

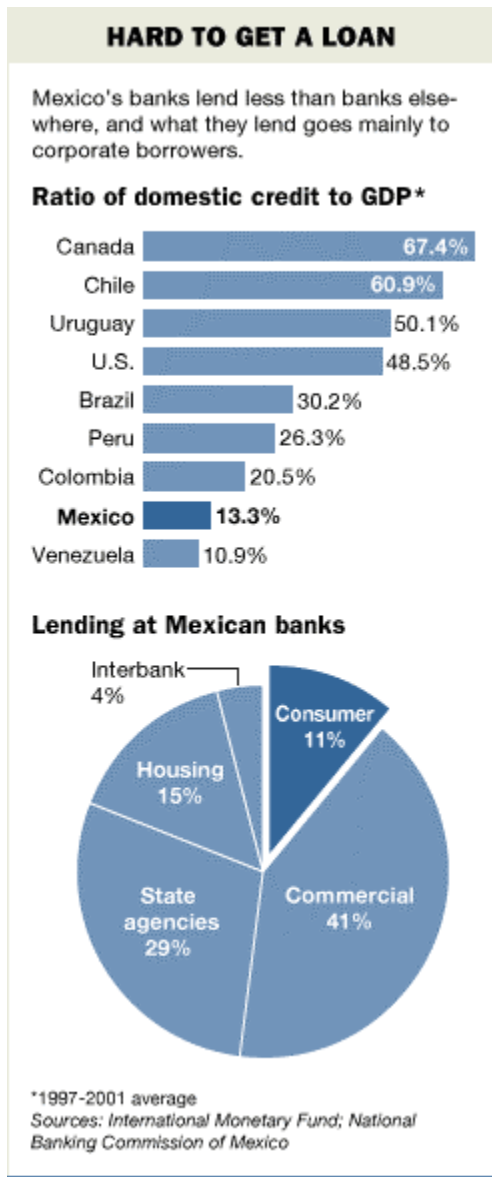
From the July 18, 2003 Edition of the Wall Street Journal

Mexico's Bankless Credit Boom

U.S. Pawnshop Chains Cater
To Consumers South of the Border

By JOEL MILLMAN
Staff Reporter of THE WALL STREET JOURNAL

MONTERREY Mexico -- Fernando Espinosa, a security guard at a strip mall here, 150 miles from the Texas border, has never had a bank account. Always earning and spending in cash, he keeps his savings in the appliances and jewelry he owns. When he needs extra money, he takes his 19-inch Sharp television down the street to a pawnshop operated by the First Cash chain, one of more than three dozen the Arlington, Texas, lender has opened recently in Mexico.



"It's good for me," says the Monterrey native, who pawns only in emergencies. Counting \$40 in crisp bills, Mr. Espinosa explains a compadre needs cash for a security deposit on a new apartment, so he hocked his TV. The First Cash branch is like his neighborhood financial adviser, he says. "They ask what I need and help me figure out what I can afford to borrow." After decades of consolidation at home, America's quintessential "subprime" lenders -- pawnshop chains -- are starting to move south into Mexico. First Cash, a unit of First Cash Financial Services Corp., has been adding dozens of stores a year along Mexico's northern border and has more than 40 stores in the country. Pawnshops, places of last resort for "unbanked" Americans, are often the only resort for Mexicans. That's especially true since 1998, when banking regulations here were changed to encourage a wider variety of lenders -- such as subprime underwriters and credit unions -- to offer their services to the public. Previously, the only Mexican pawnshops belonged to Nacional Monte de Piedad. With bank credit tight, even moderately prosperous Mexicans have long been used to visiting "El Monte" to swap jewelry, TV sets and even automobiles to carry them over a rough spot.

The pawnshops' move into Mexico comes at a time when the U.S. business, with about \$1 billion in loans outstanding, is increasingly turning abroad. Dallas's Cash America International Inc. now operates in Sweden and

the United Kingdom, while EZCorp Inc., Austin, Texas, owns a minority stake in a British chain. Local zoning restrictions are one reason to go overseas. In Texas, a mileage requirement bars new pawnshops from opening within three miles of an existing store. U.S. pawnshop chains also have to run a thicket of rules for handling merchandise, for example, checking all pawned jewelry against lists of stolen property registered with local police. A match results in forfeiting the property -- and any money loaned against it.

That doesn't happen south of the border, where checking merchandise against lists of stolen property isn't required, and zoning laws don't limit the location of pawnshops. First Cash said it expects its Mexico operations to take in about \$20 million this year, small compared with the \$120 million or more the company will gross north of the border. But given Mexico's demographics, company officials say, the potential is enormous. "In Dallas, maybe 65% of the population would consider going to a pawnshop," says First Cash's chief operating officer, Alan Barron. "In Mexico, it's more like 90%."

First Cash is the first of the Dallas area's three listed "bankless" financial-service companies to go into Mexico, a logical step for an industry whose customer base grows more "Latino" each year.

To compensate for possible currency devaluation, First Cash arranged to make loans in dollars, shifting any currency risk to the borrower. To attract a better trade, Mister Money-USA Inc., a Ft. Collins, Colo., pawnshop chain also operating in Mexico, put its stores within middle-class destinations like Wal-Mart Stores Inc. outlets and Carrefour SA supermarkets. Such a move effectively positions the pawnshops as ATM machines for bankless shoppers.

Mexicans, U.S. operators say, are alluring customers, with forfeiture rates lower in Mexico than in the U.S. Borrowers expect to redeem their property, which means they make payments on a higher percentage of loans -- 80% or more, compared with about 70% in the U.S.

Mexicans are also more accustomed than Americans to buying used property from retailers, which means much of what's forfeited by one borrower is purchased by another. "Mexico is not such a disposable society," says Tim Lanham, president of the Mister Money chain. "A two-year-old television will show more wear here [in the U.S.] than there. In Mexico, it'll probably come with the original packaging."

Another advantage in Mexico: With interest rates already high, the 20% monthly interest pawnshops routinely charge borrowers in the U.S. doesn't seem so usurious south of the border. Many Mexicans, deprived of credit at all levels, are used to even higher rates of interests from loan sharks, even from corner grocery stores. Poor people borrowing money against their jewelry or other valuables also run the risk of being defrauded. "You pawn your ring on the street, and you never know what you get back," says Juan Carlos Perez, the store manager at one of First Cash's Monterrey branches. "Sometimes they take your diamond out and replace it with a fake. Here they know what I take I give back."

-- Kortney Stringer in Dallas contributed to this article.

Write to Joel Millman at joel.millman@wsj.com¹