



# High-Cost Alternative Financial Services: The Customer Experience

## CONTEXT

In 2016, the Government of Alberta took big steps to reform the rules that govern payday lenders operating in the province. The legislative and regulatory changes introduced in An Act to End Predatory Lending have significantly reduced the cost of a payday loan, will enable Albertans to get out of debt sooner and have spurred the creation of payday loan alternatives at mainstream financial institutions. In an effort to build upon these important successes, Momentum has examined the range of high-cost alternative financial services that exist in addition to payday loans. These are basic banking services and credit products offered by private companies at a high cost (interest rates can exceed the Criminal Code maximum of 60 per cent), and warrant the attention of government, communities, financial institutions and consumers.

## WHAT WE DID

In early 2017 Momentum reached out to over 50 community members and participants to better understand local experiences with high-cost alternative financial services. In addition to connecting with individuals through interviews, Momentum hosted community consultations in partnership with Poverty Talks!<sup>1</sup> and Sunrise Community Link Resource Centre.<sup>2</sup> The following document summarizes what we learned from these conversations and the loan contracts that borrowers shared with us. It also identifies several themes that emerged from these discussions.

## WHAT WE HEARD

### **A VARIETY OF PROBLEMATIC PRODUCTS AND SERVICES EXIST IN ADDITION TO PAYDAY LOANS**

**Participants shared with us a wide range of credit products and services that are typically accessed by individuals as an alternative to those available at a mainstream financial institution. They included:**

- Auto loans
- Rent-to-own financing
- Title loans
- Instalment loans
- Pawn loans
- Cheque cashing services
- Tax refund advances
- Medical product rentals
- Credit rebuilding services

1. Poverty Talks! supports people who are living in poverty to become involved in social change efforts and political processes, as well as to raise public awareness of poverty. For more information, visit: <http://vibrantcalgary.com/poverty-talks/>

2. Sunrise Community Link is a grassroots community development agency and resource centre engaged in poverty reduction and community economic capacity building in east Calgary. For more information, visit: <http://sunriselink.org>

## **THESE PRODUCTS ARE COSTLY**

**Participants highlighted the high cost of many of these services, particularly in terms of the interest rate, additional fees and insurance charges.**

- “I probably spent more on interest than on the actual loan.”
- “We felt powerless to negotiate a lower interest rate. It felt like kidnapping.”
- “The additional fees on top are what get you.”
- “Insurance payments cost more than car payments.”
- “People do not know that they can turn down the insurance.”
- “\$1,000 in insurance in case the loan is not paid. I was not asked, but told I had to pay it.”
- “There is no need to pay three to four times the value of the product.”
- “After looking at the contract again, I thought, ‘what was I thinking?’ But we needed the stuff.”

## **PRODUCT ADVERTISEMENTS AND CONTRACTS LACK TRANSPARENCY AND DO NOT SUFFICIENTLY DISCLOSE TERMS AND CONDITIONS**

**Many participants spoke of lengthy contracts with additional fees buried in the paperwork. Some noted that time and skill is required to determine the true cost of the loan.**

- “Contracts need to be clearer.”
- “Forms need to be changed to indicate the total amount paid once the loan is paid off.”
- “The fine print should be the big print.”
- “We need full cost disclosure and plain language.”
- “The contracts are complicated; major points should be explained right off the bat. They explain to you that it is such a great deal, but they do not give full information.”

## **THESE PRODUCTS ARE HEAVILY MARKETED ACROSS A RANGE OF PLATFORMS, TRADITIONAL AND NEW**

**Several participants mentioned aggressive and widespread marketing. They noted that these products are advertised online, on social media platforms such as Twitter and Facebook, on television and radio, through the mail and over the phone (particularly to land lines).**

- “These businesses find ways to get you into the store. They send fake cheques, and say that to cash them you need to visit a store.”
- “They use false advertisement, saying that ‘we help Canadians.’”
- “It’s unbelievable the phone calls I get on a regular basis from them.”
- “One lender has advertised ‘giving \$200 dollars when you bring in \$20,’ with no conditions mentioned.”

## **MANY BUSINESSES OFFERING HIGH-COST SERVICES LEND TO VULNERABLE PEOPLE**

**Many lenders do little to assess a client's ability to repay a loan, and are often willing to lend to individuals for whom a loan is not a good option.**

- “We chose an instalment lender because of their low standards. We had already capped out the amount the bank would offer us.”
- “They are not picky, as they want to acquire more clients.”
- “My son is on AISH due to a brain injury, yet the fringe lenders and pawnshops are all lending money to him. His bank has set rules up around his bank account (no card, no cheques – he has to go to the teller to access money). The fringe lenders do not care, and are just giving him money and letting him pawn things.”
- “I pawned the TV and Xbox that I was renting to own in order to afford food and transport.”

## **BARRIERS TO BANKING IMPACT CONSUMER CHOICE**

**Participants commented on their experiences with banks, and explained why they did not go to a mainstream financial institution to access credit. Several noted that they felt welcome at a high-cost lender, and mentioned how simple these products are to access (e.g. location, speed, low standards and no identification requirements).**

- “Banks need to offer credit building products.”
- “We use banks, but this has a limit. Banks are very protective, and their practices are not flexible.”
- “Even the treatment you get is different. You are treated well at a lender, but not treated well at the bank.”
- “I would change the regular banks. I would make them friendlier, more understanding and make them provide services that are similar, but at a lower cost.”

## **FOR SOME, HIGH-COST LENDERS ARE THE ONLY OPTION**

**Many participants expressed that they accessed these products due to a low credit score, and that a high-cost loan was their only option during a time of emergency or short-term need.**

- “I needed a car for work. I lost a job opportunity because I did not have a car. I was willing to take anything regardless of payment so I could get a job.”
- “For us, the instalment loan was our only option, and was used as a last resort.”
- “The instalment loans helped us move. If we didn't access them, we would not have been able to pay for moving expenses. This was our only option.”
- “We need better options. They are often the only option. Not even the last option.”
- “I have bad credit, so I can't get a loan from a bank.”
- “I have pawned items to buy food and to make ends meet in between social assistance cheques.”
- “I used a rent-to-own store because we needed a washer and dryer. We do not have one at home, and also do not have a car. I can't take laundry for four people on transit.”
- “They are necessary. If we did not have them, I would not have eaten.”

## FINANCIAL LITERACY RESOURCES ARE VITAL

### Participants shared openly that they wish they knew at the time of accessing these products what they know now about high-cost lenders

- “We need more places that teach financial literacy.”
- “This kind of information needs to be in Career and Life Management classes.”
- “We need more information on this stuff at immigrant serving agencies.”
- “People do not know where to turn or find learning opportunities.”
- “Where do you get the help to fight for yourself with these contracts?”

## INSIGHTS AND RECOMMENDATIONS

### Participants offered several recommendations for strengthening consumer protection. The following themes emerged:

- Lowering the maximum allowable interest rate and cost of fees.
- Mandating full cost disclosure, and introducing rules as to how information is disclosed (e.g. clear and big print).
- Ensuring that contracts are written in plain and clear language.
- Mandating better assessment of a customer’s ability to repay.
- Restricting advertising in general, and particularly concerning misleading advertisements.
- Reducing barriers to banking (e.g. mainstream financial institutions developing credit-rebuilding products, ensuring that they provide welcoming service).
- Increasing access to impartial financial literacy programs and services.

Momentum is a change-making organization that has been in Calgary since 1991. At Momentum, everything we do is grounded in a community economic development model, which means we work with individuals, businesses and systems to build a more inclusive local economy. To us, it's more than just creating jobs and starting businesses – it's about inspiring vibrant communities where everyone plays a role.

This document is part of a series on high-cost alternative financial services. For more of Momentum’s publications, visit <http://momentum.org/publications>.