

Summary of Academic Research

On April 19, 2017, Urban Planning Committee passed a motion instructing Administration to investigate the social, economic, and land use impacts of pawn stores on neighbourhoods and citizens within Edmonton. As part of this work, Administration undertook a review of existing academic research on pawn stores and their impacts.

Administration reviewed a number of academic journals, articles and papers. Administration also attended webinars and reviewed websites and newspaper articles discussing these topics. The following is a summary of the key themes that emerged around the social, economic, and land use impacts of pawn stores. Studies are noted directly in the text below, with a bibliography of cited sources provided at the end of this attachment.

Table of Contents	Page #
1. Key Definitions	2
2. Social Dynamics	3
2.1 Individual Social Dynamics	3
2.2 Neighbourhood Social Dynamics	5
3. Economic Dynamics	7
3.1 Individual Economic Dynamics	7
3.2 Regulating Economic Impacts	8
3.3 Neighbourhood Economic Dynamics	11
4. Land Use	12
5. Conclusion	13
6. Bibliography	15

1. KEY DEFINITIONS

To understand the research findings shared below, it is important to first define the two key components of the operation of pawn stores:

1. Pawn stores operate as retail stores, similar to second hand or consignment stores and can sell a wide range of goods.
2. Pawn stores also offer pawn loans to individuals, as part of a larger group of alternative financial services operating outside of the mainstream banking system. A pawn loan is when an individual leaves an item in a pawn store in exchange for a short term loan. The individual can then pay that loan back, with interest, to receive their item back. The typical pawn loan is approximately \$115,¹ and the borrower has 30 days to repay the loan to redeem their item. If the individual does not redeem their item, there is no financial penalty. The item is forfeited and the pawn store resells the item to recoup their costs.

The discussion of social and economic dynamics in this Attachment will predominantly focus on the role of pawn stores as businesses that provide an alternative financial service in the form of pawn loans, rather than the secondhand store portion of their business.

¹ Based on an interview with Cash Canada, the typical loan ranges from \$112 to \$118 dollars; however, the amount of the loan can be dependent on certain times of the year, such as times around the holiday season.

2. SOCIAL DYNAMICS

2.1 INDIVIDUAL SOCIAL DYNAMICS

Much of current academic research related to the social impacts of alternative financial services is focused on payday loan institutions, with little information provided about pawn store users specifically. These broader studies on social impacts have found that there is a range of individuals who access alternative banking. Individuals that depend on credit from alternative financial providers tend to experience financial exclusion and face a number of barriers to access credit from mainstream banks, reducing the options available to them.² In considering those that most frequently avail themselves of alternative financial services, Dungen et. al. (2016) define three segments of the population:

- Hard to bank
- Working poor
- Convenience³

The ‘hard to bank’ segment include those individuals with a credit score less than 600, who may not have access to any mainstream credit and are considered high risk for not repaying loans.⁴ In order to compensate for the risk, those that provide loans to hard to bank individuals often charge higher fees. The exception is when loans are provided philanthropically to provide financial assistance or to help improve a customer's credit score. In many cases these individuals are on income support through social assistance programs.⁵

The ‘working poor’ segment are those individuals that are employed but often fall under the median income level. They fall under the 660 credit score threshold that mainstream financial institutions will typically lend to, and tend to live paycheck to paycheck with little savings to cover unexpected expenses.⁶

The ‘convenience’ segment are those individuals that have a credit score greater than 660, and have more options available to them to obtain credit, including through mainstream financial institutions. This group tends to have income above the median income level and uses alternative financial services for planned expenses such as a

² Jerry Buckland. *Hard Choices: Financial Exclusion, Fringe Banks, and Poverty in Urban Canada*, Toronto: University of Toronto Press, 2012, **cited** in Momentum, “High-Cost Alternative Financial Services: Issues and Impact,” *Momentum Community Economic Development Society*, (2017): 10, available at:

<http://www.momentum.org/files/Publications/Part%201%20High-Cost%20Alternative%20Financial%20Services.pdf>

³ Ellen Dungen, Randy Coutts, and Rhiannon MacDonnell. “Fair Financing: Expanding Small-Dollar Short-Term Credit for Albertans,” *Canadian Consumer Finance Association*, (2016): 10, available at: <https://canadiancfa.com/wp-content/uploads/2016/10/fair-financing-report.pdf>

⁴ Dungen, “Fair Financing,” p. 9

⁵ Ibid. p. 9 -10

⁶ Ibid. p. 9

car, home repairs, and small business expenses.⁷ The individuals that fall into this category are usually more financially stable and tend to borrow less often, but borrow larger amounts. Typically these customers have credit options available to them and have savings at the time of the loan.⁸

Customers with misaligned cash flow also fall within the ‘convenience’ segment. Where there is a mismatch between the time when bills are due and when income is paid, these customers will often use credit to pay for household expenses such as rent, utilities and other related expenses.⁹ For those using loans for ongoing shortfalls, where expenses are regularly exceeding monthly incomes, the loans are usually for \$300 or less.¹⁰

An important distinction between payday loan institutions and pawn stores is that payday loan institutions do require those seeking a loan to have a bank account.¹¹ Based on this information, it could be inferred that although the consumer base for pawn loans may be varied, pawn stores are more likely to serve a segment of the population that is not served by traditional or alternative financial services, such as payday loan institutions, as pawn loans do not require customers to have a bank account to access pawn loans.

The perception of customer service plays a factor in an individual’s decision to secure credit from alternative lending institutions, including pawn stores, rather than from a mainstream bank. Customers generally perceive that staff at alternative financial businesses, like pawn stores, are receptive to low-income customers and that alternative banking services are more accommodating to marginalized populations in comparison to traditional banking services.¹² In a study of fringe financial service customers in Winnipeg, Vancouver, and Toronto, Buckland and Fikkert (2008) illustrate the negative experiences of those with low incomes in accessing mainstream banking services, and the perception that the level of respect received was related to their financial status and choice of where to access financial services.¹³ Kohm and Selwood (2004) identify that pawn stores continue to carry the stigma of a business that is “not

⁷ Ibid. p. 7

⁸ Ibid. p. 7

⁹ Ibid. p. 6

¹⁰ Ibid. p. 7

¹¹ Robert Johnson and Dixie Johnson, “Pawnbroking in the U.S.: A Profile of Customers,” Monograph No. 34, *Washington: Credit Research Centre, Georgetown University*, (1998): 26, available at:

<https://www.yumpu.com/en/document/view/19062927/pawnbroking-in-the-us-a-profile-of-customers-faculty-research>

¹² Brian Dijkema and Rhys McKendry, “Banking on the Margins: Finding Ways to Build an Enabling Small-Dollar Credit Market,” *CARDUS*, (2016): 26, available at: <https://www.cardus.ca/research/family/reports/banking-on-the-margins/>

¹³ Jerry Buckland and Antonia Fikkert, “Choosing financial services where the options are limited A report on a survey of financial service choice of residents in inner-city neighborhoods in Toronto, Vancouver & Winnipeg,” *University of Winnipeg*, (2008): 50, available at: http://financial-exclusion.uwinnipeg.ca/sites/financial-exclusion.uwinnipeg.ca/files/docs/Choosing_Financial_Services_Where_the_Options_are_Limited.pdf

patronized by 'respectable' residents of the city."¹⁴ This stigma can create negative self-perceptions of those individuals using these services.

2.2 Neighbourhood Social Dynamics

A range of research has looked at the relationship between available credit and neighbourhood social dynamics. Most research on the impact of alternative banking has focused on payday lenders. The studies summarized below highlight the influence of loans in neighbourhoods generally, and specific findings related to pawn stores.

While the loan amounts studied exceeded what would typically be lent through pawn stores, one study highlighted that there may be an overall relationship between access to credit and neighbourhood social dynamics. Velez (2009) found that neighbourhoods with limited access to conventional loans also lack the ability to invest in new housing, attract new homeowners, sustain existing businesses, or attract new businesses.¹⁵ Under these conditions, neighbourhoods experience "depopulation, decline in local economic opportunities, weakening of local social ties, and deterioration of community institutions."¹⁶ It was calculated that "for every additional million dollars in bank loans, a neighborhood's homicide per capita rate decreases by three percent."^{17 18} In a study on the relationship between the stolen goods market, crime, and pawn stores,

D'este (2014) identified that there is a connection between pawn stores and crime.¹⁹ In this study, the number of pawn stores were reviewed in relation to crime types and rates in 2,176 counties in the U.S. from 1997 to 2010. From this study, D'este (2014) found that an increase in the number of pawn stores in a county was strongly predictive of larcenies and burglaries.²⁰

In a study based in Los Angeles, Kubrin et al. (2016) found that pawn stores are associated with a 23% increase in larcenies when present within a census block, but were not significantly associated with other types of crime.²¹ Kubrin et al. (2016) however, did not find evidence that an increased number of pawn stores in a

¹⁴ Steven Kohm and John Selwood, "Capitalizing on life at the margins: the pawnbroker and inner city commerce," *Prairie Perspectives: Geographical Essays, Winnipeg: University of Winnipeg*, (2004): 89, available at: <http://pcag.uwinnipeg.ca/Prairie-Perspectives/PP-Vol07/Kohm-Selwood.pdf>

¹⁵ María B. Veléz, "Banks and the Racial Patterning of Homicide: A Study of Chicago Neighborhoods," *International Journal of Conflict and Violence* 3, no. 2 (2009): 155.

¹⁶ Vélez, "Banks and the racial patterning of homicide," p. 155

¹⁷ Ibid. p. 165

¹⁸ Ibid. p. 155

¹⁹ Rocco D'Este, (unpublished) "The Effect of Stolen Goods Markets on Crime: Pawnshops, Property Thefts, and the Gold Rush of the 2000s," *University of Warwick*, (2014) available at: <https://warwick.ac.uk/fac/soc/economics/research/workingpapers/2014>

²⁰ D'este, "The Effect of Stolen Goods Markets on Crime," p. 19

²¹ Kubrin, C. *Do Fringe Banks Create Fringe Neighborhoods?* p. 774-775.

neighbourhood is associated with more crime.²² Kubrin et al. (2016) caution the interpretation of causation between pawn stores and crime, because of their cross-sectional approach to the data and the absence of longitudinal data.²³

In the assessment of the relationship of fringe banking on neighbourhood crime, measured by property and violent crime rates in 2005 and 2010 in Norfolk, Virginia, Lee et al. (2013) found that “there is very little evidence to suggest that pawn shops were predictive of either violent or property crime in either year ... [and] were only marginally significant in one model and it trended in a negative direction.”²⁴ In other words, in this study, the presence of pawn stores was associated with lower violent crime or property crime. Lee et al. (2013) note that the results were unexpected “because pawnshops are often, at least anecdotally, thought of as places where burglars might “fence” stolen goods.”²⁵ Lee et al. (2013) suggest this finding may indicate that pawn stores are not neighbourhood-based but rather function at a city-wide level. The study further notes that crime associated with pawn stores was not found to be significant because the property crime data includes crimes that are likely unaffected by the presence of a pawn store, such as motor vehicle thefts.²⁶

In criticism of studies that attempt to attribute crime to specific types of businesses, Wilcox et al. (2011) highlight the difficulty of making this assessment when the number and types of facilities studied is restricted, therefore creating a “false impression ... that a small subset of undesirable facilities are positively correlated with crime, in contrast to the vast majority of facilities that are unrelated to crime, or even protective against crime.”²⁷

²² Ibid. p. 774-775

²³ Ibid. p. 781

²⁴ Anne Lee, Randy Gainey, and Ruth Triplett, “Banking Options and Neighborhood Crime: Does Fringe Banking Increase Neighborhood Crime?” *American Journal of Criminal Justice* 39, no. 3 (2014): 564

²⁵ Lee, “Banking Options and Neighborhood Crime,” p. 565

²⁶ Ibid. p. 565

²⁷ Pamela Wilcox and John E. Eck, “Criminology of the unpopular: Implications for policy aimed at payday lending facilities,” *Criminology & Public Policy* 10, no. 2 (2011): 474

3. ECONOMIC DYNAMICS

3.1 Individual Economic Dynamics

As noted in Section 1, pawn stores are part of a larger group of alternative financial services operating outside of the mainstream banking system. Other alternative financial services include businesses that offer payday loans, cheque cashing, car title loans, and rent-to-own services. These alternative financial businesses provide smaller loans and a shorter payback period.

Returning to the earlier Dungen et al. (2016) study, the individual economic impact of alternative financial institutions varied by the different users. For the ‘hard-to-bank’, the study identified that loans provided to this customer segment were more at risk of default, and lenders, therefore, charged higher rates of interest. However, when provided philanthropically, customers can use these loans to improve their credit scores.²⁸

For the ‘working poor’ it was found that affordable small-dollar credit can have a positive impact on these individuals. Small-dollar credit can help individuals deal with unexpected expenses, or manage a misalignment in timing of when income is coming in and when bills are due. However, Dungen et al. (2016) recommend that those who depend on small-dollar credit to supplement ongoing shortfalls should be redirected to basic needs agencies.²⁹

For those in the ‘convenience’ group, Dungen et al. (2016) identified that roughly half are considered moderate to heavy credit users. In this group, 42% use more than 5 loans per year, and 16% use more than 12 loans annually.³⁰ Dungen et al. (2016) suggest that those who consistently borrow to cover ongoing shortfalls are exceeding their income, and make up the highest consumers of small dollar loans.³¹ Both Dungen et al. (2016) and the Centre of Financial Services Innovation (2012) indicate that providing loans to individuals with chronic shortfalls may make their financial situation worse by putting these individuals at further financial risk and adding further stress to their situation.^{32 33}

Other research found similar findings as Dungen et al. (2016) in terms of the economic drivers of individuals turning to alternative banking options. A study of payday loan

²⁸ Dungen, “Fair Financing,” p. 9

²⁹ Ibid. p. 10

³⁰ Ibid. p. 6

³¹ Ibid. p. 6

³² Ibid. p. 7

³³ Rob Levy and Joshua Sledge, “A Complex Portrait: An Examination of Small-Dollar Credit Consumers,” *Centre for Financial Services Innovation*, (2012): 22, available at:

<https://www.fdic.gov/news/conferences/consumersymposium/2012/a%20complex%20portrait.pdf>

users in Ontario, British Columbia and Alberta,³⁴ found that 66% borrowed to offset unexpected expenses, temporary reductions in income, and to maintain good financial standing with other consumer and financial accounts. Of this group, users reported the following primary reasons for borrowing:

- 30% to deal with unexpected expenses
- 12% to maintain good financial standing
- 7% to cover a temporary reduction in income
- 4% to support optional personal consumption³⁵

The remaining third of those surveyed were found to be “financially vulnerable on a persistent basis and cited a need for “emergency cash” to cover the necessities, such as food, housing, and clothing.”³⁶

Dungen et al. (2016) identify that for some, using small-dollar credit to cover expenses is a reasonable choice when the cost of the loan is less than the accumulated costs associated with late payments.³⁷ However, it was also found that irrational decision making also affects choice because some borrowers will choose to use high-cost credit, even when other forms of credit with lower fees are available to them.³⁸

A range of studies highlighted the importance of clear lending terms for alternative banking options to avoid or reduce negative impacts to the individual. If individuals do not understand the terms of the contracts they are agreeing to, the loans could end up costing them more money than they would have been willing to accept. Individuals desperate for cash may also pawn items of personal importance that they may not be able to redeem.

3.2 Regulating Economic Impacts

To counter the financial impacts on individuals when obtaining high-cost loans, the Criminal Code of Canada regulates the maximum annual rate of interest. The maximum interest that can be charged is 60 per cent on the credit advanced. Under Section 347 of the Criminal Code (1985), interest includes all charges and expenses, such as fees, fines, penalties, or commission, that are paid in order to obtain the loan.³⁹ Based on this information, a loan with a 30 day term should not exceed 5 per cent per month, including all fees and expenses charged on top of the loan advanced. Pawn stores must

³⁴ Environics Research, “Understanding Consumers of Canada’s Payday Loans Industry,” *Canada Payday Loan Association*, (2005) cited in Sabrina Bond, “Filling the Gap: Canada’s Payday Lenders,” *Canadian Consumer Finance Association*, (2016): 39-40, available at: https://canadiancfa.com/wp-content/uploads/2016/11/cboc-filling-the-gap_final-nov-2016.pdf

³⁵ Bond. “Filling the Gap,” p. 39-40

³⁶ Ibid. p. 41

³⁷ Dungen, “Fair Financing,” p. 7

³⁸ Dijkema, “Banking on the Margins,” p. 27

³⁹ Criminal Code, RSC 1985, c. C-46. Available at: <http://laws-lois.justice.gc.ca/eng/acts/C-46/page-78.html?txthl=interest+rate#s-347>

adhere to the maximum interest rate as outlined in the Canadian Criminal Code. For more information on the Edmonton context regarding interest rates, refer to Attachment 2 - Primary Research on Pawn Stores in Edmonton.

In a study completed in 1998, Johnson and Johnson examined the dynamics of pawn brokering in the United States. Although regulations on high-cost lenders often aim to protect consumers, research indicates that regulations may not always have the intended effects, because businesses may adjust their practices to shift any added costs to the consumer. For example, interest ceiling caps can incentivize pawn store operators to provide a lower loan-to-value ratio. The following two scenarios can play out:

- Lowered interest rates can result in a greater frequency of goods being redeemed, thereby decreasing the opportunity for pawn stores to recoup costs from the profits of goods sold from defaulted loans
- Customers are required to pawn goods with a market value greater than what they would previously, putting them into greater debt, or they are denied loans when collateral is deemed to be too low to be profitable⁴⁰

Interest ceiling caps are not the only regulations that affect pawn stores. Regulations for the holding period time of a pawned item can negatively affect pawn operators if, during the holding period, the item is devalued or becomes obsolete.⁴¹ In some jurisdictions in the United States, regulations require pawn operators to pay surplus profits on the sale of an item that has not been redeemed back to the individual who pawned the item, thereby reducing the opportunity to minimize the loss from a defaulted loan.⁴²

Johnson and Johnson (1998) also found that competition, in the form of more pawn stores, ensures that consumers are protected and that credit markets maintain efficiency. They noted that competition can be affected by what they call ‘convenience and advantage licensing statutes,’ which are used to limit the number of pawn stores in a specific geographic area.⁴³ As noted by Johnson and Johnson (1998), “When competition is restricted in this way, consumers find pawnshops less convenient and may also obtain less favorable terms than would be found in a fully competitive market.”⁴⁴

As identified above, regulations to high cost lenders not only impact businesses; they can also impact consumers. The fees that consumers are charged for a loan may be shifted to other services provided, or contract agreements that make the loans less desirable, and further limit credit options for individuals who depend on small dollar loans. Johnson and Johnson (1998) identify that it is critical “to create a legislative

⁴⁰ Johnson. “Pawnbroking In the U.S.” p. 19-23

⁴¹ Ibid. p. 23

⁴² Ibid. p. 23

⁴³ Ibid. p. 23

⁴⁴ Ibid. p. 23

framework that encourages entry and survival of pawnshops in a competitive market. Otherwise the consumers' alternatives are friends and relatives or non-charitable sources such as illegal lenders and swap shops."⁴⁵ Johnson and Johnson (1998) state:

*"Given the fact that the majority of pawnshop customers have few legal alternatives to obtain small short-term loans, the burden of these regulations designed to "protect" pawnshop customers falls directly on those consumers. Those that remain as customers will be forced to pledge more possessions to obtain loans. Others will be forced out of the market because there are no longer convenient pawnshops available or because they do not have enough possessions to pawn for their financial needs."*⁴⁶

In *Breaking Up Payday: Anti-agglomeration Zoning and Consumer Welfare*, Foster (2014) discusses agglomeration economics and the benefits and costs to industries and consumers in relation to zoning policies that either force certain uses together or separate them apart.⁴⁷ This study identified that retail clustering benefits consumers because it encourages firms to "compete on price and product variety."⁴⁸ In consideration of payday lenders, Foster (2014) describes how local governments are increasingly using zoning as a tool to disperse alternative financial service providers with the goal to protect consumers from predatory lending.⁴⁹ In consideration of agglomeration economics and the benefits and costs associated with the clustering of businesses, Foster (2014) argues that, in addition to interfering with market efficiencies, imposing zoning restrictions that deconcentrate alternative financial service providers may actually hurt customers more by reducing competition and making alternative financial service providers less accessible to consumers.⁵⁰ Foster (2014) states:

*"If the primary impetus behind anti-agglomeration zoning measures is to protect local residents from the lending practices associated with the payday-lending industry, and therefore to improve customer welfare, it might be that these measures are working against their intended purpose. This is particularly so if the competition that results from firm agglomeration would benefit consumers in the absence of more stringent federal or state financial regulation. That is, if market competition has the potential to discipline lenders though agglomeration economies, then anti-agglomeration measures might be harming consumers who lack viable financial services alternatives."*⁵¹

⁴⁵ Johnson."Pawnbroking In the U.S." p. 26.

⁴⁶ Ibid. p. 30.

⁴⁷ Foster, Sheila, "Breaking Up Payday: Anti-Agglomeration Zoning and Consumer Welfare," *Ohio State Law Journal*, Vol. 75 (2014): 62; *Fordham Law Legal Studies Research Paper No. 2346515*, available at SSRN: <https://ssrn.com/abstract=2346515>

⁴⁸ Ibid. p. 89

⁴⁹ Foster, "Breaking Up Payday," p. 87

⁵⁰ Ibid. p. 96

⁵¹ Ibid. p. 63

By reducing competition, alternative financial service providers have less incentive to lower lending rates or increase product differentiation that would better serve customers that are already under financial stress. Pushing alternative financial service providers further apart creates consumer inefficiencies in being able to compare products and lending rates in order to seek the best price and product that meets their need.

3.3 Neighbourhood Economic Dynamics

Research looks at how the presence of banks impact businesses that provide alternative financial services and how clustering of businesses impacts economic dynamics.

Neighbourhood economic dynamics can shift when a major service provider exits a community or neighbourhood. Buckland and Martin (2005) studied the inner-city of Winnipeg's North End. The study identified that this area went from having 20 mainstream banks in 1980, to only three mainstream banks and two credit union branches in 2003.⁵² Between 1980 and 2003, the study's data suggests that the number of pawn stores spiked from five in 1987 to eleven in 1988, and then fluctuated from eleven to nine stores from 1988 to 2003.⁵³ The data also indicates that when the number of mainstream banks and credit unions started to decline at a faster rate, there was a subsequent growth in the number of rent-to-own, cheque-cashing, and payday lending establishments in the area.⁵⁴

Returning to Foster (2014), this study discusses the broader industry dynamics associated with agglomeration economics.⁵⁵ In consideration of the benefits, referred to as 'positive spillovers,' forcing industry to cluster through zoning policies that only allow commercial or industrial uses within specific zones can allow industries to take advantage of "economies of scale and ... economies of specialization, which can help stimulate growth and innovation in an industry."⁵⁶ Businesses benefits from clustering because 'consumer search costs' directly relates to the location of retail businesses. When similar industries locate closer together, increasing product variety to consumers, they increase "the chances that consumers will purchase from the agglomeration."⁵⁷ Foster (2014) states:

⁵² Jerry Buckland, Thibault Martin, Brendan Reimer, Nancy Barbour, Amelia Curran, and Rana McDonald. "Fringe Banking in Winnipeg's North End," *Canadian Centre for Policy Alternatives*, (2005): 15-16, available at: https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba_Pubs/2005/fringe_banking.pdf

⁵³ Buckland. "Fringe Banking in Winnipeg's North End." p. 16

⁵⁴ Ibid. p. 16

⁵⁵ Foster, Sheila, "Breaking Up Payday: Anti-Agglomeration Zoning and Consumer Welfare," *Ohio State Law Journal*, Vol. 75 (2014): 62; *Fordham Law Legal Studies Research Paper No. 2346515*, available at SSRN: <https://ssrn.com/abstract=2346515>

⁵⁶ Foster, "Breaking Up Payday," p. 87

⁵⁷ Ibid. p. 89

“As more of these firms join the agglomeration, and consumer search costs are reduced, more consumers are drawn to the agglomeration and the net benefits of agglomeration increase for the firms in that location.”⁵⁸

4. LAND USE IMPACTS

There has been little direct research on the land use impacts of pawn stores. Instead, studies have focused on the relationship between crime and the physical decline of a neighborhood, which is often referred to as Broken Window Theory. These studies look at indicators such as vacant houses, broken windows, vandalism and litter, and have identified physical disorder as being directly and indirectly associated with crime.⁵⁹ The Broken Window Theory posits that physical and social disorder can signal a level of social disorder that is conducive to criminal activity because residents may perceive, based on the physical environment, that there are no consequences in their neighbourhood for criminal activity.⁶⁰

In a study on the neighbourhood costs associated with alternative banks, Kubrin et al. (2011) identify a number of policy approaches to manage payday lenders, including the opportunity to limit payday lenders through zoning regulations with the intent to mitigate the potential stigmatization of a neighbourhood where there is a proliferation of alternative banks.⁶¹ Kubrin identifies that other cities have used this mechanism on cheque cashers and pawn stores, as is the case in St. Louis where these types of establishments had a minimum 1 mile separation distance from each other, and a 500 foot buffer from residential uses and schools.⁶² The study did not include an assessment on the efficacy of these separation distances in achieving desired outcomes.

Kohm and Selwood (2004) identify that commercial activities that carry negative stigma often locate in marginalized areas of a city because suburban residents object to the location of these businesses in their neighbourhoods, and municipalities tend to exclude undesirable land uses from suburban areas.⁶³ Kohm and Selwood (2004) illustrate this in the following example:

⁵⁸ Ibid. p. 89

⁵⁹ Vélez, “Banks and the racial patterning of homicide,” p. 157

⁶⁰ Robert Sampson and Stephen Raudenbush, “Seeing Disorder: Neighborhood Stigma and the Social Construction of “Broken Windows,” *Social Psychology Quarterly* 67, no. 4 (2004): 319

⁶¹ Kubrin, C. *Does fringe banking exacerbate neighborhood crime rates?* p. 458.

⁶² Ibid. p. 458

⁶³ Steven Kohm and John Selwood, “Capitalizing on life at the margins: the pawnbroker and inner city commerce,” *Prairie Perspectives: Geographical Essays, Winnipeg: University of Winnipeg*, (2004): 89, available at: <http://pcag.uwinnipeg.ca/Prairie-Perspectives/PP-Vol07/Kohm-Selwood.pdf>

“The very process through which a prospective pawnbroker must go through in order to secure permission to open a new location is overtly politicized. New applicants for pawnshops, massage parlours and escort services must appear before local community committees where residents and other concerned parties may speak for or against the proposed business. A decision is then rendered by the city councilors representing the area in which the new application falls. Such a process makes the establishment of new marginal businesses nearly impossible in all but the least politically powerful and organized neighbourhoods. So, while vintage clothing stores and secondhand CD stores are moving into more salubrious territory, there is a governmental push to exclude and concentrate those businesses seen as most offensive to middle class sensibilities. Once such concentrations are established, it becomes even harder to say no to new businesses that want to move into these districts.”⁶⁴

The study also suggests that the stigma of pawn stores can be self-reinforcing, as uses considered undesirable are consistently pushed into already marginalized areas.

5. CONCLUSION

While research specific to the dynamics of pawn stores is limited, the summary below does highlight key findings related to the social, economic and land use impacts of pawn stores.

Individual social and economic dynamics:

- Some individuals who depend on short term credit from alternative financial providers, including pawn stores, tend to experience financial exclusion from traditional lenders, and face a number of barriers to accessing credit
- Short term credit can bridge the gap between payday and bills, or provide a way for individuals to pay for unexpected expenses.
- High interest rate and fees on the short term financial products can lead to financial challenges when credit is used to cover ongoing income shortfalls
- To avoid or reduce negative economic impacts to individuals, studies highlighted the importance of regulations that require clear lending terms for alternative banking options
- Attempts to regulate high-cost loans do not always protect customers because businesses adjust their practices to shift any added costs to the consumer
- Some research shows that competition between pawn stores can help individuals secure the best pawn loan

Neighbourhood social and economic dynamics:

- Some research suggests that there is a connection between pawn stores and crime, however, does not demonstrate whether pawn stores cause crime

⁶⁴ Kohm, “Capitalizing on life at the margins,” p. 92-93

- Other studies did not find a correlation between pawn stores and crime and critiqued efforts to attribute crime to specific types of businesses, as there are many different factors involved in higher rates of crime in certain areas
- Studies show that the removal of mainstream banks from an area can create a void that is filled by alternative financial providers
- Some researchers have shown that clustering businesses together can have positive impacts on businesses

Land use:

- Few studies focused specifically on land use issues related to pawn stores
- General planning theory has outlined the impacts of poor appearance of shops on perceptions of crime and safety
- Some studies suggest that stigma associated with pawn stores, and advocacy from more affluent neighbourhoods, can result in land use regulations or permit decisions that result in pawn stores being located in marginalized areas

These findings have informed Administration's proposed approach to pawn stores, as outlined in CR_4755 Amendments to Zoning Bylaw 12800 - Regulations for Pawn Stores.

6. BIBLIOGRAPHY

- Bond, S. "Filling the Gap: Canada's Payday Lenders." *Canadian Consumer Finance Association*, (2016): 0-82, Available at: https://canadiancfa.com/wp-content/uploads/2016/11/cboc-filling-the-gap_final-nov-2016.pdf
- Buckland, Jerry, and Fikkert, Antonia. "Choosing financial services where the options are limited A report on a survey of financial service choice of residents in inner-city neighborhoods in Toronto, Vancouver & Winnipeg." *University of Winnipeg* (2008): 0-82. Available at: http://financial-exclusion.uwinnipeg.ca/sites/financial-exclusion.uwinnipeg.ca/files/docs/Choosing_Financial_Services_Where_the_Options_are_Limited.pdf
- Buckland, Jerry. *Hard Choices: Financial Exclusion, Fringe Banks, and Poverty in Urban Canada*. Toronto: University of Toronto Press, 2012.
- Buckland, J., Martin, T., Reimer, B., Barbour, N., Curran, A., and McDonald, R. "Fringe Banking in Winnipeg's North End." *Canadian Centre for Policy Alternatives*. (2005): 0-55. Available at: https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba_Pubs/2005/fringe_banking.pdf
- Criminal Code. RSC 1985, c. C-46. Available at: <http://laws-lois.justice.gc.ca/eng/acts/C-46/page-78.html?txthl=interest+rate#s-347>
- D'Este, R. (unpublished) "The Effect of Stolen Goods Markets on Crime: Pawnshops, Property Thefts, and the Gold Rush of the 2000s." *University of Warwick*, (2014): 0-46 Available at: <https://warwick.ac.uk/fac/soc/economics/research/workingpapers/2014>
- Dungen, E., Coutts, R., and MacDonnell, R. "Fair Financing: Expanding Small-Dollar Short-Term Credit for Albertans." *Canadian Consumer Finance Association*. (2016): 0-42. Available at: <https://canadiancfa.com/wp-content/uploads/2016/10/fair-financing-report.pdf>
- Dijkema, B. and R. Mckendry. "Banking on the Margins: Finding Ways to Build an Enabling Small-Dollar Credit Market." *CARDUS*. (2016): 0-53. Available at: <https://www.cardus.ca/research/family/reports/banking-on-the-margins/>
- Foster, S. "Breaking Up Payday: Anti-Agglomeration Zoning and Consumer Welfare." *Ohio State Law Journal*. Vol. 75 (2014): 57-101; *Fordham Law Legal Studies Research Paper No. 2346515*. Available at SSRN: <https://ssrn.com/abstract=2346515>
- Johnson, R., and Johnson, D. "Pawnbroking In the U.S.: A Profile Of Customers." Monograph No. 34. Washington: *Credit Research Centre. Georgetown University*. (1998). 0-98. Available at: <https://www.yumpu.com/en/document/view/19062927/pawnbroking-in-the-us-a-profile-of-customers-faculty-research>
- Kohm, S., and J. Selwood. "Capitalizing on life at the margins: the pawnbroker and inner city commerce." *Prairie Perspectives: Geographical Essays. Winnipeg: University of Winnipeg*. (2004): 82-95. Available at: <http://pcag.uwinnipeg.ca/Prairie-Perspectives/PP-Vol07/Kohm-Selwood.pdf>
- Kubrin, C., and Hipp, J. "Do Fringe Banks Create Fringe Neighborhoods? Examining the Spatial Relationship between Fringe Banking and Neighborhood Crime Rates." *Justice Quarterly*, 33:5 (2016): 755-784.
- Kubrin, C., Squires, G., Graves, S., and Ousey, G. "Does Fringe Banking Exacerbate Neighborhood Crime Rates? Investigating the Social Ecology of Payday Lending." *Criminology and Public Policy*, Vol. 10 (2011): 437-466.
- Lee, A., R. Gainey and R. Triplett. "Banking Options and Neighbourhood Crime: Does Fringe Banking Increase Neighborhood Crime?" *American Journal of Criminal Justice* 39, no. 3 (2014): 549-570.
- Levy, R., and Sledge, J. "A Complex Portrait: An Examination of Small-Dollar Credit Consumers." *Centre for Financial Services Innovation*. (2012): 0-31. Available at: <https://www.fdic.gov/news/conferences/consumersymposium/2012/a%20complex%20portrait.pdf>

Momentum. "High-Cost Alternative Financial Services: Issues and Impact." *Momentum Community Economic Development Society*. (2017): 0-13. Available at https://momentum.org/wp-content/uploads/2018/02/Part-1-High-Cost-Alternative-Financial-Services_1.pdf

Sampson, R., and Raudenbush, S. "Seeing Disorder: Neighborhood Stigma and the Social Construction of "Broken Windows." *Social Psychology Quarterly* 67, no. 4 (2004): 319-42.

Veléz, M. "Banks and the Racial Patterning of Homicide: A Study of Chicago Neighborhoods." *International Journal of Conflict and Violence* 3, no. 2 (2009): 154-171.

Wilcox, P., and Eck, J.E. "Criminology of the unpopular: Implications for policy aimed at payday lending facilities." *Criminology & Public Policy* 10, no. 2 (2011): 473-482.