

Approved 3-25-91
Date

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs

The meeting was called to order by Sen. Edward F. Reilly, Jr. at
Chairperson

11:00 a.m. ~~p.m.~~ on March 21, 1991 in room 254-E of the Capitol.

All members were present ~~except~~:

Committee staff present:

Mary Galligan, Legislative Research Department
Deanna Willard, Committee Secretary

Conferees appearing before the committee:

John Bottenberg, Kansas Pawnbrokers Association
Detective Randy Murphy, KCK Police Department
Detective David Barnett, Topeka Police Department
Gene Yockers, Real Estate Commission
Karen France, Kansas Association of Realtors
Ron Smith, Kansas Bar Association
Jim Maag, Kansas Bankers Association
Jeff Sonnich, Kansas-Nebraska League of Savings Institutions
Jim Irish, Office of Thrift Supervision

Hearing on: HB 2390 - Relating to the amounts of loans made by pawnbrokers.

John Bottenberg, Kansas Pawnbrokers Association, appeared in support of the bill, listing reasons for removal of the Kansas loan limit. (Attachment 1) He distributed copies of an article published by the Federal Reserve Bank of Kansas City titled, "Pawnshops: The Consumer's Lender of Last Resort," (Attachment 2) and a copy of a pawn ticket, a police report ticket and a map indicating existing loan limits on a state-by-state basis. (Attachment 3)

Detective Randy Murphy, Kansas City, Kansas, spoke in support of the bill. His responsibilities include auditing pawnshops. He said there were about 296,000 articles pawned in the city last year. A \$5,000 limit would assist him by expediting paperwork.

Detective David Barnett, Topeka, supported raising the limit to at least \$5,000. He said the higher the limit, the more careful pawnshops will be on what they loan money on. \$300 is way out of date.

Written testimony was submitted urging favorable consideration of the bill from Representative Sherman Jones. He introduced the legislation in view of cooperation by pawnbrokers and realizing the \$300 lid has been in place for 20 years. (Attachment 4)

A motion was made by Senator Yost and seconded by Senator Morris to recommend the bill favorably. The motion carried.

Hearing on: SB 376 - Amends the State Certified Real Estate Appraiser Act.

Gene Yockers, Director, Kansas Real Estate Commission, introduced two members of the Kansas Real Estate Appraiser Board. He explained the bill and the provision for transitional licenses. He urged the committee to act quickly on the bill as they are facing a July 1, 1991, date upon which state licensed or certified appraisers must be used for federally related transactions. (Attachment 5)

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs,
room 254-E, Statehouse, at 11:00 a.m./~~p.m.~~ on March 21, 1991

Senator Bond asked, "Are we going to do the minimum by the feds?" Mr. Yockers said, "We are now in that position." Senator Bond said, "I want to make sure that we are doing the least we can do."

Karen France, Kansas Association of Realtors, said they have been working right along with the board to make sure there are enough appraisers out there. She said some provisions actually loosen up current law. Though they don't like the requirement, they support the bill and the amendment.

Ron Smith, Kansas Bar Association, requested that the minutes reflect their concern that this bill be the least restrictive option.

Jim Maag, Kansas Bankers Association, expressed support. He wished to echo the concern expressed by Senator Bond that we do no more than is necessary to meet federal requirements. They fear that rural counties could run into a shortage of certified appraisers after July 1; this bill needs to move quickly. They are encouraging persons in those areas to prepare for this. Once they have initially qualified, they would have continuing education hours. (Attachment 6)

He explained that Title XI requires that all states by July 1, 1991, must have in place an appraisers law whereby people are certified to do different types of appraisals. The kicker is that any federally related transaction (federally insured transaction,) any loan involving real estate over \$50,000, would require a certified appraiser.

Jeff Sonnich, Kansas-Nebraska League of Savings Institutions, presented testimony supporting SB 376, saying it will bring Kansas law closer in line with federal law. He attached a letter from the Federal Financial Institutions Examination Council, August 16, 1990. He said most of the concerns raised in the letter were addressed by the adoption of the appraisal regulations proposed by the Kansas Appraisal Board. Others require changing the current statutes. (Attachment 7)

Jim Irish, Office of Thrift Management, said they are charged with administering FIRREA as far as thrifts are concerned. He said Kansas is doing a good job of complying.

Mr. Maag said that members of the real estate commission staff have labored under difficult circumstances to bring Kansas into compliance, that they have been faced with changing guidelines from Washington. His sentiment was echoed by Mr. Irish.

A motion was made by Senator Bond and seconded by Senator Ehrlich to adopt the amendment suggested by the real estate commission to delete P. 3, Lns. 15-16 to make it consistent with the deletion of the definition of "certified appraisal" on P. 1. The motion carried.

A motion was made by Senator Bond and seconded by Senator Daniels to recommend the bill favorably as amended. The motion carried.

A motion was made by Senator Morris and seconded by Senator Bond to introduce for Senator Francisco an act relating to unlawful acts of licensees of club and drinking establishments, Draft 1 RS 1431. The motion carried.

A motion was made by Senator Strick and seconded by Senator Daniels to introduce an act requiring certain reports concerning terminations of pregnancies, Draft 1 RS 1385. The motion carried.

A sheet entitled, "Selected Induced Abortion Statistics" was distributed. (Attachment 8)

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs,
room 254-E, Statehouse, at 11:00 a.m.~~p.m.~~ on March 21, 1991

The Chairman appointed a subcommittee on: SB 375 - Amending the
Kansas Racing Act.

Sen. Vidricksen, Chairman; Sen. Ehrlich, and Sen. Anderson

The minutes of March 19, 1991, were approved.

The meeting was adjourned at 11:45 a.m.

GUEST LIST

COMMITTEE: Senate Fed + State Affairs

DATE: 3-21-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
James H. Irish	2063 SW Regency Pkwy Dr Topeka, KS 66604-4142	Dept of the Treasury Office of Thrift Supervision
Jim Maus	Topeka	KBA
Gene Yockers	TOPEKA	KREC
Jean Duncan	Topeka	KREC
Pat Goodson		Right To Life of KS
Don Lindsey	OSAWATOMIE	UTU
John C. Bottenberg	Topeka	Ks Pawnbrokers Assn
Dave Barnett	Topeka	Topeka Philad Dept
Carol Pendleton	Prairie Village	Ka Parl Est. Appt. Committee
Vivian Craig	Topeka	Ka Parl Est Appraisal Board
Tuff Smith	TOPEKA	KNLSI
Abraham Jacob Gorelick	020 Minnesota K. C. Kansas	Sam's Loan Office
Randall Murphy (Det)	KC Ks Police Dept.	
Tim Hylton (Police CADET)	KC Ks. Police Dept.	
Alan Steppat	Topeka	Pete McGill & Associates
Don Budd	1000 CENTRAL KCLIS	Central Pawn
Cleta Remyer	Sabetha Mo	Right to Life of Mo
DARRELL JOHNSON	TOPEKA	Paradise City Pawn 3487
Pat Hall	Topeka	Battenberg & Co.
[Signature]	Wichita	A-OK Pawn SHOPS
Chuck Stones	Topeka	ILBA
KAREN FRANCE	TOPEKA	KAR

**TESTIMONY BEFORE THE
SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
BY JOHN C. BOTTENBERG
KANSAS PAWNBROKERS ASSOCIATION
MARCH 21, 1991**

Mr. Chairman and Members of the Committee:

I appear before you in support of H.B. 2390 as amended on behalf of the Kansas Pawnbrokers Association.

The Kansas Pawnbrokers Association started in early 1970 and has 35 members of the approximately 100 pawnbrokers licensed to do business in Kansas.

History of Pawnbroking

The history of pawnbroking in the Western World goes back to 15th Century Italy. Charitable groups and governments in continental Europe and Latin America opened non-profit pawnshops as public services to the poor. In England and the United States, pawnshops were almost exclusively privately owned and operated for profit.

Senate F&SA
3-21-91
Att. #1

Regulation of Pawnbrokers

Today in the State of Kansas, pawnbrokers are closely regulated:

They must be licensed by their City or County.

They must be Kansas residents for at least two years.

They may have no felony convictions within ten years.

All their business records must be available for inspection.

A written contract is required for each loan.

Loans may be made for a maximum term of one month.

A maximum loan charge is fixed.

A redemption period of two additional months is required.

At least weekly reports of pledges or purchases must be made to licensing entities.

Pawnbrokers are prohibited from making loans to anyone under 18.

They are prohibited from buying merchandise from anyone under 18.

Customers

A wide variety of people use pawnshops. A typical customer would include a small business person who needs to meet a payroll or to purchase supplies to complete a project. Pawnshop customers include thousands of Kansans who do not maintain accounts with banks or do not have credit cards or credit histories.

They want the convenience of getting a short-term loan with a minimum of paper work, and the ability to reclaim their personal property without having to sell it.

Reasons for Removal of the Kansas Loan Limit

1. Area State Laws:
 - Colorado - No limit.
 - Missouri - No limit.
 - Nebraska - No limit.
 - Oklahoma - \$25,000.00.
2. Only eight states limit loan amounts.
3. Inflation since 1972.
4. Banks are reluctant to make small collateralized loans.
5. Higher costs of maintaining bank accounts.
6. Increased competition for higher dollar loans.
7. Eliminates paperwork for local law enforcement.

Attached is a copy of an article published by the Federal Reserve Bank of Kansas City titled, "Pawnshops: The Consumer's Lender of Last Resort." Also included are a copy of a pawn ticket, a police report ticket and a map indicating existing loan limits on a state-by-state basis.

I would be glad to answer any questions at this time. Thank you.

Pawnshops: The Consumer's Lender of Last Resort

By John P. Caskey and Brian J. Zikmund

Legislators and financial regulators have long been concerned with consumers' access to credit markets. With the extensive deregulation of the financial system in recent years, this concern has focused on the access of the economically disadvantaged to credit markets. Most discussion of this issue has centered on financial institutions' fulfillment of the requirements of the Community Reinvestment Act and on the need for legislation guaranteeing basic banking services to all consumers. Surprisingly, however, little or no attention has been paid to credit alternatives for those excluded from mainstream financial institutions.

This article examines the role of the pawnbroking industry in providing credit to consumers excluded from mainstream credit markets. The

John Caskey is an assistant professor of economics at Swarthmore College and a visiting scholar at the Federal Reserve Bank of Kansas City. Brian Zikmund is a student at Swarthmore College. The authors would like to acknowledge the support of the Swarthmore College Research Fund and the Joel Dean Foundation. The views expressed in this article are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City.

study has two principal motivations. First, while pawnshops are an important source of credit for many low-income consumers, no serious study of pawnbroking in the United States has been made since the 1930s. Second, and more important, the study of pawnbroking may give policymakers a better idea of the cost of being excluded from mainstream credit markets and so may assist in judging the potential effectiveness of consumer financial legislation.

The first section of this article discusses the role of pawnbroking in consumer credit markets. The second section describes the business of pawnbroking, including the regulation of the industry and the characteristics of pawnshop loans. The third section examines the geographic distribution of pawnshops and the growth of the industry. The fourth section discusses some policy issues related to pawnbroking and consumer credit.

I. An Overview of Pawnbroking

Pawnshops are one of many financial institutions supplying consumer credit, yet they do not

compete directly with other financial institutions for customers. Rather, they lend to those excluded from mainstream financial markets. This section discusses consumer lending of mainstream financial institutions, the role played by pawnshops in consumer finance, the magnitude of credit extended by pawnbrokers, and growth trends in the industry.

Mainstream consumer credit institutions

The major suppliers of consumer credit are mainstream financial institutions—commercial banks, finance companies, credit unions, and savings and loan associations. These institutions provide credit on either a secured or an unsecured basis. Secured credit is common for large-value loans, such as home mortgages and automobile loans. Unsecured lending is more common for small-value loans, such as those for items purchased with credit cards.

In providing consumer loans, whether secured or unsecured, mainstream financial institutions screen customers for credit risk. In the case of an unsecured loan, the rationale for this procedure is obvious since the financial institution has no collateral if the borrower defaults. In the case of a secured loan, the screening is important because the collateral may be worth less than the loan and because significant costs often arise when transferring collateral in case of default.

To determine credit risk, mainstream financial institutions generally employ a fairly standardized screening method, called "scoring." Among the variables commonly used in determining a credit score are the applicant's years on job, education, occupation, checking and savings account status, credit card ownership, total outstanding debt excluding mortgage debt, and credit repayment history. Applicants likely to be denied access to credit are those with poor credit records, excessive debt burdens relative to their incomes, low and unstable incomes, or an

inability to maintain positive bank account balances.

Pawnshops and their customers

Pawnshops play a specialized role in consumer finance. They cater to those consumers whose credit needs are not accommodated by mainstream financial institutions. Broadly speaking, pawnshop customers have two characteristics. First, these customers have high credit risk and so cannot borrow on an unsecured basis. Indeed, pawnshop lending rules require the borrower to leave personal property with the pawnbroker as collateral. Second, pawnshop customers typically require very small-denomination loans that traditional lenders are unable or unwilling to provide on a secured basis.

While there are no estimates of the percentage of the population whose risk characteristics exclude them from mainstream consumer credit sources, available evidence suggests the number is large. Moreover, the poor and poorly educated are disproportionately represented. Not only are many low-income consumers excluded because of their income, but they are also much more likely than the middle class to have unstable incomes and employment patterns (Andreason 1975). In addition, many consumers, especially those with low incomes and little education, do not maintain bank accounts, almost ensuring they would not pass the typical screening requirements of a bank or finance company. For example, the Federal Reserve Board's 1983 Survey of Consumer Finances found that 12 percent of all families did not have a checking or savings account (Canner and Maland 1987).¹ Of these families, 57 percent fell into the lowest quintile for family income, and 59 percent were headed by individuals without a high school education.

Interviews with pawnshop owners support this picture of pawnshops and their customers.² While pawnbrokers report customers from all segments of society, the overwhelming majority

are low-income individuals who operate independently of mainstream financial institutions. Brokers believe most of their customers would not pass bank or finance company credit-risk screening procedures. Brokers also suspect some of their customers would feel ill-at-ease in a bank because they rarely or never interact with banks.

Cash America Investments, a publicly traded company operating about 100 pawnshops in Texas, Oklahoma, and Louisiana, is typical of pawnbrokers in its description of its customers. For example, in its 1988 Annual Report, Cash America states,

It has been estimated that 20 to 30 percent of America's adult population chooses to deal with cash-only transactions which require neither bank accounts nor credit cards . . . These are Cash America's customers. (p.5)

While pawnbrokers believe most of their customers turn to pawnshops for credit because other financial institutions are closed to them, they also point out that some of their customers, with access to bank or finance company credit, use pawnshops for their discretion and convenience. This is especially true at the small minority of pawnshops that target their business to middle-income and high-income customers by setting comparatively high minimum loans, accepting only jewelry as collateral, and offering the discretion of private booths for taking out a loan.

The significance of pawnbroking in consumer credit markets

Measured by the percentage of total consumer credit supplied, pawnshops may appear to play only a minor role in consumer credit markets. However, measured by the number of pawnshops or the percentage of the population served, pawnshops appear to play a much more

important role in consumer finance.

Unfortunately, there are no official estimates of the amount of credit supplied by pawnshops. Thus, for example, national statistics on total domestic credit collected by the Federal Reserve System do not include an estimate of outstanding pawnshop loans. The only data available on pawnshop lending come from state regulatory agencies. While some states collect very detailed information on pawnbroking, other states collect little or no information.

According to estimates made by the authors, pawnshops are probably the source for about one-tenth of 1 percent of consumer credit in the United States. Extrapolating from the data provided by a few state regulatory agencies, total pawnshop credit outstanding at the end of 1988 would appear to be about \$689 million, with pawnshops making about \$1,723 million of loans over the year.³ For comparison, outstanding consumer credit at the end of 1988 totaled \$744 billion, of which \$371 billion was accounted for by commercial bank loans, \$174 billion by finance companies, and \$87 billion by credit unions.

By other measures, however, pawnshops are important in consumer credit markets. For example, in 1988 approximately 6,900 pawnshops operated in the United States—about one pawnshop for every two commercial banks.⁴ In addition, pawnbroking is very significant when measured by the percentage of the population using this credit market. In 1988, the data suggest pawnshops made about 35 million loans. Because the average pawnshop loan is only around \$50, even allowing for multiple loans to a core group of customers, pawnshops probably serve several million Americans each year, and perhaps as much as 10 percent of the adult population.

Trends in pawnbroking

In examining the pawnbroking industry over

time, three observations stand out. First, the number of pawnshops and pawnshops per capita is now larger than it was at the beginning of the century. Second, over time the industry has shifted from a concentration in older major urban areas, primarily in the Northeast, to Southern and Central Mountain states. Third, in the 1980s, the pawnbroking industry grew in almost all states for which there are data; and in some states the growth was extremely strong.

Perhaps one of the reasons pawnbroking has been overlooked in credit market studies is because there is a popular perception these credit institutions have largely died out since the 1930s. In fact, this appears to be the case in many other advanced industrialized societies. In Great Britain, for example, approximately 3,000 pawnshops operated in 1900. In 1987, only about 175 remained (Lohr 1987).

In the United States, in contrast, pawnbroking has not died out. On the contrary, it has grown. Samuel Levine reported there were 1,976 licensed pawnbrokers in the country in 1911—about one for every 47,500 citizens (Levine 1913). Now, there are nearly 6,900 pawnshops in the United States—about one for every 35,700 inhabitants.

The industry has not only grown since the turn of the century, but it has also shifted from older major urban areas to urban and rural areas in the Southern and Central Mountain states. Levine noted that in 1911 pawnshops were heavily concentrated in the major urban areas: citing 201 pawnshops in greater New York City, 102 in Philadelphia, 77 in Chicago, 72 in Boston, and 47 in San Francisco. A contemporary count for Levine's cities yields 15 pawnshops in New York City, 23 in Philadelphia, 13 in Boston, and 20 in San Francisco. At the same time, 893 pawnshops operated in Florida in 1988, 515 operated in Georgia, 285 in North Carolina, 369 in Oklahoma, and 1,270 in Texas. Today's per capita distribution of pawnshops is highly uneven across the United States (Figure 1). Sunbelt and

Central Mountain states tend to have the most pawnshops per capita, while the New England and Great Lake states have the least.

Recent data suggest the pawnbroking industry grew in the 1980s—in some states very rapidly. Time series data on state pawnshop licenses are available for only a few states, but the available data show the number of outstanding pawnshop licenses grew in six out of seven states (Table 1). In Oklahoma and Texas, part of the rapid growth in pawnbroking may be explained by the economic disruptions caused by the fall in oil prices. However, the data show strong growth in Texas pawnshops from 1980 to 1982, which predates the downturn in the state's economy. Of the seven states reporting data, only New Jersey shows a contraction in the industry.

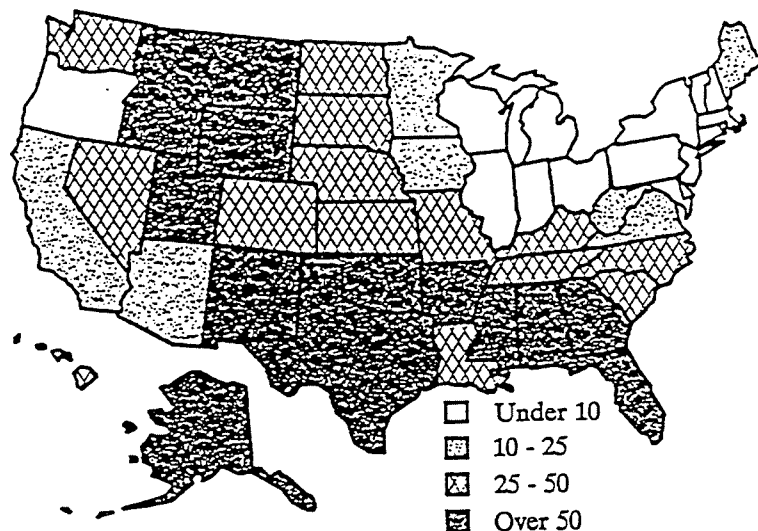
II. The Business of Pawnbroking

Financial historians trace the birth of institutionalized pawnbroking in the western world to the later Middle Ages. Starting in fifteenth-century Italy, charitable groups or governments in Continental Europe and Latin America opened nonprofit pawnshops as a public service for the poor, a tradition persisting to this day. In England and the United States, on the other hand, pawnshops were almost exclusively privately owned and operated for profit.⁵

The regulatory environment

Beginning in England in 1745 and later spreading to the United States, governments generally saw a need to license and regulate private pawnshops. Without regulation, governments worried pawnshops might aid in the transfer of stolen goods. Governments also wanted to prevent unscrupulous brokers from taking advantage of unsophisticated or desperate customers in need of credit. In England, the national government established the regulations;

Figure 1
Pawnshops per Million Inhabitants



in the United States, state and local governments oversaw pawnbroking.

In the United States, pawnshop regulations currently vary from state to state, but generally follow a similar pattern. When a customer pawns an item, terms of the loan contract must be specified on a pawn ticket. The customer retains a copy of the ticket which states the customer's name and address, type of identification provided by the borrower, a description of the pledged item with applicable serial numbers, amount lent, maturity date, interest rate, and amount that must be paid to redeem the good. This last requirement ensures the customer understands the consequences of the interest charge. Pawnshops must also file daily or weekly police reports listing all items pawned and identifying the individuals

pawning the goods.⁶ In addition, some states regulate the type of items that can be pawned.⁷

Most states regulate pawnshop interest rates and other charges, such as storage or insurance fees. Including these charges, effective interest rate ceilings vary across states from 1.5 percent a month to 25 percent a month.⁸ Compounding is not allowed. A few states impose no limits, and the legal limits are widely ignored in some other states. In most states, the broker has the right to charge one month's interest if a pledge is redeemed in less than one month.

If a customer defaults, the collateral becomes the property of the pawnshop after the loan is overdue by a specific amount of time, commonly one to three months. Most states require the broker to notify the owner of the

Table 1
Pawnshop Licenses per Million Inhabitants

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Indiana						
Number of shops	26	25	25	28	28	32
Shops per million capita	4.7	4.6	4.6	5.1	5.1	5.7
Maine						
Number of shops	8	10	8	9	12	13
Shops per million capita	7.1	8.8	6.9	7.7	10.1	10.8
New Jersey						
Number of shops	27	22	16	15	15	16
Shops per million capita	3.7	3.0	2.1	2.0	2.0	2.1
Oklahoma						
Number of shops	n.a.	279	312	340	351	369
Shops per million capita	n.a.	86.6	93.9	102.8	107.3	113.1
Oregon						
Number of shops	11	13	14	13	13	13
Shops per million capita	4.2	4.9	5.2	4.8	4.8	4.7
Pennsylvania						
Number of shops	27	28	29	30	32	37
Shops per million capita	2.3	2.4	2.4	2.5	2.7	3.1
Texas						
Number of shops	787	953	980	1,103	1,195	1,270
Shops per million capita	55.3	62.0	60.9	66.1	71.2	75.7

Source: State regulatory agencies.

pledge by mail that he will lose the right to his property unless he redeems it within the stipulated grace period. In case of default, some states require the collateral be sold at public auction. Thirteen states and the District of Columbia require any surplus from the sale of the collateral over the amount owed the pawnbroker, including accumulated interest and any costs related to the sale, revert to the customer.

Regulatory barriers to entry into pawnbroking are minimal. States or local governments require a license, and some require the broker to be bonded and insured. Even with these requirements, however, a pawnshop can be opened with a modest amount of capital. While a publicly traded company owns a chain of pawnshops in the South Central United States, the vast majority of pawnshops are small shops

that are independently owned and operated. The typical pawnshop owner finances his loans with his own capital and with bank credit.

Characteristics of pawnshop lending

As noted earlier, pawnshops occupy a special niche in consumer finance by providing a type of lending not performed by mainstream financial institutions. Broadly speaking, pawnshop loans have three features: the loans are for very small amounts and short maturities, they are fully collateralized by personal property, and interest and other charges are extremely high relative to other types of lending.

Most pawnshop loans are for relatively small amounts. For example, in Indiana, Oklahoma, and Oregon, average loan sizes range from \$40 to \$60 (Table 2). In most states, pawnbrokers make loans with one-month or two-month maturities. However, it is not uncommon for customers to renew these loans by paying the interest on the loan at the end of the month. Brokers report many pledges are redeemed within a week or two. The typical pledge, however, is redeemed in two to three months.

Because pawnbrokers lend only on the basis of collateral, brokers do not gather information to determine credit risk. If any screening occurs, it is to ensure the customer owns the item being pledged. Otherwise, the broker's efforts are directed toward properly evaluating the collateral. Once this is determined, a cash loan is advanced immediately upon the completion of the pawn ticket. A typical pawnshop loan requires less than ten minutes.

Default rates on pawnshop loans are quite high. Default rates as a percentage of the number of loans range from 14 to 22 percent (Table 2). Default rates as a percentage of the value of loans are somewhat less, however, suggesting that default rates are higher on smaller loans.⁹

To prevent a loss in case of default, a broker lends a customer a percentage of the value the

broker believes the collateral would bring in a sale. The loan-to-collateral ratio varies over time and across pawnshops, but typically the amount loaned is 50 to 60 percent of the resale value of the collateral. Though brokers almost always make a one-time profit from a default, almost all say they prefer customers repay the loan. Such customers are likely to return to the same pawnshop for future credit needs. Indeed, brokers report about 70 to 80 percent of their customers are repeat customers. Moreover, credit customers often purchase goods the shop sells and, if they blame the broker for the loss of their collateral, they are less likely to patronize the shop.

Commonly pawned items include jewelry, electronic and photographic equipment, musical instruments, and firearms. These items maintain their value over a reasonable period of time and are easy to store, especially jewelry. In some states, loans are made on automobiles, with the customer leaving the title for security. The mix of collateral varies across regions. For example, in regions of the country where firearms are more common, they more often collateralize pawnshop loans.

Examination of police records in one north-eastern city showed that, over an eight-day period, one pawnshop made 221 loans for \$10,790. The average loan was \$46, and the size of loans ranged from \$5 to \$500. Of the items pledged, 68 percent were watches and jewelry; 21 percent television, stereo, or video equipment; 4 percent musical instruments; 2.7 percent camera equipment; and 2.7 percent firearms. This pattern of activity is probably fairly typical.

Another feature of pawnshop credit is its high cost (Table 2). Each of the states listed in this table imposes a ceiling on pawnshop interest rates.¹⁰ The ceiling interest rates in these states for an average size loan range from 0.5 percent per month in Pennsylvania to 20 percent per month in Oklahoma.¹¹ In addition, several of the states allow storage and insurance fees, which

Table 2
Characteristics of Pawnshop Loans

	<u>Ind.</u>	<u>N.J.</u>	<u>Okla.</u>	<u>Ore.</u>	<u>Pa.</u>
Average loan size	\$43.11	n.a.	\$41.00	\$61.31	n.a.
Default rate, number of loans	20.6%	n.a.	22.2%	13.9%	n.a.
Default rate, value of loans	13.8%	n.a.	19.6%	9.3%	n.a.
Legal interest rate ceiling (monthly)	3.0%	3.0%	20%	3.9%	.5%
Interest charge on two-month \$51 loan	\$3.06	\$3.06	\$20.40	\$3.06	\$.51
Permissible storage & insurance fees (for item left on pledge two months)	\$3.00	none	none	\$5.00	\$2.55
Implicit APR interest rate on two-month \$51 loan (includes storage & other fees)	71.3%	36.0%	240.0%	94.8%	36.0%

Source: State regulatory agencies, 1987 and 1988.

raise the effective price of the loan. For each state, the dollar outlay for a two-month, \$51 loan plus applicable fees is shown in Table 2.¹² For comparison with other types of consumer credit, annual percentage interest rates (APR) inclusive of fees are also illustrated. Thus, for borrowers from pawnshops in these states, effective interest rates range from 36 percent APR in New Jersey and Pennsylvania to 240 percent APR in Oklahoma. Such high rates are not uncommon. In more than half of the states, pawnshops levy effective interest rates of 120 percent APR or more on average-size loans.

III. Explaining Trends in the Pawnbroking Industry

This section offers explanations for the three notable developments in the U.S. pawnbroking industry discussed in the first section: (1) the number of pawnshops per capita is currently larger than it was at the beginning of the century; (2) the industry is now heavily concentrated in the Southern and Central Mountain states; and (3) the industry appeared to grow throughout the United States in the 1980s. In addressing these observations, this section begins with the cur-

rent regional concentration of pawnshops and then turns to examine long-run and recent growth trends in the industry.

Explaining the geographic distribution of U.S. pawnshops

Over the last century the pawnbroking industry in the United States has shifted from the Northeast to the Southern and Central Mountain states. The current concentration of the industry in these states is most likely related to structural features of the industry, state regulations, and consumer demand for pawnshop credit.

The pawnbroking industry has two important features: significant customer transportation costs and relatively low barriers to new firms entering the industry. To obtain a pawnshop loan or redeem collateral, a customer must physically transport the collateral to or from the pawnshop. With an average loan of only \$50, the transportation costs per dollar of credit are significant, and customers tend to use the closest shop. Because regulatory barriers to entry are low, new pawnshops enter areas that promise high profits. As they enter, lending per shop falls, because many customers will switch to patronize the most

convenient shop. As lending falls, pawnshop profits fall because each pawnshop must cover its fixed costs from a smaller cash flow.

This industrial structure suggests that states with more generous usury laws should have higher numbers of pawnshops per capita. With high ceiling rates, a pawnshop with a large customer base could make extraordinary profits. These profit opportunities would encourage new pawnshops to open, until each pawnshop has a sufficiently small customer base that it no longer makes unusually high rates of return. Similarly, states that do not require the return to customers of any surplus from a default should have more pawnshops per capita because such a law should favorably affect pawnshop profits.

In addition to industrial structure and regulation, customer demand for pawnshop credit should also affect the number of pawnshops per capita. In states where a large percentage of the population is excluded from mainstream credit markets, demand for pawnshop services should be strong. Given customers' transportation costs, one would expect this demand to be met by numerous pawnshops located strategically throughout the state.

To examine the links between pawnshops per capita, pawnshop regulations, and state demographic characteristics, this article employs cross-sectional regression analysis for 28 states using 1987-88 data. The number of pawnshops per million capita (PPC) in each of the states is the dependent variable. Two explanatory variables represent the effect of state regulations on pawnshops per capita: the state pawnshop interest rate ceiling (INT) and a dummy variable (SUR) for states with rules requiring any surplus from the sale of the collateral be returned to the pledger.¹³

There are no data directly measuring the percentage of a state's population whose risk characteristics exclude them from bank or finance company credit. However, based on the earlier discussion of pawnshop customers,

measures of state poverty and education levels should serve as crude proxies. Accordingly, the explanatory variables include the percentage of persons in the state below the national poverty standard (POV) and the percentage of people 25 years old and over in the state attaining at least four years of high school education (ED).¹⁴

The results from the regression are:

$$PPC = 11.5 + 429.8 INT + 203.7 POV - 166.6 ED + 7.9 SUR$$

(62.7) (115.8) (56.6) (7.8)

(Standard errors in parentheses - $R^2=0.78$)

The signs on the interest rate, poverty, and education variables are as expected and are statistically significant at reasonably high levels of confidence.¹⁵ The sign on the surplus rule is not consistent with expectations, but the standard error indicates little confidence can be attached to the estimate. The independent variables explain about 78 percent of the variation in pawnshops per capita observed among the 28 states in the sample.

According to these results, three factors explain the disproportionate concentration of pawnshops in the Southern and Central Mountain states: more generous usury ceilings, higher poverty rates, and lower education levels. Presumably, in states with higher poverty rates and lower education levels, a larger percentage of people must pay the higher cost of borrowing from pawnshops because their risk characteristics exclude them from bank or finance company credit.

Explaining the long-run growth in U.S. pawnbroking

The contrast between the almost total decline of the British pawnbroking industry over this century and the expansion of the American industry is striking. While part of this contrast may be attributable to differences in general social conditions or banking systems, the main explana-

tion is undoubtedly the combined effect of differences in usury laws and falling personal transportation costs.

In England before the mid-1980s, the pawnshop interest rate ceiling was set nationally and remained under 35 percent APR for over a century.¹⁶ In the United States, where pawnshop usury laws are established at the state level, numerous states in recent decades have maintained usury ceilings of well over 120 percent APR, some have had no ceiling rate, and others have not enforced their pawnshop usury laws. In states with enforced usury ceilings consistently below 50 percent APR, pawnbroking has declined over this century, as illustrated by the sharp drop in the number of shops in the older major urban areas. In states with more generous usury laws, pawnbroking has flourished.

Adding to the effect of less binding usury laws has been a significant decline in personal transportation costs. Even with very high interest rates, a pawnshop needs a substantial number of customers to operate profitably. In the early part of this century, pawnbroking was probably not viable outside the major urban areas because high transportation costs prevented a pawnshop from drawing customers from more than a few miles away. It was for this reason that William Patterson wrote in his 1899 study of the pawnbroking industry, "The business of the pawnbroker requires not only an urban population, but a dense urban population, such as is found in the greater centers of industry. . . . Outside of the North Atlantic Section there are but few states with even two cities of sufficient size to support the business (Patterson 1899a, p. 256)." With the advent of the automobile and a well-developed highway system this is no longer true. Pawnshops are well represented in the rural areas of many of the southern and western states, and these shops commonly draw customers from a 50-mile radius, something unthinkable 70 years ago.

The growth of U.S. pawnbroking over the

century is therefore a result of two interrelated factors, falling transportation costs and generous usury laws. One is not sufficient without the other. States in the Northeast and Great Lakes region of the United States also experienced falling transportation costs, but because of more restrictive usury laws, pawnshops are rarely found in the small cities and rural areas of these states. Similarly, without the low-cost personal transportation brought by the automobile, pawnshops would probably not exist outside of urban areas in any region of the country regardless of usury laws.

Growth in pawnbroking in the 1980s

Explaining the growth of U.S. pawnbroking in the 1980s requires an appeal to different factors, for state usury laws and transportation costs did not change appreciably over the decade. Rather, explanations of the growth of pawnbroking in the 1980s focus on the effects of bank deregulation, falling average real wages of production workers, and increases in the poverty rate.

Prior to 1980, service fees and minimum-balance requirements on checking and savings accounts either did not exist or were much lower than today. Following the enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980, banks moved toward pricing services to cover costs, making it more expensive for depositors to maintain small-balance accounts. In addition, in response to a more competitive banking environment, banks closed unprofitable branches, many of which were located in low-income neighborhoods.

Perhaps as a result of these changes, from 1977 to 1983 the percentage of low-income families who did not maintain bank accounts increased. A recent Federal Reserve study showed that 28 percent of the families in the lowest quintile for family income did not maintain any depository accounts in 1977. By 1983,

36 percent of families in this group did not maintain either checking or savings accounts (Canner and Maland 1987).

Such developments may have contributed to the growth of pawnbroking because individuals without bank accounts would be unlikely to pass bank or finance company credit checks and could be forced to turn to pawnshops for loans. Policy-makers have also expressed concern that changes in the banking system in the 1980s may have excluded many low-income consumers from mainstream credit. For example, on October 2, 1986, the Federal Financial Institutions Examination Council, consisting of representatives of the Federal Reserve Board of Governors and other federal agencies that regulate financial institutions, stated

Some institutions have begun to explicitly price their products, consolidate or eliminate services they believe to be unprofitable, and close branch offices. . . . Considerable concern has developed about the potential impact of these changes in effectively denying or reducing convenient access of many individuals to the payments system and to safe depositories for small savings. Because credit availability is often dependent on an account relationship with a financial institution, access to credit for low-income or young consumers may also be adversely affected. (*Federal Reserve Bulletin* April 1987, p. 268)

Other factors contributing to the growth in pawnbroking in the 1980s could be the decline in average real wages for production workers and increases in the national poverty rate. In 1978, the average weekly earnings for a production worker in nonagricultural private sector employment was \$204. By 1988, this average had dropped to \$181 (in constant 1978 prices). Over this same period, the national poverty rate rose from 11.4 percent to 13.1 percent, an increase of 7.5 million people below the poverty line.

Regardless of whether these trends reflected changes in demographics or a fundamental transformation of labor markets, they may signal an increase in the percentage of Americans excluded from mainstream credit markets. If so, the growth in pawnbroking in the 1980s could reflect increased demand for credit alternatives to banks and finance companies.

IV. Policy Implications

This study of pawnbroking raises policy issues for regulators of financial institutions and policymakers at all levels of government. At the national level, the issue is whether changes in bank regulations and labor markets have forced many low-income consumers to pay much higher prices to meet their credit needs. At the state and local levels, the issue is whether pawnshop customers are better served by a low usury ceiling or a relatively high one.

Some might interpret this study as supporting the need for policy measures to encourage the provision of bank services in low-income neighborhoods and to guarantee that all consumers can afford to maintain a basic transaction account. If an increasing percentage of society is unable to afford bank accounts and, consequently, is losing access to mainstream credit markets, there is a cause for concern. In states where pawnshops are rare, most people will not have an institutional alternative if excluded from bank and finance company credit. Thus, losing access to those mainstream credit institutions could be disruptive and costly. In states where pawnshops are a ready alternative, pawnshop credit tends to be far more expensive than credit from mainstream institutions. Thus again, losing access to mainstream credit markets is costly for consumers.

Given the limited data, however, the link between the recent growth in pawnshops and changes in access to bank accounts is open to question. Statements about trends in the owner-

ship of bank accounts and the growth of pawnshops are, at this point, based on only a few observations. Even accepting the trends, it need not apply that one is causing the other. In particular, given that pawnshops mainly provide very small collateralized loans and mainstream financial institutions provide comparatively large consumer loans or open-ended lines of credit, such as credit cards, the growth of pawnbroking could be unrelated to changes in the banking industry.

In any case, the large number of pawnshops in states with generous usury laws reveals a strong demand for small consumer loans not met by other credit institutions. It also emphasizes the critical importance of pawnshop usury laws, which were drafted to protect unsophisticated consumers and to ensure access to moderately priced small loans.¹⁷ Economists have generally criticized state usury laws as detrimental to low-income consumers. Financial institutions under binding interest rate ceilings tend to allocate credit to only the most credit-worthy borrowers, who generally belong to middle-income or high-income groups.¹⁸ This is not the case with pawnshops, however, because all customers provide collateral, eliminating the need to distinguish high-risk from low-risk borrowers. Rather, the major effect of a low pawnshop usury ceiling is to reduce the number of shops in the state.

In the case of pawnbroking, therefore, state regulators face a somewhat different trade-off than that faced in regulating mainstream credit institutions. A high interest rate ceiling provides

individuals excluded from mainstream credit institutions access to a convenient, but expensive, alternative. A low ceiling rate reduces the cost of this alternative, but also makes access to pawnshops prohibitively inconvenient for many.

V. Summary

Measured by the percentage of population served, pawnshops are an important and growing source of consumer credit. Pawnshop loans are differentiated in key ways from those of other credit institutions. The average loan is very small, around \$50. The interest rate is comparatively high, often as much as 240 percent APR. Collateral in the possession of the pawnshop fully insulates it from credit risk. And, the default rate on pawnshop loans is relatively high, around 10 to 20 percent.

Most pawnshop customers come from low-income economic groups and are probably ineligible for bank or finance company credit. Pawnshops are heavily concentrated in the Sunbelt and Central Mountain states, which tend to have the most generous pawnshop usury ceilings. Factors such as financial deregulation and an increase in the national poverty rate both may explain some of the growth of pawnshop activities in the 1980s. Further study of the role that pawnbroking plays in credit markets may assist policymakers in understanding the effects of financial deregulation and the costs to consumers who are excluded from mainstream credit markets.

Endnotes

1 Unfortunately, the Federal Reserve's Survey of Consumer Finance does not classify participants obtaining credit from pawnshops. They are simply identified as obtaining credit from a nontraditional source, including individual-to-individual loans as well as pawnshops.

2 From May 1989 to February 1990, the authors interviewed pawnbrokers in Missouri, New York, Oklahoma, Oregon, and Pennsylvania.

3 An appendix, available from the authors, presents the methodology behind these estimates.

4 This estimate was constructed by contacting state regulatory agencies and counting yellow page listings for states without pawnshop oversight agencies. The actual count was 6,853. For the states for which both official and yellow page counts exist, the two numbers are very close.

5 In the late nineteenth century, charitable organizations in the United States formed nonprofit pawnshops in several major cities to serve the credit needs of the working class. All of these have now closed except the Provident Loan Society in New York City, which makes loans from a number of branches at an interest rate of 23 percent a year. Its 1894 founders included such financial luminaries as Solomon Loeb, J.P. Morgan, and Cornelius Vanderbilt.

6 In response to the popular belief that pawnshops act as fronts for burglars, all brokers adamantly insist that they do not knowingly accept stolen goods as collateral. They point out it is not in their interest because the police can seize the goods and the pawnshop owner loses the collateral and the loaned money. In addition, given the police report requirement, it would not be in the interest of a thief to pawn a stolen good.

Although many items, especially jewelry, do not have serial numbers and would be difficult to identify from police reports, the data appear to support the brokers' claims. For example, Oklahoma reports that in 1987 the police seized only 0.15 percent of pawned goods for being stolen property.

7 An interesting example is Delaware, where it is illegal for a pawnbroker to accept a customer's false teeth or artificial limb as collateral.

8 In states such as Alabama, Florida, Iowa, and South Dakota, which set no pawnshop interest rate ceilings, interest rates on a \$51 loan commonly range from 18 to 28 percent a month.

9 Because pawn tickets are legally transferable in almost all states, the reported default rate need not represent the default rate of the original borrowers. If a debtor is unable to redeem his collateral, for example, he may be able to sell the ticket if the pledged item is worth more than the principal and interest needed to redeem it. Outside of New York City, however, where businesses advertise offering to purchase pawn tickets, reported default rates probably only slightly under-represent actual default rates.

10 A survey by the authors determined that pawnshops in these states generally charge the ceiling rate.

11 In Oklahoma, as in several other states, the pawnshop usury ceiling depends on the size of the loan, with lower rates for larger loans. For example, in Oklahoma a pawnshop can levy a 20 percent monthly interest rate on a loan up to \$150, a 15 percent monthly interest rate on that amount over \$150 but less than \$250, and so on.

12 The table uses \$51 rather than \$50 because in some states the regulated storage or interest fees may vary at exactly \$50.

13 In states without usury limits, the number of pawnshops per capita could affect the interest rate as well as vice versa, so to prevent any simultaneity bias the regression employed only data from the 28 states with clear binding usury laws.

14 The *1988 Statistical Abstract of the United States* is the source for the state education and population data. Plotnick 1988 is the source for the poverty data.

15 In the 28 states, the average number of pawnshops per million inhabitants was 29.2. The mean of the independent variables was 9.0 percent for the monthly interest rate, 13.4 percent for the poverty rate, and 31.0 for the percentage of citizens completing their high school education.

16 England abolished its pawnbroking usury ceiling in the mid-1980s, and the industry has grown in recent years. In 1980, for example, there were 115 pawnshops in England. By 1987, the number had risen to 175 (Lohr 1987).

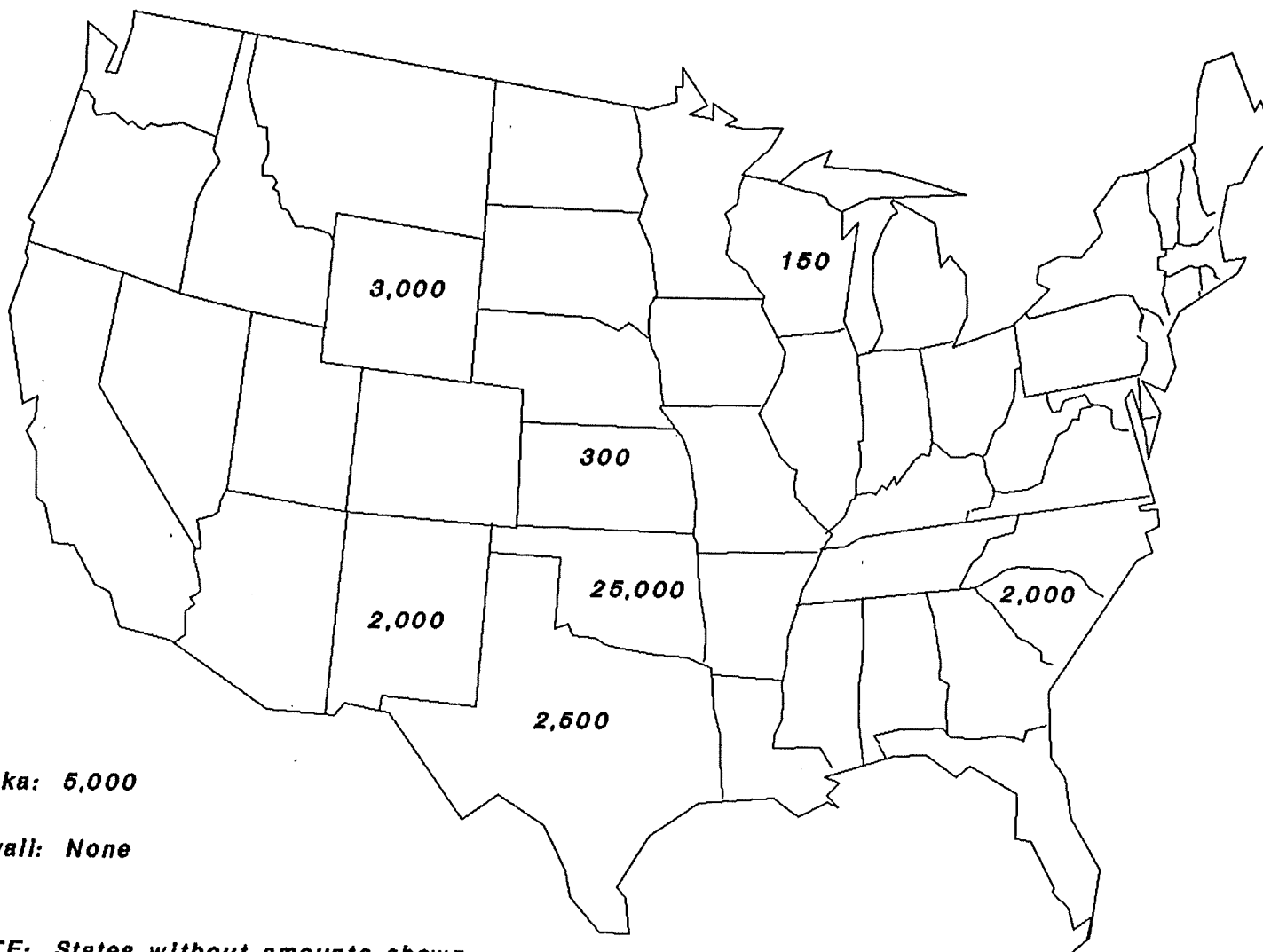
17 It does not appear usury laws were intended to limit pawnshop profits, and because there is free entry into pawnbroking one would not expect to find higher pawnshop profits in states with generous usury laws. In a high-ceiling state, more pawnshops enter the market, leaving fewer customers per shop and raising the fixed costs per customer.

18 Nathan 1980 surveys this literature.

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PAWNBROKERS LOAN LIMITS



Alaska: 5,000

Hawaii: None

**NOTE: States without amounts shown
do not limit loan amounts.**

Source: National Pawnbrokers Association

PAWN TICKET

NOTICE: ALL LOANS CARRY CHARGES AT THE RATE OF TEN PERCENT (10%) PER MONTH OR NOT TO EXCEED ONE HUNDRED TWENTY PERCENT (120%) PER ANNUM.

CAPITOL CITY PAWN SHOP
 1001 S.E. 6th Phone (913) 233-2336
 Topeka, Kansas 66607-1927

CONTRACT

1st Due Date: _____
 Pawn Date _____

267493

D.O.B.	HEIGHT	WEIGHT	RACE	SEX

NOTICE: Pledged merchandise becomes the property of LENDOR if within two (2) months from last due date you have not exercised your right of redemption. Charges earned at date of loan, not refundable.

The above pledged merchandise has been honestly acquired and is clear of all incumbrances. I hereby transfer complete title of this merchandise to LENDOR for the sum of \$ _____, the receipt of which is hereby acknowledged, and I agree to warrant and defend the title. I agree that I am indebted to LENDOR for the said sum, plus charges of \$ _____, and in case said total sum of \$ _____ is not paid on said due date, or my loan renewed by payment of the monthly charge, I will forfeit and relinquish all my right, title and interest in said property, and if I have not redeemed said property by two (2) months from said due date, LENDOR shall become vested with all right, title and interest of myself and-or my assigns, to such merchandise to hold and dispose of as its own property, without any notice to, or demands from me. During said loan and redemption periods, LENDOR shall not be responsible in case of loss or damage to said merchandise by reason of fire, breakage, robbery or burglary.

X

RENEWAL BY PAYMENT OF ONE MONTHS CHARGES; MAILING EXPENSES EXTRA; POSITIVELY NO PLEDGES SHOWN UNTIL PAID FOR; NO PERSONAL CHECKS ACCEPTED FOR REDEMPTION OF PROPERTY.

POLICE TICKET

PAWN TICKET

NAME OF CUSTOMER _____
 DR # _____
 IDENTIFICATION USED OR OTHER _____
 ADDRESS _____
 ARTICLE _____
 COMPLETE DESCRIPTION _____
 DATE _____ TICKET NO. _____
 BROKER _____

SOLD _____ PAWNED _____
 SERIAL NO. MISSING OR DEFACED _____
 SERIAL NUMBER _____
 AMOUNT _____
 CLERKS INITIAL _____

DATE OF BIRTH	HEIGHT	WEIGHT	RACE	SEX

CITY CODE NUMBERS 19-1018 AND 19-1019 REQUIRES THAT THIS FORM MUST BE COMPLETELY FILLED OUT AND RETURNED TO THE TOPEKA POLICE DEPARTMENT. (PLEASE PRINT)

5923

TESTIMONY HB 2390 SUBMITTED BY REP. SHERMAN JONES

Mr. Chairman:

Members of the Senate, Federal and State Affairs Committee, I am submitting written testimony in support of HB 2390.

As a former police officer, I can attest to the convenience of locating burglary items when pawned, especially in Kansas City.

The pawn brokers in Kansas City, Kansas are extremely cooperative in providing the police department with information on items taken in for loans and redemption. However, I had always wondered why customers would re-pawn the same items two or three times, especially when such items were jewelry and weapons. It wasn't until last year that I discovered that a \$300.00 lid existed, by state statute. The lid went on, I believe, in 1972.

Because of our local pawnbroker's cooperation with the police department in the past and realizing the \$300.00 lid had been in place for nearly 20 years, I was willing to introduce the legislation initially before you now.

I trust, Mr. Chairman, that your committee will see the need to extend the lid as provided and report the bill favorably.

Respectfully submitted

Rep. Sherman Jones

Senate F&SA
3-21-91
Att. #4

Senate Federal and State Affairs Committee
March 21, 1991
Senate Bill 376

Mr. Chairman and members of the committee:

My name is Gene Yockers, and I am the Director of the Kansas Real Estate Commission. The Real Estate Appraisal Board is attached to the Commission for administrative functions. I am here on behalf of the Board to request that you approve Senate Bill 376. The amendments, which were proposed by the Board, are primarily to ensure that the act is consistent with federal law and guidelines.

You will note throughout the bill that the term "licensed" has been added to "certified." The current law has two designations: "state certified general appraiser" and "state certified residential appraiser." The Appraisal Subcommittee found the designations to be inconsistent with federal law and strongly recommended changing the categories to state licensed and certified. Until such time as the law could be amended, the Board adopted a regulation to define the state certified residential classification to mean the same as the category of state licensed appraiser recognized by federal law.

Classifications are established by Section 9 on pages 8-9. The Appraiser Qualifications Board is presently in the process of denominating classifications and establishing a new certified residential classification. As provided by the bill, the Board will define each classification and establish requirements consistent with federal law.

Provision for transitional licenses is made in Section 9 (g) on page 10. This allows an applicant who has met the education and examination requirements to obtain a transitional license without having met the two-year experience requirement. As the name implies, it is intended only for a transitional period. A transitional license cannot be obtained after December 31, 1991; and transitional licenses can be in effect no more than a total of two years. All transitional licenses will have expired and not be renewable on June 30, 1993.

Some provisions of current law have been moved to other sections. Other amendments include:

Addition of some definitions from federal law [Sec. 2, page 2]

Provision for fees for approval of courses [Sec. 7, page 7]

Establishment of a federal registry clearing fund for registry fees which are collected and paid totally to the federal government [Sec. 7 (h), page 8]

Provision that the Board may impose a civil fine not exceeding \$1,000 for violations [Sec. 18 (b), page 15]

The Board requests that you amend the bill to delete lines 15-16 on page 3. This is consistent with the deletion of the definition of "certified appraisal" on page 1.

July 1, 1991 is the date upon which state licensed or certified appraisers must be used for federally related transactions. We therefore urge you to pass the bill out of committee, with the requested amendment, as quickly as possible. The earliest possible effective date is needed.

Thank you.



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 21, 1991

TO: Senate Federal & State Affairs Committee
RE: **SB 376** - Amendments to the real estate appraiser act


Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of **SB 376**. Not only does it make several technical amendments needed to bring our state law into conformity with federal law and regulation, but it also provides for a special appraiser classification which is vital for real estate lending in Kansas.

Subsection (g) of Section 9 of **SB 376** allows the Real Estate Appraisal Board to issue a "transitional" license to those individuals who have successfully met the education and examination requirements established for a "state licensed" appraiser. The holder of the transitional license would then have up to 18 months to complete the regulatory requirement for the number of hours of appraisal experience necessary to become a state licensed appraiser.

We strongly believe such a license is necessary if there is to be an adequate supply of qualified appraisers in the rural areas of our state when the date for certified appraisals is implemented. There are a number of bankers in community banks throughout Kansas who have expressed an interest in becoming a qualified appraiser and who are willing to take the necessary education hours and sit for the state exam, but who simply do not have all of the 2,000 hours of appraisal experience required to become a state licensed appraiser. The provisions in subsection (g) of Section 9 would afford them the opportunity to obtain those additional experience hours needed to become a licensed appraiser.

Therefore, we strongly urge the committee to give favorable consideration to **SB 376** with all due speed so that bankers and others throughout the state can proceed with their plans to become qualified appraisers.


James S. Maag
Senior Vice President

Senate F&SA
3-21-91
Att. #6

**Kansas-Nebraska
League of
Savings
Institutions**

Jeffrey D. Sonnich, Vice-President

Suite 512
700 Kansas Avenue
Topeka, Kansas 66603
(913) 232-8215

March 21, 1991

TO: SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS
FROM: JEFF SONNICH
RE: S.B. 376 (State Certified Real Estate Appraisers Act)

Mr. Chairman. Members of the Committee. The Kansas-Nebraska League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Federal and State Affairs in support of S.B. 376 which amends the State Certified Real Estate Appraisers Act.

When we testified last year before the Federal and State Affairs Subcommittee on S.B. 755 we were confident that the bill would pass the scrutiny of the Federal Appraisal Subcommittee... and for the most part it did. However, the response from the Federal Appraisal Subcommittee indicated some deficiencies in the Kansas law. Most of the concerns raised in the letters were addressed by the adoption of the appraisal regulations proposed by the Kansas Appraisal Board. Others will require changing the current statutes.

S.B. 376 makes four significant changes to the state certified real estate appraisers act. First, it provides a definition for written appraisal and clarifies that only written appraisals are to be used by certified and licensed appraisers. This change was recommended by the Federal Appraisal Subcommittee in the attached letter. Second, it grants the board authority to prescribe fees for the approval of educational courses. Third, it provides for three categories of appraisers: licensed real property appraiser; certified general real property appraiser; and certified residential real property appraiser. This change was also recommended by the Appraisal Subcommittee. Fourth, it provides for a transitional license for those individuals who have fulfilled the educational requirement and testing requirement, but have yet to fulfill the experience requirement. This change is made pursuant to an advisory issued by the Appraisal Subcommittee on November 28, 1990, which states that the Subcommittee will "recognize on a transitional basis State licensed appraisers who meet either the experience or the education requirement established by the states if the individual appraisers satisfy the missing requirement within no more than two years after they are tested and provisionally licensed by the States."

The changes outlined in S.B. 376 bring the Kansas law even closer in line with the federal law. They clarify those portion of the existing law that could not be handled through the adoption of regulations. Accordingly we would request the Senate Committee on Federal and State Affairs recommend S.B. 376 favorably.

Jeffrey Sonnich
Vice President

Senate F&SA
3-21-91
Att. #7



1776 G Street, NW, Suite 850B • Washington, DC 20006

August 16, 1990

Mr. Jeffrey Sonnich
Kansas-Nebraska League of
Savings Institutions
Suite 512
700 Kansas Avenue
Topeka, Kansas 66603

Dear Mr. Sonnich:

As you requested, the staff of the Appraisal Subcommittee has reviewed the Kansas "State Certified Real Estate Appraisers Act" for its consistency with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI) and the Guidelines issued by the Subcommittee to assist states in their implementation of Title XI. Title XI instructs the Subcommittee not to recognize appraiser certifications and licenses from states whose appraisal policies, practices and procedures are found to be inconsistent with Title XI.

Most provisions of the Kansas law appear consistent with Title XI and the Appraisal Subcommittee Guidelines. However, our review indicates that some deficiencies do exist. We also identified some issues that are not fully addressed in the law, although our comments about these issues do not necessarily indicate noncompliance with the letter and spirit of Title XI. As a general matter, Title XI does not mandate that the states adopt identical legislation that covers all topics in a uniform format. It contemplates that each state enact statutes and regulations that are consonant with federal law and are tailored to the particular needs of that state. Consequently, the Guidelines issued by the Subcommittee are meant to be instructive on how to comply with federal law, not restrictive in allowing one method for compliance. It is possible that the broad issues of interest to the Subcommittee as well as the requirements of Title XI are addressed by other Kansas laws, regulations or administrative actions. With this in mind, the following comments are issued for your consideration:

Title XI

Sections 1113 and 1114. Transactions Requiring the Services of a State Certified and a State Licensed Appraiser.

Title XI recognizes two categories of appraisers, "certified" and "licensed." The state law's two designations are "state certified general appraiser" and "state certified residential appraiser" ("and such other classifications as permitted by federal law"). Because the state law does not use the federal designations, there is a possibility that the state authorities granted to the two categories of appraisers may not conform to appraisal assignment authorities for federally related transactions. In addition, lenders who rely on the state designations and use an inappropriate appraiser in a federally related transaction risk violating Title XI and losing the ability to sell the loan in the secondary mortgage market.

Please keep informed of the final rules of the federal regulatory agencies to ensure that the state law does not grant broader authority than would be allowed under final regulations at the federal level. In order to avoid confusion, we strongly recommend that the state adopt the federal appraiser titles and have the state appraiser categories correspond in appraisal authority to those of Title XI. The Subcommittee believes that all appraisers of federally related transactions should be designated as either "state certified" or "state licensed."

Finally, Title XI requires that all real estate appraisals given in connection with federally related transactions be in writing. The state law would permit oral appraisal reports. Therefore, the state might want to consider clarifying in the implementing regulations that certain appraisal reports are required to be written, rather than oral.

Section 1116. Certification and Licensing Requirements.

Title XI requires that the states establish criteria for certifying real estate appraisers that meet the minimum criteria for certification issued by the Appraisal Qualifications Board of the Appraisal Foundation (AQB) and pass an examination issued or endorsed by the AQB. Although the Kansas law provides that continuing education requirements for certificate renewal "are not to exceed the requirements of federal law," they must nonetheless meet the requirements of federal law, at a minimum.

The Guidelines of the Subcommittee provide that states should establish qualifications standards for licensed appraisers that are adequate to demonstrate knowledge and competency for licensing including testing, experience and educational requirements. We urge you to incorporate the qualifications criteria of the AQB for what they term the "residential real property appraiser" classification, because we have determined that they would be consistent with the criteria of the Guidelines for "state licensed appraisers." (See press release attached.)

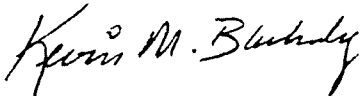
Other Comments.

The Kansas law contains a "sunset" provision stating that the Real Estate Appraisal Board shall be terminated and the law repealed on July 1, 1993. Title XI contains no such "sunset" provision. Indeed, the legislative history to Title XI makes clear that Congress determined that uniform standards for appraisers are necessary to protect federal financial and public interests in real estate transactions. Consequently, Congress required the Subcommittee to monitor the states' implementation of Title XI on an ongoing basis. If the Subcommittee determines that a state's appraisal practices, policies or procedures no longer implement Title XI, it may refuse to recognize appraiser licenses and certifications from that state for use in federally related transactions.

Please be advised that the Subcommittee intends to evaluate a state's system of certifying and licensing appraisers in its entirety before determining whether a state's policies, practices and procedures are inconsistent with Title XI. Accordingly, this review of the law does not preclude the Subcommittee from indicating at a later date its disapproval of all or part of the state regulatory scheme, should that scheme include features or be implemented in a manner not consistent with Title XI.

We trust that this is responsive to your request. If I can be of further service to you, please do not hesitate to contact me.

Sincerely,



Kevin M. Blakely
Chairman
Appraisal Subcommittee

Attachment

KANSAS, 1991

	JANUARY	JANUARY		JANUARY	JANUARY		JANUARY	JANUARY
TOTAL ABORTIONS...	597	597				NUMBER OF OTHER TERMINATIONS		
RESIDENCE						NONE.....	518	518
IN STATE.....	299	299				ONE.....	66	66
OUT OF STATE....	298	298				TWO.....	10	10
UNKNOWN.....	-	-				THREE.....	-	1
AGE GROUP OF PATIENT						FOUR.....	-	-
UNDER 11.....	-	-				FIVE OR MORE.....	1	-
11 YEARS.....	-	-				UNKNOWN-NS.....	2	2
12 YEARS.....	-	-				PREVIOUS INDUCED ABORTIONS		
13 YEARS.....	1	1				NONE.....	387	387
14 YEARS.....	2	2	METHOD OF ABORTION			ONE.....	146	146
15 YEARS.....	11	11	SUCTION CURETTAGE...	513	513	TWO.....	45	45
16 YEARS.....	26	26	SHARP CURETTAGE....	-	-	THREE OR MORE.....	17	17
17 YEARS.....	25	25	INTRA-UTERINE			UNKNOWN-NS.....	2	2
18 YEARS.....	43	43	SALINE			NUMBER OF LIVING CHILDREN		
19 YEARS.....	57	57	INSTILLATION.....	84	84	NONE.....	306	306
20-24 YEARS....	188	188	INTRA-UTERINE			ONE.....	146	146
25-29 YEARS....	132	132	PROSTA-GLANDIN			TWO.....	102	102
30-34 YEARS....	67	67	INSTILLATION.....	-	-	THREE.....	28	28
35-39 YEARS....	30	30	HYSTEROTOMY.....	-	-	FOUR.....	11	11
40-44 YEARS....	14	14	HYSTERECTOMY.....	-	-	FIVE OR MORE.....	4	4
45 AND OVER....	1	1	OTHER.....	-	-	UNKNOWN-NS.....	-	-
UNKNOWN-NS....	-	-	UNKNOWN OR NS.....	-	-	NUMBER OF PREVIOUS PREGNANCIES		
RACE OF PATIENT						NONE.....	215	215
WHITE.....	482	482				ONE.....	129	129
BLACK.....	91	91				TWO.....	113	113
OTHER.....	23	23				THREE.....	73	73
UNKNOWN-NS....	1	1				FOUR.....	38	38
MARITAL STATUS OF PATIENT						FIVE.....	16	16
YES.....	111	111				SIX.....	11	11
NO.....	486	486				SEVEN OR MORE.....	2	2
UNKNOWN-NS....	-	-				UNKNOWN-NS.....	-	-

Senate F&SA
3-21-91
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SELECTED INDUCED ABORTION STATISTICS
FOR JANUARY AND CUMULATIVE TOTALS FOR THE YEAR

KANSAS, 1991

WEEKS GESTATION	JANUARY		JANUARY	
	JANUARY	JANUARY	JANUARY	JANUARY
			CHILDREN BORN ALIVE NOW DEAD	
LESS THAN 8 WKS.	112	112		
8 WEEKS.....	123	123	NONE.....	590 590
9 WEEKS.....	91	91	ONE.....	5 5
10 WEEKS.....	58	58	TWO.....	- -
11 WEEKS.....	35	35	THREE.....	- -
			FOUR.....	- -
12 WEEKS.....	45	45	FIVE OR MORE.....	- -
13 WEEKS.....	29	29	UNKNOWN-NS.....	2 2
14 WEEKS.....	16	16		
15 WEEKS.....	7	7		
16 WEEKS.....	10	10		
17 WEEKS.....	10	10		
18 WEEKS.....	20	20		
19 WEEKS.....	2	2		
20 WEEKS.....	9	9		
21 WEEKS.....	10	10		
22 WEEKS.....	5	5		
23 WEEKS.....	6	6		
24 WEEKS.....	9	9		
25 AND OVER.....	-	-		
UNKNOWN-NS.....	-	-		

NUMBER OF HOSPITALS PERFORMING
ONE OR MORE ABORTIONS..... 2

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