A Growing Movement

to end predatory payday loan profiteering

Tom Cooper

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Profiteering is a derogatory term applied to those in business who make profits through methods that, while not illegal, could certainly be considered unethical.

Business owners can be accused of profiteering if they raise prices on essential goods in an emergency such as a national disaster or during war.

With 4.8 million Canadians experiencing poverty, many advocates consider the country's high level of income inequality to be a crisis too.

For people who run into financial distress — if they fall short on funds to pay the rent, need grocery money to feed the kids or have a poor credit rating — an industry has emerged to fill a desperate need for emergency cash: the payday loan industry.

And payday lenders sure seem to fit the description of profiteers.

A payday loan is a time-limited loan with quick approvals and often no credit check.

There are more than 800 payday lenders licensed by the Government of Ontario. You've probably seen the outlets: storefront operations with flashy advertisements for "easy cash."

Outlets are often located on the fringes of lower-income neighbourhoods where traditional financial institutions, such as banks, have closed up shop over the last decade or so.

Canada's payday loan sector has grown over the past 20 years, taking advantage of a vacuum of lax provincial and federal regulations.

These 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 Ontario, payday lenders are regulated by the *Payday Loans Act*, but 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 — that's 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 but annualized, the interest rate of the loan is closer to 540 per cent. Customers often get trapped in a cycle of borrowing and repayments and spiral deeper into debt.

According to research undertaken by the Momentum Community Economic Development Society in Calgary, the vast majority of loans are borrowed to cover ordinary everyday expenses: rent, groceries, utilities, car payments; only 28 per cent are used for unexpected emergencies.

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 2004 Ernst & Young study commissioned by the Canadian Association of Community Financial Service Providers explained that high operating costs mean they can only be profitable if they turn the vast majority of customers into repeat borrowers. The report said: "On average, payday lenders provide 15 repeat or rollover loans for each first-time loan they provide."

According to Dan Freehan, CEO of payday lender Cash America, "The theory in the business is that 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 profitability is."

And as though raking in 540 per cent in annualized interest through repeat business isn't enough, predatory lenders excel at using slick marketing campaigns to lure customers through the door and keep them coming back.

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.

Key facts:

Six: Number of provinces that have functioning laws that govern the payday loan industry

Unlicensed lenders: Recent provincial reviews, including in Ontario, have focused on the threat posed by unlicensed lenders

Young borrowers: A 2005 Survey of Financial Security showed that 10 per cent of young families aged 15-24 had borrowed money using a payday loan

Vulnerable borrowers: Low-income families are twice as likely to draw on a payday loan; that said, three per cent of payday loans went to families earning between $40,001 and $66,000

Last resort: For almost half of families, payday loans were their last resort. They had no one to turn to

True costs: Interest rates on a $100 payday loan for 14 days can range from 335 to 650 per cent — that's higher than the Criminal Code's interest provisions

In December 2014, Money Mart, perhaps the largest of these predatory lenders, began offering a "new service" during the holidays to buy back store gift cards — but only at 50 per cent of their value. After an uproar on social media and at Queen's Park, Money Mart backed away from the shameful scheme.

While financial resources are drained from individuals utilizing payday loan services, the companies are making money hand over fist. In a report for the CCPA in 2013, John Anderson noted: "These are extremely profitable operations. DFC, the owner of Money Mart, the largest Canadian payday loan firm, made global profits before tax of $387 million on revenues of $1.062 billion in 2012, and 28.7 per cent of their total global revenues for the fiscal third quarter 2013 came from Canada."

The provincial government announced proposals to reform *Ontario's Payday Loans Act* late in 2015, but the changes only modestly address the outrageous levels of interest the industry can charge. The Ministry of Government and Consumer Services sought public input on potential options: to drop the amount the industry could charge from $21 on $100 to either $19, $17 or $15 on $100, or to keep it at its current level of $21 on $100.

Some communities have reached peak frustration with predatory lending in their neighbourhoods and they are taking matters into their own hands.

Advocacy groups such as ACORN Canada (the Association of Community Organizations for Reform Now) have long advocated for stricter regulations.

Calgary, Alberta and Burnaby, British Columbia have looked at municipal by-laws to limit the scope of predatory lending within city limits.

In Hamilton, City Councillor Matthew Green led an effort, in collaboration with Hamilton's Roundtable for Poverty Reduction, to use local planning authority to limit the proliferation of predatory lenders, calling predatory lending a form of "economic violence."

In February, Hamilton city council voted unanimously to establish a new municipal licensing category for payday loan outlets. The director of Hamilton's licensing department recommended new measures to limit the scope of payday lenders and to "protect the public."

These included new licensing fees, rules about posting the actual annual rate of interest the outlets charge, as well as a requirement to ensure anybody visiting a payday loan establishment is provided with city-sanctioned information on credit counselling services.

Recently, Toronto city councillors voted to look at ways to restrict where payday loan operators can set up shop in the city, to protect low-income Torontonians from spiraling into debt. Working with members of ACORN, City Councillor Kristyn Wong-Tam has been pushing for new municipal powers in Canada's largest city to stop the proliferation of payday loan outlets. Alberta has taken it a step further. In the speech from the throne in March, Premier Rachel Notley announced the government would introduce *An Act to End Predatory Lending*. The Alberta government would reduce the amount payday lenders can charge to $15 on $100 and, like the City of Hamilton, it would require all payday lenders to provide credit counselling information to customers.

Even some corporations have had enough: In early May, Google announced that it would ban all payday loan advertisements, calling them "deceptive and harmful."

Stronger regulations nationally, provincially and locally are critical, but there are deeper issues at play.

A living wage, affordable housing and affordable public transportation would help eliminate the appeal of these predatory lenders.

Traditional banks and credit unions have a central role to play by ensuring financial services are available and accessible for low-income populations. Some credit unions, such as VanCity in British Columbia, have begun developing innovative pilot projects that offer short-term loans at dramatically reduced interest rates.

Similar ideas are taking root at credit unions in Ontario: Hamilton City Councillor Green has convened local credit unions and consumer advocates to discuss local options.

National focus has also turned to the century-old system of postal banking as a potential alternative to payday lending. Many international post offices continue to operate these safe and convenient systems to depositors who do not have access to banks.

With a number of burgeoning alternatives, it's time to limit the damage the predatory lending industry has already done. It's time to end the reign of these profiteers.