

Hamilton Roundtable for Poverty Reduction

**MAKING
HAMILTON**
the best place
to raise a child

May 20, 2016

The Honourable David Oraziotti
Minister of Government and Consumer Services
c/o Consumer Policy and Liaison Branch
Ministry of Government and Consumer Services
777 Bay St, 5th Floor
Toronto, ON M7A 2J3

Submission to the Ministry of Government & Consumer Services re: payday loan 'cost of borrowing' review

Dear Minister,

A payday loan is a time-limited loan with quick approvals and often no credit check. There are over 800 payday lenders licensed by the Government of Ontario and more than 35 of these establishments are within the City of Hamilton.

The Hamilton Roundtable for Poverty Reduction, Hamilton Community Legal Clinic, Social Planning and Research Council of Hamilton, community members and local political leaders have becoming increasingly concerned about the proliferation of what we would consider to be 'predatory' lending institutions in our community and across Ontario.

Although in Ontario, payday lenders are regulated by the Payday Loan Act, many consumer advocates have argued that these provincial regulations do not go far enough to protect vulnerable borrowers.

Payday loans actually exceed the "criminal interest rate" —the maximum rate of interest allowed in Canada. Following changes to the Criminal Code in 2007, the criminal interest rate does not apply to payday loans in provinces that have opted to allow this type of lending. A \$21 interest cap on \$100 borrowed may seem manageable over a two-week period; annualized, the interest rate of the loan is closer to 540 per cent. Customers often get trapped into a cycle of borrowing and repayments and spiral deeper and deeper into debt.

The payday loan industry utilizes predatory tactics and misleading advertisements to appeal to those in need of "quick cash".

Outlets are often located on the fringes of lower-income neighbourhoods where traditional financial institutions, such as banks, have vacated. Hamilton's Social Planning & Research Council found in a recent report that in the last two decades, one inner city Hamilton Ward had a reduction of bank branches from nine to two. It is perhaps telling that that Ward also has one of the City's highest poverty rates.

Payday lenders are taking advantage of those with nowhere else to turn; the working poor are the main clients of payday loan outlets and most are underserved by traditional financial institutions.

In February 2016, Hamilton City Council voted unanimously to create a new licensing category for pay day loan outlets in an attempt to respond to the growing crisis of predatory lending. In bringing forward the new licensing criteria, Hamilton's Director of Licensing said it was in keeping with his department's mandate to 'protect the public'. Ward 3 City Councillor, Matthew Green who put forward the motion at City Council has called this type of lending a "form of economic violence"- a sentiment with which we strongly concur. The new licensing has three parts: it requires payday loan outlets to pay a licensing fee of \$750, it requires outlets to post the actual annualized interest rates and it requires staff at payday loan outlets to provide city-sanctioned information on credit counselling.

Predatory lenders excel at using slick marketing campaigns to lure customers through the door and keep them coming back. In fact, the business model of the payday loan industry is predicated on customers returning time after time to take out more loans to cover the costs of paying off the previous one.

A study commissioned by the payday loan industry explained that high operating costs mean they can only be profitable if they turn the vast majority of customers into repeat borrowers. "On average, payday lenders provide 15 repeat or rollover loans for each first-time loan they provide."

A former CEO of a payday lending company said, "the theory in the business is you've got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that's really where the profit is."

Posters displayed in outlet windows, on billboards or on TV advertise happy, attractive payday loan customers able to borrow the money they want without a care in the world.

Just this past Christmas, a payday loan company called [Cash 4 You set a new standard](#) for this type of advertising: posters began appearing in Ontario guilting parents into borrowing money to buy presents such as talking dolls, videos games, mountain bikes, even a pony "because... their children deserve it."



While the payday loan industry raked in their holiday profits, months later, parents feel the sting of that overwhelming holiday debt.

As you will recall, in December 2014, Money Mart, perhaps the largest of these predatory lenders, began advertising a "new service" during the holidays to buy back store gift cards — but only at 50 per cent of their value. After an uproar, Money Mart backed away from the shameful scheme. It is clear however that the industry is not willing to self-monitor, and will stoop to any level to take advantage of vulnerable clients.

Minister, we believe it is time for the provincial government to follow the lead of Hamilton, and other provincial jurisdictions such as Quebec (and now Alberta) to end predatory lending. It's time for bold action to protect the public.

We respectfully submit the following recommendations and changes to the Pay Day Loan Act:

Limit the high rates of interest...or ban this type of lending outright.

The list of options presented in the Ministry's brief to lower the rates of interest payday lenders charge does not go far enough! Even the lowest choice presented by the Ministry's discussion paper: \$15 on \$100 borrowed would still leave borrowers struggling with repayments. In an informal survey of Hamiltonians, a strong majority 95% stated they wanted these types of predatory lending institutions banned outright.

We believe the Government of Quebec has taken a balanced approach: limiting the annual interest rate for all lenders to 35% annually which has severely limited the growth of payday lending retail locations.

Protect borrowers with a Consumer Bill of Rights and enable borrowers to repay loans over a longer period of time...

In a recent report by Hamilton's Social Planning & Research Council, entitled "[Money for nothing, debt for free](#)" (report attached) a recommendation to develop a "Payday Loan Consumer Bill of Rights" that is posted in all payday loan locations and websites was proposed. These rights should include information about all associated charges borrowers will pay along with a cost of payment plans compared to paying in full and taking out a new loan, obliging clerks to take a partial payment if offered, returning preauthorized debits and post-dated cheques to the client upon receipt of a partial payment, and the toll free number of the company's compliance department and how to make a complaint to Consumer Protection Ontario.

Payday lenders use strong-arm tactics to coerce borrowers to repay loans immediately, and then to take out another one to cover their basic needs. Alberta is making changes to enable borrowers to repay loans over an extended period.

Research has indicated that many borrowers have felt intimidated by their interactions with payday loan companies. A worker for two different payday loan companies in Hamilton recently published her experience of the exploitative and predatory business practices in the industry:

http://raisethehammer.org/article/2972/how_payday_lenders_trap_borrowers_in_cycle_of_debt

(author remains anonymous to protect her privacy, but we have met her and verified her identity) The comments in the article from other workers further confirms the way workers are trained to ensure a borrower's cycle of debt continues.

Crack down on aggressive and misleading advertisements....end deceptive promotions that only serve to entrap potential borrowers.

Advertising for payday lenders should be subjected to much tighter controls. The Province of Ontario has restricted cigarette and alcohol advertisements for good reason – they pose a public health risk. This same rationale should be applied to the predatory lending industry. Ontario needs cigarette warning labels applied to payday loan outlets –Appendix 1 demonstrates just some of the aggressive and misleading promotions the industry will stoop to sell their product.

Respectfully,

Tom Cooper,

Director Hamilton Roundtable for Poverty Reduction: tom@hamiltonpoverty.ca

also on behalf of Hamilton Community Legal Clinic & Social Planning & Research Council

