



National Pawnbrokers Association®

## NPA Policy Statement on “Online Interstate Pawn Loans” and Providers

Pawn loans are an important and trusted source of small-dollar, short-term, non-recourse credit in the United States. Fast, on-the-spot decision-making by pawnbrokers at brick-and-mortar stores across the country makes pawn loans available for emergencies that individuals, families, and small businesses experience.

Traditionally, pawn loans are face-to-face transactions that are governed by numerous federal, state, and local laws.

Recently, some providers have offered “online interstate pawn loans” in which the borrower and provider do not conduct business face-to-face, but rather negotiate the terms of the transaction via the Internet.

“Online interstate pawn loans” may be more risky for consumers than traditional face-to-face pawn transactions, if the consumer is not familiar with the Internet lender. Consumers dealing with online interstate pawn lenders should ask (a) where collateral will be stored, (b) how long it will take for their loan to be funded after the collateral reaches the lender, (c) how they can redeem their collateral and how long it may take to receive the collateral from the lender after redemption, and (d) whether the consumer protection laws of the state where the consumer resides will govern the pawn loan’s terms and conditions.

The NPA’s code of ethics requires that members, among other things, comply with all federal, state, and local laws that apply to members’ businesses and their pawn transactions. Compliance responsibilities include licensure by state or local governments, as a precondition of offering pawn transactions to residents of that state.

Because of the NPA’s commitment to full compliance with applicable federal, state, and local laws, the NPA does not support, condone or offer membership to providers offering interstate, Internet pawn transactions that:

- 1) cannot demonstrate full compliance with federal consumer credit laws as well as with state and local laws of the state in which the consumer resides;
- 2) do not hold a license to do business granted by the state or local government where the consumer initiates the transaction; or
- 3) circumvent federal, state, or local laws through the use of the Internet, off-shore credit providers, or partnerships with entities operating on federal Tribal Reservations.

The NPA supports and offers membership to pawnbrokers offering online pawn transactions as long as the provider (a) has a license to extend credit in the state where the consumer resides and operates in full compliance with the laws of that state, and (b) offers pawn transactions only where it has a license to do business to consumers (i) who reside in the state that granted the license or (ii) who travel to that state in person for the purpose of completing the pawn transaction.

Courts that have considered whether online credit providers must hold licenses in the state where the consumer resides uniformly have held that providers must hold licenses in that state, unless the consumer travels in person to the provider’s state for the purpose of completing the transaction. Providers who do not hold licenses in the state where the consumer resides should consider the likelihood that their loans will be considered illegal by that state’s authorities and subject to usury penalties and cease-and-desist orders, as recent actions by state attorneys general demonstrate.

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