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An Open Letter to Ontario's Minister of Government and Consumer Services

The Honourable David Orazietti
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
Via Email: consumerpolicy@ontario.ca

Attention: Payday Loan Cost of Borrowing Review

Dear Minister Orazietti,

In this submission, we focus on recommendations we believe will promote greater equity in access to basic consumer financial services. Our answers to some of the General Questions posed in the consultation document follow our contextual comments addressing both our understanding of the primary drivers of the demand for these fringe financial services and our guiding principle of equitable access.

PRIMARY DRIVERS OF THE DEMAND FOR FRINGE FINANCIAL SERVICES

We believe the demand by low income Ontarians for high cost, short term credit from non-bank financial service providers arises out of six situations:

1) Chronic poverty;
2) Need for emergency funding (to pay unexpected health care costs, for example);
3) Unexpected delays in income payments (but need for food and/or need to meet fixed payment due dates for rent, utilities, and the like);
4) Low financial literacy combined with opaque contract information;
5) No access to other forms of credit; and
6) Better service (non-judgmental treatment of clients, for example) and convenience of payday loans and other similar financial products and services.

While policies to address chronic poverty are well beyond our current scope, we take this opportunity to underscore the socially costly consequences of the chronically poor forced to pay exorbitant costs for short-term loans. Additionally, low income Ontarians confronting unforeseen financial emergencies should have recourse to a source of lower-priced short term credit such as that which is available from "rent banks" operating in Toronto or the "Crises and Budgeting Loans" available to those on social assistance in the United Kingdom (https://www.gov.uk/budgeting-loans) . We would recommend therefore that the government consider additional initiatives in this area.

PRINCIPLE OF EQUITABLE ACCESS

We believe in the principle that all Ontario consumers should have equitable access to short term consumer credit. Specifically, we believe lower income Ontarians should be able to access short term credit on terms that are at least comparable to those which are available to higher income Ontarians. Where higher income Ontarians have access to competitively priced short-term credit from carefully regulated banks and credit unions, many lower income Ontarians are forced into a lightly or unregulated, usuriously priced, alternative or fringe financial market for this same service. Where higher income Ontarians are assured of privacy protection, for example, when dealing with a bank or credit union, lower income Canadians dealing with many fringe financial service providers have no such assurance. This two-tiered system of financial services delivery is socially and economically undesirable.

BCFAN RESPONSES TO GENERAL QUESTIONS

1. WHICH OF THE OPTIONS DO YOU PREFER AND WHY ($15, $17, $19, $21 PER $100 BORROWED)?

Restricting our answer to only those choices under consideration, our preference is for $15 per $100 borrowed.

We know from our front line experience providing financial counselling and advice to low income Ontario consumers that that this segment of Ontario's population faces considerable financial hardship. Payday loan costs considerably exacerbate this hardship. We know from our experience and confirmed by a variety of consumer studies that the majority of payday loan customers are in the lower income bracket (see Reports posted on the Manitoba Public Utilities Commission http://www.pub.gov.mb.ca/payday_loan_review.html).

To illustrate this hardship concretely, consider the Ontarian earning minimum wage. With dependents, this person will struggle to cover the cost of the basic necessities of food, shelter and clothing. At the 2014 Low Income Cut Off (LICO), a single income earner with 1-2-3 dependents earns less than 91-73-59 percent of what they need to match the LICO if they live in Toronto.

Broad contours of the household budget of working poor Ontarians:

Income

Minimum wage, working 35 hours per week yields take home income (gross): $855/2weeks ($22,230 per year)

Expenditures

The annual 2014 LICO for 1 person*: $20,160 or bi-weekly expense: $775/2weeks
The annual 2014 LICO for 4 persons*: $38,117 or bi-weekly expense: $1466/2weeks

**living in Census Metropolitan Area of 500,000 or more, after tax; the Toronto Market Basket Measure as an estimate of the cost of a specific basket of goods and services representing a modest, basic standard of living is even higher. (Statistics Canada http://www.statcan.gc.ca/pub/75f0002m/75f0002m2015002-eng.htm)*

For Ontarians who do not have any savings to cushion against unforeseen expenditures and who do not have access to lower cost consumer credit options, the cost and terms of borrowing from a Payday Lender pose significant financial hardship.

At the current rate of $21 per $100 borrowed, assuming a 2 week lending period, the cost at $63 on the average payday loan of $300 is 7% of their bi-weekly take home pay. If the $300 is to cover an exceptional expenditure (e.g., medical expense), the person/family has only $495 remaining after paying off the loan to cover regular basic necessities for 2 weeks. With no further borrowing, they will have only $1350 to cover household expenses that month. For context, we know that the average cost of 2 bedroom apartment in Toronto is $1269 according to one 2015 study (http://www.rentseeker.ca/blog/index.php/average-rent-prices-for-apartment-rentals/2158).

While $15 per $100 borrowed is still significantly greater than what higher income Ontarians pay to access short term consumer credit and so still violates our Principle of Equitable Access, it is nevertheless an improvement over the current cost of $21 per $100 borrowed.

2. IS THERE AN ALTERNATIVE OPTION THAT WOULD BETTER ADDRESS THE OBJECTIVES OF THIS REVIEW?

There are two options that would better address the policy objective of ensuring lower income Ontarians have access to short term consumer credit.

Option A. The preferred option would be to work with provincially regulated Credit Unions to ensure (1) all barriers to basic banking are effectively removed and (2) to promote low cost banking services, including access to reasonably-priced short term consumer loans. A promising example of an active community-focused viable business model is that practiced by the Assiniboine Credit Union in Manitoba, for example.

Option B. A second option in line with the current consultation would be to include the option of allowing the borrower to convert their payday loan into a 6-month instalment loan at that point in time when the payday loan comes due. By spreading the principal and loan costs over a 6 month period, the bite out of a household's bi-weekly budget will be lower thus reducing both the chance that a borrower will have to roll over the entire loan and the chance that the borrower will then fall into a debt trap. If compared with a no-cost roll-over option, this extended amortization period will benefit the lender by yielding a higher APR for an average $300 loan. Exhibit 1 below illustrates the cost differentials.

3. WOULD REDUCTIONS IN THE COST OF BORROWING BENEFIT PAYDAY LOAN BORROWERS AND THEIR COMMUNITIES?

Low income Ontarians in need of short term credit to cover emergency expenditures will benefit by both a lower rate reducing the loan costs and a payment schedule that permits the amortization of the emergency loan over a number of months, as illustrated in Exhibit 1 below.

Exhibit 1. Comparison of different cost and payment options

SHORT-TERM LOAN	$21/100	$15/100	$15/100
Loan	$300	$300	$300
Term	2 weeks	2 weeks	2 weeks initially, then conversion to installment loan (6 mo term)
COST OF LOAN			
For 2 weeks	$63	$30	$30
Cost of Loan Extension *with no-fee roll over*			
For 1 month	$126	$60	$60
For 3 months	$378	$180	$180
For 6 months	$756	$360	$360
REPAYMENT SCHEDULE			
Full payment@2 weeks	$363	$330	na
Full payment@1 month	$426	$360	na
Full payment@3 months	$678	$480	na
Full payment@6 months	$1056	$660	na
Partial payment due every 2 weeks for 6 months	na	na	$55
ANNUAL PERCENTAGE RATE*	**511%**	**243%**	**342%**

**compounded daily; 2 week loans calculated for 15 days; 1 month = 30 days*

4. DO YOU THINK REDUCING THE COST OF BORROWING WILL INFLUENCE HOW OFTEN PEOPLE BORROW OR DEFAULT ON PAYDAY LOANS?

Reducing the cost of borrowing together with permitting the longer amortization of the loan will reduce financial hardship, which may be expected to reduce borrowing or default.

5. HOW COULD REDUCTIONS IN THE COST OF BORROWING AFFECT THE AVAILABILITY OF PAYDAY LOANS…?

Evidence suggests there is substantial scope to reduce the cost of borrowing and still see a viable payday loan industry.

Money Mart is the largest payday lender in Canada with 574 stores, and may issue as many as half the total payday loans in this country. Its parent company is Dollar Financial of the US. Dollar Financial operates chains of payday lenders and cheque cashers in the US, the UK and Europe, which are virtually the same as Money Mart. The 2013 10K filing for Dollar Financial shows that the contribution margin for Money Mart is consistently double the margin for the US, UK and European operations. (http://www.pub.gov.mb.ca/payday_loan_review2016/cac_5_tab_3_economic_analysis_c_robinson.pdf)

American states that do allow payday lending most often have a rate cap of $15 per $100. A few are lower, a few are higher, but with only a few exceptions those rate caps and the observed rates are substantially lower than the Ontario rate. Even those states with caps below $15 per hundred have a large number of payday loan stores.

6. HOW WOULD REDUCED AVAILABILITY OF PAYDAY LOANS AFFECT CONSUMERS AND COMMUNITIES?

Reduced availability of Payday Loans will affect consumers and communities positively where there is an alternative source of affordable loans to cover emergency expenses. There is no evidence that consumers and communities have been hurt by lower rates and fewer stores in the US. There is no evidence to suggest that they have been harmed in Quebec, Newfoundland and Labrador and the US states that have banned payday lending altogether.

7. IS THERE ANYTHING UNIQUE TO ONTARIO THAT JUSTIFIES A HIGHER COST OF BORROWING THAN MANY OTHER JURISDICTIONS?

No. On the contrary, the higher concentration of the population should make it cheaper to deliver loans. The higher population concentration in Ontario relative to Manitoba (which has a cap of $17 per $100), for example, suggests that payday lenders in Ontario should be able to remain viable at a rate of $15 per $100. Moreover, the higher living expenses in both southern and northern Ontario and thus the greater financial pressure on low income Ontarians make it unreasonable to charge more than other jurisdictions.

CONCLUSION

The Black Creek Financial Action Network (BCFAN) is a multi-partner network working towards coordinating efforts among the many agencies providing financial information; advocating for the community on finance matters; sharing the best and promising practices aimed at building the capacity of service providers; and researching and evaluating financial programs and services. As members of this network, we have developed considerable expertise in financial issues affecting low income Ontarians in our work with low-income residents of the Black Creek community. We would be pleased to meet with you and share our experiences as they inform the types of questions on which you are reflecting.

NOTE: Titles and affiliations of the undersigned are included to give the recipient a sense of the experience upon which we draw. The foregoing comments do not necessarily represent the view of our affiliated organizations.

Respectfully yours,

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