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Feature Article

Why pawnbrokers?

The success of pawn-broking business is attributed to the growing demand for the service around the country. Like any other business, some pawnshops have now gone online. This has led to the younger generation falling prey to the pawnbrokers.

Today, our pawnshops are packed with smartphones, tablets, iPods, home theater systems and other modern-age gadgets. Indeed, this business is one which thrives on generations, the old as well as the young.

We ran a quick survey with some consumers picked on a random basis and asked them why they preferred going to pawnbrokers for hard cash instead of opting for other creditors such as money lenders or banks.

Majority of the consumers replied: "It is an easy deal with pawnbrokers, you loan your personal item for cash and if you can't pay the loan, they retain the item. They don't burden us with paperwork, repayments, creditors chasing us or we have to give our ATM bank cards as we would in the case of moneylenders..."

"There are times, we need money to pay our rent and our parents are unable to send us money on time so we have no choice but to pawn our mobile phones or watches. Once the rent money comes through, we go back and pay the pawnbroker and get our items back. But if we get tempted to use the rent money then we just forget about those pawned items," said one university student.

So, why not borrow from friends and relatives rather than parting away with your valuable item?

"You need to think carefully about whether you can afford to repay the money and can cope with- what might happen if you can't afford to pay it back. It's always stressful if you can't afford repayments but it can be even worse if you're leaving a loved one out of pocket and it may harm the relationship. We are more comfortable going to pawnbrokers than borrowing from a relative". Many we spoke to shared similar sentiments.

Borrowing from money lenders is quite popular but then again, the borrowers are slapped with high interest rates. The interest rates can be as high as 20 per cent a week per loan despite the laws which require money lenders to charge only 12 per cent per annum.

Accessing bank loan means a lot of paper work, which is time consuming. Not every borrower owns a bank account, so the easiest and most convenient option is to pawn an item which can earn some money.

The reason to borrow is the same for people of all walks of life – be they students, labourers, professionals or home-makers – everyone is in need of quick cash at a time when they don't have other means but to borrow.

Our advice to consider when you have no choice but to borrow:

Work out a true cost of borrowing

The true cost of borrowing takes into account:

- the loan amount
- the length of the borrowing term
- the frequency of repayments
- the rate of interest you'll be charged
- the cost of any fees

This will help you work out the total amount that you will have to pay to the lender/creditor.

Deciding on the loan amount

Before you go ahead and borrow any amount of money there are some important questions you need to ask yourself:

- Is whatever you want to spend the money on absolutely essential?
- Could you either save up or use savings instead of borrowing?
- How much can you afford to repay? (This is a much better question than 'how much do you need to borrow?')

At the end of the day, consumers must chalk out a norm for themselves and their family – **to live within your means and stick to your personal budgets!**