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Hayden Smith - 5th September, 2010

Experts warn of Britain becoming a nation in hock to pawnbrokers

Britain is facing a crisis worse than the 1930s as desperate families borrow billions of pounds from pawnbrokers and in pay day loans, experts warn.



The traditional three golden balls have become an increasingly common sight on Britain's high streets with the number of pawnbrokers trebling in seven years

They are taking on the short-term loans, where interest rates can be as high as 2,000 per cent, as they struggle to pay the bills.

Pay day loans and pawnbrokers have grown to a £2billion-a-year business as conventional lending by banks or on credit cards dries up.

Economist and investment adviser Jonathan Davis said: 'The situation now is worse than it was in the 1930s. The banks, who up until three years ago were literally throwing money at everyone, whether it was credit cards or mortgages or personal loans, are not doing so any longer. They are running on empty.'

The growth in pawnbrokers, where customers pledge jewellery or other valuables in return for cash, is being seen in high streets across the country – their numbers have almost trebled in just seven years.

Pay day loans are available in minutes on the phone or via the internet and the average sum borrowed is under £300.

Paul Aitken, founder of online pawnbroker borro.com said: 'Business is booming and it is a reflection of the fact that more traditional routes of credit have shut up shop to a degree and that has provided more opportunities for those who operate on the fringes.'

Lenders say there is also a rise in business people coming to them for quick credit.

However, campaigners fear that the high interest rates hurt most the people who can afford them least. Marie Burton, from Consumer Focus, said: 'Such expensive rates can leave consumers caught in a debt trap.'

Pawnbrokers could become as common as coffee shops on the high street as banks continue to deny people easy credit, experts predict.

Growing numbers of customers – especially women – pledge belongings such as watches and jewellery to secure cash for bills and groceries.

There are now 1,300 pawnbrokers in the country – up from 500 in 2003 – boasting a total loan book of some £192million. One chain unveiled a 71 per cent leap in profits last week.

'Six years ago you might have seen one coffee shop but now you see four or five on a crossroad. We are seeing the same thing with pawnbrokers,' said John Nichols, chief executive of Britain's biggest operator H&T.

Mr Nichols said the soaring price of gold had, in part, fuelled the increasing number of outlets. 'It's about what people have in the loft and the bedside tables,' he said. 'People are finding it surprising how much value there is in a pair of broken earrings.'

The industry has undergone a modernisation, he added.

'The reality has changed now. It is not the dark, Dickensian service that people seem to have in their minds anymore.'

In one street in south London, there are at least five different pawnbrokers packed tightly together.

One manager, who did not wish to be named, reported more businesspeople using their services over the past year, alongside lower earners who borrow small amounts to pay for everyday items.

Businesswoman Boudicca Scherazade, 41, said she used a pawnbroker to borrow £5,000 against the value of jewellery after a fire claimed her stock of vintage clothing and antiques.

'I needed cash fast – much faster than a bank could lend it to me,' she told the BBC. 'There is still a lot of stigma about pawnbrokers but I was desperate.'

It is a picture that has been replicated up and down the country as the customer base seems to have become broader. Some 76 per cent of customers are aged between 20 and 49, with two thirds of them women, according to research by Bristol University for the National Pawnbrokers Association.

Most customers borrow under £100 with more than half reporting that they use pawnbrokers to pay for daily living expenses such as food and groceries, the study found.