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Pawning Valuables Online Growing

Individuals, Small Businesses Offer Collateral For Short-Term Loans

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BOSTON -- In a tough economy, some extra cash can sometimes keep a small business afloat, or allow a person to keep up with the bills. A new source for that money? Online pawn shops. You can get that short-term loan from the comfort of your couch. But is it the best way to get out from underwater?

Three years ago Kevin Cronan was laid off from his job at a money management firm. When tax time came around this year, he owed the government money. He decided to pay it with a loan from Pawntique, one of a number of online pawn businesses.

"I thought I could leverage some of the bling I've accumulated over the years to help me out for a bit," said Cronan.

He shipped out a watch to Pawntique as collateral and got a \$2,000 loan in 2 days, without a credit check or having to find a nearby pawn shop.

Pawntique charges a monthly service fee of 6 percent on a short-term three--month loan. The interest rate is much lower than a street corner pawn shop which is, on average: 20 percent.

"The hoops that people have to jump through to get loans or apply for loans and then they are still not guaranteed to get a loan. We're a much easier process," said Pawntique's Thomas Persing.

Pawntique says many of its clients are small business owners.

"Let's say a small business needs to make payroll in a month, but their big supplier is paying them in two months. We do a three--month loan that will get them over the hump, and when they get paid, they pay off the loan," said Persing.

But financial adviser Dana Levit says businesses, especially, should explore other, possibly more affordable options too -- like a home equity loan or credit card advance.

"If you were to take a short-term loan against your credit card and pay it off in one month, you are paying 2 percent if your annualized rate is 24 percent," said Levit. "Compare that to the rate you are being quoted by the online pawn services, which is 3 to 6 percent, now you are talking about a 36 to 72 percent annual rate," she said.

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Cronan's certain Pawntique was the best solution for him. He's picking up more part-time work, determined to pay back his loan and reunite with his watch.

"I'm getting that watch back. It has sentimental value. I'm sure I'll get that watch back," said Cronan.

Pawntique says 90 percent of its clients pay off their loan and get their valuables back.

But another warning from our financial expert: a one time online pawn loan is fine. But doing it over and over could mean you'll never catch up.

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