momentum

The Real Cost of Payday Lending

EXECUTIVE SUMMARY

Since the early 1990s payday lending businesses have become increasingly prolific in most parts of Canada, including Calgary. The payday loan industry claims that they provide a needed service at a reasonable cost and do not target those living on low incomes or push customers for repeat business. Social agencies and advocates working to reduce poverty view payday lenders and other fringe financial businesses as problematic for those looking to exit the cycle of poverty. Payday lenders charge interest rates that, when annualized, top 400%. The industry justifies this by stating that comparisons to an annual rate are unfair as loans are not meant to or allowed to last longer than two months. However, the fact remains that these businesses charge far more for credit than mainstream financial institutions and are more prevalent in lower income neighbourhoods.

Data collected by the Canadian Payday Loan Association (CPLA), the industry association representing lenders, reveals that payday loan customers are predominately the working poor. That is, people who are employed, usually full-time, and live near or below the poverty line. The majority of those taking out payday loans do so to cover ordinary expenses; only 28% say they need the loan to cover emergencies or unexpected expenses.[1] This is particularly troublesome as loans for routine expense are temporary fixes which likely result in repeated use of payday loans perpetuating the cycle of debt and poverty. Industry data also reveals that for every new customer; fifteen return or rollover loans are issued.[2]

With all the work currently taking place to develop poverty reduction strategies across Alberta, now is the time to act on payday lending. Action is necessary from both provincial and municipal levels of government for serious reforms to take place. The not-for-profit sector and mainstream financial institutions can also play a role in developing viable financial options beyond payday loans.

DID YOU KNOW?

Payday loan **customers** are predominately those who are employed full time but live at or below a living wage—**the working poor.**

Payday lenders and other fringe financial institutions counteract poverty-reduction efforts. Payday lenders charge **interest rates that top 400%** when annualized and are largely located in lower income neighbourhoods.

There are **15 return customers** or rollover loans for **every new payday loan customer**, which further perpetuates the cycle of debt.

1. Environics Research Group (2013). *Payday Loan Users Study – Alberta.* http://www.cpla-acps.ca/english/reports/CPLA%202012%20e%20Users%20AB.PDF, 15.
2. Ernst & Young (2004). *The Cost of Providing Payday Loans in Canada: A Report Prepared for the Canadian Association of Community Financial Service Providers.* http://www.cpla-acps.ca/english/reports/EYPaydayLoanReport.pdf, 36.

POLICY OPTIONS FOR REFORM OUTLINED IN THIS BRIEF

Potential policy reform options exist for all orders of government as well as business and the non-profit sector. These options will be outlined in further detail later in this brief.

Municipal Government	Provincial Government	Federal Government	Non-profit Sector	Mainstream Financial Institutions
» Passing land use bylaws limiting the number of payday lending businesses within a community or municipality. » Institute licensing bylaws that increases business licensing fees for payday lenders. Re-invest license fees in financial empowerment programs. » Convene banking institutions to collaborate and offer appropriate banking products for the working poor. » Encourage employers to use direct deposit rather than pay employees by cheque or cash.	» Repeal the Alberta Payday Loans Regulation and revert to the federal criminal code interest rate maximum of 60% per year. » Reduce interest rate levels below the federal 60% maximum.	» Do not allow provinces to override the interest rate maximum of 60% annually outlined in the Criminal Code of Canada. » Reduce the maximum interest rate to below 60% annually.	» Provide financial literacy and empowerment supports to encourage savings, asset building, and direct deposit. » Recognize the need for short-term, low dollar credit by providing small loans at low rates of interest.	» Provide financial products that offer short-term, low dollar credit at reasonable interest rates. » Financial products that encourage lower income earners to open accounts and begin direct deposit.

According to the CPLA there are 1,400 payday lending locations across Canada.

INTRODUCTION

Fringe lending businesses generally have emerged and expanded as the cost of living for lower and middle income earners has outpaced employment income growth. This combined with "traditional banks...tightening restrictions on lending small amounts of money (under $5000)."[3] Fringe lending allows those who may not qualify for more traditional loans to access small amounts of credit over a short period of time. To make ends meet in expensive cities like Calgary, the poorest workers spend 122% of their annual income.[4] Spending beyond one's means perpetuates the cycle of poverty.

Fringe financial services encompass a large number of business types and models including: pawn broking, cash for gold or cars, cheque cashing, buy now-pay later schemes, guaranteed financing despite poor credit and payday lending. For the purposes of this brief our focus will be on the most prevalent of these lending schemes: payday lending.

The payday loan industry in Canada emerged in the early 1990s in response to the lack of available short-term and low-dollar credit. Employers, who may have previously provided salary advances to financially strapped employees, largely stopped this practice due to payroll outsourcing and direct deposit. According to the CPLA there are 1,400 payday lending locations across the country and approximately two million Canadians make use of payday loans annually.[5]

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Canadians make use of payday loans annually.

What has resulted is a two-tier banking system where the poor are increasingly forced to find alternative financing due to mainstream financial institutions being less accessible. The fringe banking industry is poorly regulated and has limited oversight compared to the traditional banking sector.

In 2009, The Government of Alberta adopted The Payday Loans Regulation under the Fair Trading Act. The Alberta regulation lays out the maximum cost of borrowing (23% of the principal amount of the loan), maximum term for loans (62 days), a penalty for non-payment (2.5% per month uncompounded interest), and the principal borrowing limit (not to exceed $1500).[6]

WHO USES THIS SERVICE?

Despite protestations to the opposite by the CPLA, payday loan customers are generally the working poor who live in less affluent neighbourhoods. The working poor by definition are likely to be working full-time, full-year, and often in more than one job. Despite often working more than 40 hours per week the working poor are unable to make ends meet.[7] They are also very likely a minimum or low wage worker, defined as anyone who makes $15 per hour or less. Fifty-eight percent of low wage workers in Alberta are over 25 years of age.[8]

The reasons why payday loan customers need short-term, high interest loans vary, however, research conducted by the CPLA paints an interesting picture. In Alberta when 252 payday loan customers were asked to identify

3. Marsh, S., Dildar, Y. & Janzen, R. (2010). *Payday Lending: In Search of a Local Alternative.* Wellesley Institute. http://www.wellesleyinstitute.com/wp-content/uploads/2010/05/Payday_loan_final_report.pdf, 7.
4. Momentum (2012). *Supporting Albertans to Save: An Asset Building Approach to Poverty Reduction* concept paper. http://www.momentum.org/sites/default/files/Publications/SupportingAlbertanstoSave.pdf, 3.
5. Canadian Payday Loan Association. *History of payday loans in Canada.* http://www.cpla-acps.ca/english/mediabackgrounders2.php.
6. Government of Alberta (2009). *Fair Trading Act - Alberta Payday Loans Regulation.* http://www.qp.alberta.ca/documents/Regs/2009_157.pdf.
7. Hudson, C.A. (2013). *Poverty Costs 2.0: Investing in Albertans. Calgary: Vibrant Communities Calgary & Action* to End Poverty in Alberta, 10.
8. Ibid, 10.

the main reason they required a loan: 35% reported they needed the loan for 'emergency cash' to pay for necessities; 11% to avoid bouncing cheques; 9% to help avoid late charges on routine bills and only 28% said it was for an unexpected expense.[9] What is troubling is that 55% of people taking out payday loans did so to cover routine or necessary expenses. Only 28% said it was for an unexpected expense. If a person is unable to pay for basics this month, how can they pay back the large amount of interest owing plus the principal loan amount, and have enough money to cover next month as well? As the saying goes, if people cannot get by, how can they ever get ahead?

The CPLA states that "when used for short-term cash needs, a payday loan is convenient and economical, but it is inappropriate to use for long-term or continuing cash needs." However, an Ernst & Young study commissioned by CPLA found that "the survival of payday loan operators depends on establishing and maintaining a substantial repeat customer base."[10] Despite the claim by lenders that they exist for a customer's one-off emergency, both the Ernst &Young study and CPLA's own statistics point to a substantial repeat customer base using payday loans to cover basic monthly expenses. The Ernst & Young report goes on to outline that for every first-time loan provided by a payday lender 15 repeat or rollover loans are issued.[11] Government of Canada data determined that 52% of people who used cheque cashing or payday lenders also used the service more than once per year, with 22% using the service at least monthly.[12]

In the CPLA survey, 58% of payday loan users said they chose a payday loan over other financial options due to the "quick and easy process." Another 17% feel they have no other alternative for borrowing.[13]

55% take out payday loans to cover routine or necessary expenses.

THE PAYDAY LOAN BUSINESS MODEL

Payday loans are becoming increasingly accessible. Not only can customers go to any number of stores in their community but they can now qualify for a payday loan online. While this is presented as easier access to money it nonetheless provides an additional avenue for customers to increase their indebtedness to payday lenders.

Store-based payday lenders require prospective borrowers to present at a payday loan location with information about their work related earnings and a personal cheque. A loan is issued based on a proportion of their next paycheque and payment is provided into the customer's bank account or in the form of cash. The customer is expected to return to the store and repay the loan by the due date. Alternatively, customers can provide a post-dated cheque that includes all interest and fees associated with the loan. An additional 2.5% monthly, uncompounded interest, is charged on bounced cheques. Upon successful re-payment of the loan, customers are often encouraged to take out another loan as soon as the following day.[14]

9. Environics Research Group (2013). *Payday Loan Users Study - Alberta.* http://www.cpla-acps.ca/english/reports/CPLA%202012%20e%20Users%20AB.PDF, 15.
10. Kobzar, Olena (2012) *Networking in the Margins: The Regulation of Payday Lending in Canada*, Centre for Criminology and Sociolegal Studies, University of Toronto, 48.
11. Ernst & Young (2004). *The Cost of Providing Payday Loans in Canada: A Report Prepared for the Canadian Association of Community Financial Service Providers.* http://www.cpla-acps.ca/english/reports/EYPaydayLoanReport.pdf, 36.
12. Parliament of Canada (2006). *Payday Loan Companies in Canada: Determining the Public Interest.* http://www.parl.gc.ca/content/lop/researchpublications/prb0581-e.pdf, 3.
13. Environics Research Group (2013). *Payday Loan Users Study – Alberta.* http://www.cpla-acps.ca/english/reports/CPLA%202012%20e%20Users%20AB.PDF, 14.
14. Kobzar, Olena (2012) *Networking in the Margins: The Regulation of Payday Lending in Canada,* Centre for Criminology and Sociolegal Studies, University of Toronto, 124.

In the online business model, according to a leading payday loan provider in Canada, a prospective customer need only present valid identification, source of income, chequing account information and an e-mail address. Applications are completed online and can be deposited directly into bank accounts or picked up from a nearby store location. At the end of the loan term the money and fees are deducted automatically from the customers' bank account.[15]

Perhaps it is not surprising that CPLA strongly supports provincial regulation of payday lending. In Alberta as in most provinces, provincial regulations allow for higher annual rates of interest than the default interest level found in federal legislation. In Alberta, the Annual Percentage Rate (APR) on a two week $300 payday loan at the maximum rate of borrowing is a staggering 600%. This is 10 times more than what the federally regulated annual rate of interest would be if federal legislation were applied.

COMMUNITY IMPACT

An excellent study about the withdrawal of mainstream financial institutions and the rise of the cash store and other fringe lenders comes out of Winnipeg's north end.[16] Over time incomes in this community declined which led to a similar decline in the neighbourhoods' status which was followed by an exodus of commercial banks from the area. Between 1986 and 2003, the number of banks in the north end of Winnipeg decreased from 20 to 5. Over the same period, the number of fringe banking businesses increased from 6 to 19.[17] What emerged was a two-tier banking system where the poor paid higher financial fees when compared to their income than the wealthy. The average 30 day pawnbroker loan charges 300% APR and a payday lender charges 468% to 988% APR.

To combat the rise of fringe financial providers, a community initiative called Community Financial Counselling Services was created. In partnership with a local research institute, the initiative provided resources to the community including credit counselling, financial literacy information, and income tax preparation services.[18]

It is clear that consumers, particularly low income consumers, need options. If the only local alternatives available are fringe financial lenders consumers with limited access to mainstream financial institutions have no choice. In Calgary, this is becoming increasingly the case along 17th Avenue in southeast Calgary where, over the last 20 years, two banks have closed their doors and several fringe lenders have recently opened.

IMPACT ON INDIVIDUALS

In 2005, the Financial Consumer Agency of Canada (FCAC) created a profile of the dominant characteristics of payday loan customers. By and large, people taking out payday loans were found to be men between 18 and 34, who live in western provinces, have incomes of less than $30,000 annually, and have completed some post-secondary education.[19]

Payday loan customers are primarily men aged 18 - 34 with annual income of less than $30,000.

What is alarming is that while the CPLA claims not to target those living on low incomes, the FCAC consumer profile paints a remarkably clear picture of young men with low incomes as the primary user of payday loans. Every successful business model targets its key consumer demographics to ensure repeat business; fringe financial businesses are no different. Payday lending businesses are more highly concentrated in low income neighbourhoods.

15. http://www.moneymart.ca
16. Reimer, Brendan. *Is there an alternative to fringe banking: One community's response to the financial services void,* 5.
17. Ibid, 5.
18. http://www.debthelpmanitoba.com/other-services/
19. Parliament of Canada (2006). *Payday Loan Companies in Canada: Determining the Public Interest.* http://www.parl.gc.ca/content/lop/researchpublications/prb0581-e.pdf, 2.

GOVERNMENT

Currently all orders of government in Canada legislate and regulate various aspects of the fringe lending industry. Section 347 of the Canadian Criminal Code identifies that charging more than 60% annual interest is punishable by a fine and jail time. Legislation defines a payday loan as one which cannot exceed 62 days in length and must not amount to more than $1,500 in principal.[20] Provinces can create regulation to override the 60% federal interest rate.

Did You Know?

Section 347 of the Canadian Criminal Code identifies that charging more than 60% annual interest is punishable by a fine and jail time.

In Alberta, the Payday Loan Regulation of the Fair Trading Act sets out additional provisions purportedly to protect consumers. The maximum cost of borrowing in Alberta is 23% of the principal loan amount. Should the loan not be repaid on time the lender may charge another 2.5% interest per month, which is not compoundable. Borrowers cannot be charged a fee for paying loans back early. The regulation outlines: the type of signage that must be on the premises, the maximum borrowing rate, the cost of a $300 loan, and the APR. The provincial government is expected to release a poverty reduction strategy in Spring 2015. This strategy will likely include financial empowerment, which may include the area of fringe lending.

The City of Calgary approved a poverty reduction strategy and one of its recommendations is to look at ways of further regulating fringe financial businesses.[21] While it is unclear what direction the City will take on this issue, what is clear is that there are several policy options available.

TARGETING THE POOR

The concentration of payday lenders in economically depressed parts of Calgary as well as demographic information about customers suggests that payday lending locations are geared towards those living on low incomes.

The CPLA's data regarding the reasons their customers require payday loans suggests that the majority need them for necessities or regular bills rather than for costs related to an unusual hardship such as vehicle breakdown. One can see how being required to pay back a high interest loan and trying to get ahead on the following month's expenses can trap many people. The CPLA survey states that 81% of people repay their loans on time but gives no indication as to whether these customers require another loan in the near future.[22] The industry's claim that it does not rely on repeat business is not substantiated by their data. With far more repeat customers than new customers, one must question whether those who use payday loans repeatedly are doing so in order to repay previous loans taken out for necessities further perpetuating their cycle of debt.

BENEFIT OR DETRIMENT?

In her 2012 doctoral thesis Olena Kobzar challenges us to consider whether payday loan companies relieve or exacerbate the financial problems of those who use their services. On one side are those who argue that payday loans result, for many people, in a downward cycle of poverty and debt that can be difficult, if not impossible, to exit. By contrast, others see payday lending as a valuable service for those requiring relatively small amounts of money for a short period of time. Certainly, there is demand for the short-term low dollar loans offered by payday lenders. Supporters of the industry emphasize that each person who takes out a loan has a choice and that payday lenders are a preferable option to other fringe lenders like pawnbrokers and illegal operatives such as loan sharks. Lenders, however, are able to help themselves by creating the demand that their products meet.

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20. Government of Canada. *Criminal Code of Canada*. http://laws-lois.justice.gc.ca/PDF/C-46.pdf, 372.
21. Calgary Poverty Reduction Initiative (2013). *Enough for All: Unleashing Our Communities' Resources to Drive Down Poverty in Calgary*. http://www.enoughforall.ca/wp-content/uploads/2013/05/EnoughForAll_-Volume-1.pdf, 7.
22. Environics Research Group (2013). *Payday Loan Users Study – Alberta*. http://www.cpla-acps.ca/english/reports/CPLA%20 2012%20e%20Users%20AB.PDF, 17.

A former payday lending employee puts it this way:

> "Lenders may say they are providing a service to people who just need some money once in awhile until payday. But we are trained to encourage customers... to make another loan... We tried to get customers to keep getting loans and borrow up to their maximum approval amount whether they wanted it or not."[23]

This type of demand puts government in a difficult position. Stricter regulation on this industry, even if its product is predatory and expensive, may have unintended consequences. Many disadvantaged people now depend on payday lending for short-term, small loans for basic necessities. Simple regulation and restriction is not enough. Any regulation or legislation targeting payday lending must be preventative in nature. A two-pronged approach is necessary. The first is regulation of the payday lending industry that adequately protects consumers. The second is for government, financial institutions, or the non-profit sector to fill any void left by stricter regulation. Consumers who may need access to short-term credit should be able to access it at a reasonable annual rate of interest.

OPPORTUNITIES FOR REFORM

Some municipalities and provinces have recognized the need to regulate payday lending businesses. Social agencies working with people living on low incomes maintain that payday lenders and other fringe banking businesses are a detriment to less affluent communities and those living in them. The CPLA claims that payday loans are meant to cover emergency and one-time shortfalls but the industry's own research contradicts this.

Several policy options targeting predatory payday lending practices are summarized below. Some limit the proliferation of payday lending businesses, some raise awareness about the exorbitant cost and the negative cycle to which such businesses can lead, and others target the fees and interest rates charged.

Municipal Land Use or Licensing Bylaws

Amend the municipal land use bylaw to restrict the number of payday lending businesses permitted to open their doors in any given community. Fewer payday lending businesses may not solve the problem of predatory lending, but a multi-step plan to make the practice more restrictive or less lucrative can be combined with encouragement of the banks and non-profits to fill the void left by such businesses. Financial institutions and the non-profit sector could provide loans at reasonable annual interest rates.

Municipalities can also charge differential business license rates. Fringe financial businesses require increased surveillance to ensure their business practices do not break the law or regulation. The Township of Esquimalt in the Greater Victoria area recently hiked license fees for payday loan businesses from $100 to $2,000.[24] In British Columbia, each payday lender pays a license fee to the provincial government and to the municipal government. Increasing fees at the municipal level could prove to be too much for some less successful payday lenders as fees are paid annually. The bylaw also restricts the hours payday lenders can be open for business.

Potentially, funds derived from this fee increase could be re-invested in less affluent communities to implement financial empowerment strategies and create alternative, non-predatory financial services.

Both of these options represent ways to limit the proliferation of payday lending businesses. However, even a $2,000 annual business license fee is unlikely to make an existing payday lender close their doors, but it may cause owners to think about opening a new location.

23. Kobzar, Olena (2012). *Networking in the Margins: The Regulation of Payday Lending in Canada.* Centre for Criminology and Sociolegal Studies, University of Toronto, 124.

24. Town of Esquimalt (2013). Minutes of Town Council from December 2, 2013. http://www.esquimalt.ca/files/PDF/Agendas_and_Minutes/2013/2013_12_02_Council_Agenda.pdf

OPPORTUNITIES FOR REFORM CONTINUED

Option Consommateurs

Option Consommateurs is a Montreal based non-profit organization that provides a variety of financial empowerment services to the local residents. These services include financial literacy education on four major topic areas: Budgeting, financial institutions, costly credit (including usurious loans), and the Consumer Protection Act.[25]

It is important to note that tough consumer protection laws in Quebec have made payday lending all but illegal as high interest rate charges are prohibited. Under Quebec's *La loi sur la Protection du Consommateur or Consumer Protection Act* interest is capped at 35% annually and "court decisions have used section 8 [of the Consumer Protection Act]...to rule that credit contracts with interest rates higher than approximately 35% are unconscionable."[26]

Since payday lending is non-existent in Quebec there is still a need for short-term low dollar loans that banks often are not willing to provide. Option Consmmateurs provides low dollar loans of up to $800 for as long as 12 months at an annual interest rate of 5%. To qualify one must be living on a low income, face an unforeseen expense, have an ability to repay, and live within a certain geographic area in Montreal.[27]

Additional programs with this same concept also exist in Quebec. Caise Populaire Desjardins and several consumer advocacy groups have come together to offer financial literacy and budget advice as well as 'tide-over' loans. These are often interest free for up to 24 months.[28]

Repealing Provincial Regulation or Legislation

As mentioned earlier, the federal government limits loans to 60% annual interest rates as long as the provinces do not override the Criminal Code with legislation of their own.

By passing the Alberta Payday Loans Regulation, the province paved the way for much higher APR rates than allowed by the Criminal Code of Canada. By contrast, Newfoundland has chosen not to legislate at all leaving the interest rate at 60%. The Newfoundland Minister of Government Services said "we could not in good conscience implement regulations that potentially could result in annual interest rates equating to nearly 550%."[29] He further stated that provincial legislation allowing interest above 60% does not protect the consumer's best interest. As such, payday lenders are still subject to the federal usury rate of 60%. This has all but prevented the payday loan industry from setting up shop in Newfoundland.

Strictly Regulating Payday Lending

While most American states have chosen to regulate payday loans, 12 states have made such loans illegal. Where states have failed to adequately regulate, many municipalities have passed their own regulations. In Canada, municipalities lack the jurisdiction to declare payday lending illegal, however, both the provincial and federal governments have the power to pass such legislation. In the United States, New York has made payday lending illegal as they recognized that "payday loans are designed to trap borrowers into debt."[30]

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25. Options Consommateurs – Our Budget Advisers want to help. http://option-consommateurs.org/en/budget_advisers/information_sessions/
26. Lo, Janet (2011). *A Criminal Rate of Interest: Updating Garland for Consumers.* Public Interest Advocacy Centre. http://www.piac.ca/downloads/GarlandUpdate_FINAL.pdf, 34.
27. Option Consommateurs Neighbourhood Loan. http://option-consommateurs.org/en/budget_advisers/neighbourhood_loan/
28. Marsh, S., Dildar, Y. & Janzen, R. (2010). *Payday Lending: In Search of a Local Alternative.* Wellesley Institute http://www.wellesleyinstitute.com/wp-content/uploads/2010/05/Payday_loan_final_report.pdf, 21.
29. Lo, Janet (2011). *A Criminal Rate of Interest: Updating Garland for Consumers.* Public Interest Advocacy Centre. http://www.piac.ca/downloads/GarlandUpdate_FINAL.pdf, 34.
30. Government of New York. http://www.dfs.ny.gov/consumer/paydayloans.htm.

OPPORTUNITIES FOR REFORM CONTINUED

Significantly Reducing Interest Rates

Similar to the above section, provincial governments (and for that matter the federal government) have the option of reducing interest rates for payday lenders and could legislate them below the 60% federally mandated rate, as Quebec has done. This both protects consumers and impedes the proliferation of payday lenders and all but removes the viability of their business model as the absence of lenders in Quebec and Newfoundland attests.

Improving Banking Services

Government, especially municipal government, can play a role in encouraging mainstream financial institutions to provide short-term low dollar credit at a reasonable rate of interest. Banks and credit unions have closed their doors in some communities which have allowed fringe institutions to set up shop. Banks offering special financial products that appeal to the needs of low income communities have shown they can be successful.

The Calgary Poverty Reduction Initiative (CPRI) recognizes the need to discourage "predatory and fringe lenders through increased regulations on lending institutions that charge heavily and take advantage of those without bank accounts or those who have poor financial literacy skills."[31] Calgary's Mayor and Council have an opportunity to act as a convenor by working with mainstream financial institutions in the creation of financial empowerment products and services.

CONCLUSION

A wide range of options exist that can help solve the cycle of poverty exacerbated by fringe financial businesses, including payday lenders. There is no question that payday lenders perpetuate the cycle of poverty - statistics illustrate this. For every new customer who takes out a loan, the lender gives out 15 loans to repeat customers.[32] 55% of those who take out a payday loan do so to pay for necessities.[33] Despite protestations by the payday loan industry lobby, their business, like any other is built on repeat business. Lenders are trained to push customers to take out new loans as soon as the original loan is repaid.

A great number of policy options for all orders of government, banks, and non-profit organizations have been identified in previous sections of this report. This list is by no means exhaustive. Overall each of these groups has the ability to affect change over a specific part of payday lending regulation, law, or business. In order to solve the problem of payday lending as outlined in this report, reform is necessary.

Municipal Government: Tighten restrictions on where and how many payday lenders may open their doors in a given area. Increase licensing fee and re-invest in non-predatory services and financial education.

Provincial Government: Re-visit the payday lending regulation through the lens of the Social Policy Framework. Does this regulation meet the test to protect the vulnerable and reduce inequality in Alberta? Does the regulation fit with the goals of a provincial poverty reduction strategy? If not, then reform is necessary. The provincial government may have the most latitude through amending interest rates and the business practices of the industry.

31. Calgary Poverty Reduction Initiative (2013). *Heroes to Each Other: Input from Stakeholder and Community Engagement, Issues and Recommendations, Final Report Volume 3.* http://www.enoughforall.ca/wp-content/uploads/2013/05/Heroes-to-each-other-Volume-3.pdf, 25.

32. Ernst & Young (2004). *The Cost of Providing Payday Loans in Canada: A Report Prepared for the Canadian Association of Community Financial Service Providers.* http://www.cpla-acps.ca/english/reports/EYPaydayLoanReport.pdf, 36.

33 Environics Research Group (2013). *Payday Loan Users Study – Alberta.* http://www.cpla-acps.ca/english/reports/CPLA%202012%20e%20Users%20AB.PDF, 16.

Federal Government: Re-visit allowing the provinces to override the criminal code anti-usury provision and resulting two-tier banking system. This two-tier system creates a heavily regulated mainstream banking system and a much less restrictive fringe financial business system.

Mainstream Financial Institutions: Explore provision of financial products that are mutually beneficial to those who require short-term small loans. Explore ways to create a welcoming and inclusive environment for the unbanked and underbanked.

Non-profit sector: Explore asset-building and micro-finance programs to attract consumers from payday lending. Emulate programs outlined earlier in Winnipeg and Quebec that provide financial advice and small loans at low rates of interest.

With both the Alberta Government and the City of Calgary currently working on poverty reduction strategies, now is the time to improve the financial situation for people living on low incomes. The province can begin by reducing the Alberta Payday Loan Regulation maximum interest rate of 23% per $100 borrowed, which can result in an APR of upwards of 400%. An even better option is to remove the provincial government from the equation entirely as Newfoundland has done. This would mean an annual rate of 60% would be the maximum legal interest rate charged to consumers. What is promising is that a multitude of better options than what currently exists are available to Alberta's legislators: They can reduce the provincial maximum interest rate, eliminate the regulation entirely in favour of the federal rate, or legislate below the federal rate of interest as in the case of Quebec.

Municipalities are more limited in what they can do to combat fringe lenders. By amending land use or licensing bylaws municipalities can stop the proliferation of payday lenders, but are unable to protect consumers through prohibiting these businesses altogether. Mayor and Council can also act as a convenor and work with mainstream financial institutions to encourage them to offer products that make sense for those who occasionally may need short-term, low dollar credit.

A 2012 report found that poverty costs Albertans between $7.1 and $9.5 billion dollars each year.[34] Working to reduce poverty will cost approximately 50% of this amount.[35] Regulating or eliminating payday lenders is good public policy from a poverty reduction perspective. The unhindered growth of the payday lending industry since the early 1990s has exacted a high price on the lives of low income earners, their families and the communities these businesses target.

Poverty reduction strategies, whether at the municipal, provincial, or federal level, only work if they are comprehensive and address all areas within which people living on low incomes require support. The need for short-term cash at reasonable interest rates is certainly one of those areas. In order to empower people financially they must be able to avoid predatory lending that perpetuates their poverty cycle. The provincial government may include financial empowerment strategies within its provincial poverty reduction strategy which is currently under development. This is an excellent opportunity for all orders of government to re-examine and amend current regulations or introduce new legislation to empower the financial lives of Canadians and the communities in which they live.

Contact Momentum

Phone **403.272.9323** or
email **info@momentum.org**

www.momentum.org

Momentum is a non-profit organization that has been in the community since 1991. We partner with Calgarians living on low incomes to:

- Manage and save money
- Start a small business
- Learn a trade
- Upgrade their education
- Get a loan for their small business

34. Briggs, A & Lee C.R. (2012). *Poverty Costs: An Economic Case for a Preventative Poverty Reduction Strategy in Alberta.* Calgary: Vibrant Communities Calgary and Action to End Poverty in Alberta, 1.

35. Ivanova, Iglika (2011). *The Cost of Poverty in BC.* Canadian Centre for Policy Alternatives. https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2011/07/CCPA_BC_cost_of_poverty_full_report.pdf