan at Pawn America is larger than the average loan at Cash America, a publicly traded chain that is 15 times larger. Less than 65 percent of Pawn America's customers repay their loans, while closer to 70 percent of Cash America's do. Pawn America offers a seven-day cash refund and a 30-day credit on all sales, while Cash America sells all items as is.

Most tellingly, retail sales represent about 65 percent of net sales at Pawn America, compared with 37.5 percent of net sales at Cash America.

"I believe pawn stores are just that: stores, not shops," Rixmann said. "The industry would do better for itself if it was treated as a true retail business."

### **Risk involved**

Rixmann's strategy is not without risk. Prices on some goods, such as electronics, are always falling, and any secondhand retailer that doesn't respond quickly could be stuck with a lot of unwanted inventory. For now, though, Pawn America's approach appears to resonate with consumers conditioned to look for deals and who, thanks to eBay and online classified ads, no longer attach any stigma to buying used merchandise.

But that hasn't made it any easier for Rixmann to sell Pawn America to neighborhood activists and elected officials in Minneapolis, St. Paul and likely elsewhere. Their complaint: Pawnshops traffic in human misery by charging high interest rates to people desperate for money. When Pawn America tried to open a store at E. 38th St. and Chicago Av. S. in Minneapolis, residents worried that it would be a ready source of cash for drug addicts.

Caskey, of Swarthmore College, believes those charges are unjustified. Interest rates are high, he acknowledged, but so are the risks.

"They provide a useful social function for people who need a small loan and can't get it anywhere else," Caskey said. "Do people use the money for things that aren't good for them? Sometimes, but people who borrow money from a bank don't always use it for good things, either."

Attorney Marshall Tanick brought a class-action lawsuit against Minnesota pawnbrokers in the late 1990s, claiming they violated Minnesota's usury laws. Pawn America and Cash-N-Pawn were named in the suits, which were eventually settled for a total of \$1 million.

Some pawnbrokers in Minnesota were charging interest rates in excess of 30 percent per month, Rixmann acknowledged, but he said the lawsuit had little impact on the rates Pawn America charges.

Tanick, who said he still owns a footlocker he bought from a pawnbroker while in college, said pawnshops have their place.

"I think they serve a useful purpose if properly regulated and restrained," he said.

### **Various charges**

Minnesota law allows pawnshops to charge 3 percent interest per month and a "reasonable" monthly charge for service and storage fees. That charge helps defray Pawn America's operating expenses, which include more than \$250,000 it pays annually for the computerized reporting system it is required to subscribe to, as well as annual licensing

and investigation fees it pays to each city, which range from \$5,000 to \$15,000.

Still, both Rixmann and Hartsoe believe the industry would be better served if the state set specific amounts pawnbrokers can charge.

In Texas and Oklahoma, for example, pawnshops can charge interest and service charges of 20 percent per month on any loan under \$150. In Florida, pawnshops can charge a maximum of 25 percent per month.

Each of the three national chains has looked at Minnesota and explored possible acquisitions of Pawn America and Cash-N-Pawn, but they've been scared away by the state's low interest rates and ambiguous service charges.

"What we think is reasonable some attorney might think is usurious," Hartsoe said.

The growth of pawnshops has slowed in recent years with the advent of payday lenders. Indeed, most of the big pawnbroker chains now have payday lending services, as well.

Rixmann opened Payday America a few years ago, but that concept, while profitable, has not been as successful. Minnesota state law limits loan amounts to \$350, but Payday America caps its loans at \$250. The maximum interest rate allowed on \$350 loans, 6 percent, is not enough to justify the cost and risk of the loan, Rixmann said, and people who want to borrow more "can drive to Wisconsin and borrow up to \$5,000 at 20 percent interest."

Rixmann continues to look for a Pawn America site in Minneapolis. He's also planning to open in Mankato, and he's trying to develop a smaller-store prototype for markets such as Willmar, Alexandria and Fairmont. In the next couple of years, he hopes to move into Wisconsin and Iowa.

In the meantime, he's still weighing whether to sue St. Paul over its moratorium. Lantry's constituents may enjoy having a nearby doughnut shop, but Rixmann is convinced they'd like a Pawn America, as well. "The people in her ward who need money or are looking for a bargain would probably disagree with her," he said.

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