momentum

OPPORTUNITIES FOR MUNICIPAL ACTION ON PAYDAY LENDING

In Momentum's previous brief, *The Real Cost of Payday Lending*, released in June 2014, the case was made for reform to payday lending at all three levels of government. The role of non-profits and mainstream financial institutions to offer alternatives to payday loans was also highlighted.

With the Calgary Poverty Reduction Initiative's *Enough for All* report calling on reform of the payday lending business in Calgary and Calgary City Council unanimously endorsing that report, it is important to understand the options that municipalities have at their disposal to reform payday lending and other predatory lending businesses. Options proposed in The Real Cost of Payday Lending report were:

- Amending land use bylaws to limit the number of payday lending businesses within a certain distance of each other,
- Amending the business licensing bylaw to increase business licensing fees for payday lenders,
- Convene banking institutions to collaborate and offer appropriate banking products for the working poor.

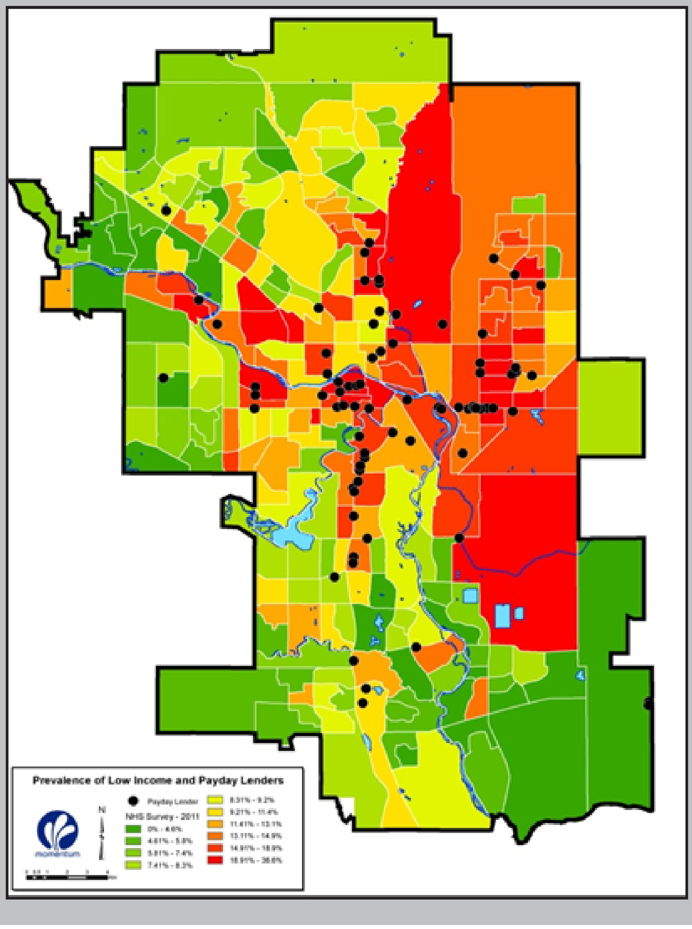
What is a payday loan? A payday loan in Alberta is a short-term loan of up to two months to a maximum amount of $1500 that is legally available to consumers. Payday lenders can charge up to $23 per $100 borrowed. Should the loan not be paid on time other fees can be charged.

Fees vs. Annual Interest: The $23 per $100 borrowed may seem like a 23% rate of interest. It is not. Financial products are generally calculated using an annual rate of interest. Think of your credit card, it's probably around 20%; your car loan about 7%. So what happens when you annualize the interest on the average loan taken from a payday lender? A $300 loan taken for 14 days at that maximum cost of borrowing results in a 600% annual rate of interest. When looked at like other financial products, payday loans are excessively expensive.

Who Uses Payday Loans? Payday lending customers are predominantly the working poor. The majority of those taking out payday loans are also doing so to cover ordinary expenses; only 28% say they need the loan to cover an emergency or unexpected expense. This is troublesome as loans for routine expenses are temporary fixes which can result in repeated use of expensive payday loans which perpetuates a cycle of debt that is difficult to exit.

Not only do payday lenders predominantly target low income individuals but their business locations are largely concentrated in less affluent communities, as illustrated in this map (right). This map plots each payday loan location in Calgary and overlays incidences of poverty. Poverty in Calgary is approximately 11%; the orange and red areas on the map represent communities with above average incidences of poverty.

Prevalence of Low Income and Payday Lenders in Calgary



WHAT CAN A MUNICIPALITY DO TO LIMIT PAY DAY LENDING?

The primary regulatory authority for payday lenders is with the provincial government. Changes to the fee structure or length of loan must be done by the provincial government. However, municipal governments in Alberta are far from powerless.

Land Use Bylaw Amendment

Municipal councils can amend the land use bylaw to set a minimum distance between payday lending businesses. In Calgary, this is already done with liquor stores which must be a minimum of 300 meters apart from each other. Of the 88 payday lending locations identified within Calgary city limits, approximately 15 payday loan businesses exist in the Greater Forest Lawn Area along or near 17th Avenue SE. There is often a correlation between a high number of payday lending locations and the departure of banks and credit unions from the area. A land use bylaw amendment designed to address proliferation of payday lenders could limit their prevalence and contribute to better access to mainstream financial institutions.

Business Licensing Bylaw Amendment

Municipalities already charge differential business licensing rates across business types. For example, the Township of Esquimalt near Victoria recently increased license fees for payday loan businesses from $100 to $2000. Revenue acquired through the increased license fee can potentially be invested in financial empowerment programs that would reduce the demand for payday loans. The Esquimalt model of increasing the business license fee to $2000 for all payday loan locations in Calgary would generate over $175,000 in annual revenue. If other fringe financial businesses such as cheque cashers, pawnshops, and cash for gold were also included the revenue would be much greater.

Convene Mainstream Banking Institutions

People are turning to payday lenders since they have limited options for fair financial services and products. In many cases, the customer service and financial products provided by mainstream financial institutions do not work well for people living on low-incomes. The municipal government can act as a convenor with banks and credit unions to bring them together to encourage them to offer services that better meet the needs of the working poor. Mainstream banks generally do not offer small dollar loans over a short period of time. However, VanCity recently began offering a product for short-term and small loans that would cost $2.20 for a $300 loan taken and paid in two weeks, an annual rate of 19%. By comparison a $300 payday loan taken for two weeks can cost up to $69 or a 600% annual interest rate.

In conclusion, this brief focuses on the potential actions that municipal elected officials can take including: amending land use bylaws to stop the proliferation of payday lenders, raising business licensing fees to fund financial empowerment programming and acting as a convenor to improve banking access for the working poor.

Momentum in Brief

Momentum is a community economic development organization that partners with people living on low incomes to increase prosperity, and inspires the development of local economies with opportunities for all.

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