

# Study suggests pawn loans compound the pain for many

June 21 2024



Credit: AI-generated image

Australia's pawnbroking industry is too lightly regulated, harming vulnerable consumers and leaving them in greater financial distress, according to [new research](#) by the University of Melbourne. The work is available in the *University of Queensland Law Journal*.

Melbourne Law School surveyed 1,472 [consumers](#), including 582 who had used pawn loans, along with others who had used payday loans and Buy Now Pay Later products.

The researchers found consumers who had used pawn loans were the most vulnerable group as they were the most likely to earn less than \$25,000 a year, the least likely to own their own homes or hold [credit cards](#), and the most likely to rely on [social security](#).

The survey also revealed pawn loans often increase the financial hardship of borrowers, with many respondents claiming they were worse off after taking out a loan. Some participants reported they ended up having to borrow from friends or family, while others were forced to sell a personal possession or go without basic essentials just to make ends meet.

Lead researcher and post-doctoral fellow Dr. Lucie O'Brien said, "Pawn lenders can charge extremely high interest rates—sometimes the interest on a short-term loan can be equivalent to 420% a year. Consumers who can't repay their loans often lose their belongings for good, having borrowed only a fraction of their market value."

Pawnbrokers, unlike other credit providers, can continually extend loans, leading to excessive long-term debt. There are now concerns the Federal Government's efforts to crack down on payday lenders and Buy Now Pay Later schemes could unintentionally drive up demand for pawn lending.

"We found there's already significant overlap between the use of pawn loans, payday loans and Buy Now Pay Later products. Of the 582 pawn loan users who completed our survey, 64% had also used payday loans and 67% had also used Buy Now Pay Later.

"Some people may be forced to increase their use of pawn loans if they find they can no longer access [payday](#) loans or Buy Now Pay Later, due to stricter regulation," Dr. O'Brien said.

She has called on the Federal Government to make all pawnbrokers join an independent dispute resolution body and to start mapping the problem by collecting meaningful data.

"This would help the government work out whether it needs to reform pawn-lending laws," Dr. O'Brien said.

**More information:** O'Brien, L. et al. Lending on the Edge: Pawnbroking in Australia (April 11, 2024). *University of Queensland Law Journal*. [ssrn.com/abstract=4808299](https://ssrn.com/abstract=4808299)

Provided by University of Melbourne

Citation: Study suggests pawn loans compound the pain for many (2024, June 21) retrieved 26 June 2024 from <https://phys.org/news/2024-06-pawn-loans-compound-pain.html>

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