Healthy Brantford Task Force

As noted in the Healthy Brantford Final Board/Advisory Committee Report, the taskforce did not make a formal recommendation to Council regarding direction on this item; however, staff investigated best practices for alternative solutions demographic data from a national level survey of payday loan consumers, as well as experience-based best practices across other municipal initiatives,

Impacts of Payday Loans

A study from the Center of Community Based Research (2010) has documented some of the impacts of payday lending on individual borrowers. Many research participants indicated the high cost of borrowing, short payback period, lack of full disclosure about risks and costs, stress associated with multiple debts, and aggressive collection practices as perpetuating cycles of debt. This study further highlighted widespread experiences of exclusion from traditional banking and credit services, for reasons ranging across problems with overdraft, poor credit scores, and precarious employment and living conditions.\(^1\) While payday loan use is not restricted to people with low incomes, multiple municipalities across Ontario have found that payday loan establishments are concentrated in low income areas. The Hamilton Roundtable for Poverty Reduction has indicated that payday loan establishments are clustered around the City’s most vulnerable neighborhoods, specifically those located in the downtown core and central lower city.\(^2\) The Kingston Community Roundtable on Poverty Reduction has further indicated that for every new payday loan consumer, there are fifteen consumers who are considered repeat clients, covering routine or necessary expenses.\(^3\)

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Amendments to the Payday Loans Act, 2008

Bill 59, the *Putting Consumers First Act, 2017*, outlined new rules for the practices of payday lending.\(^4\) As of January 2018, a cap came into effect on the maximum cost of borrowing, which has been limited to $15 for every $100 borrowed. As of July 2018, maximum fees have come into effect for government cheque cashing services, at $2 plus 1% of the face value of the cheque ($10 maximum). Other new rules included options for extended payment plans, for those who take out three loans within a 63-day period. Payday lenders must also show the cost of borrowing as an annual percentage rate in all advertising and agreements, further supporting previously established rules involving the mandatory distribution of flyers explaining the costs of taking out a payday loan over time.

While these new rules are intended to prevent high risk lending practices, they do not address the root causes of individual dependency on payday loans and cheque cashing services. Multiple municipalities have developed and implemented local responses, including licensing regulations, in line with provisions made in Bill 59.

Profile of Payday Loan Consumers

The Financial Consumer Agency of Canada (2016) conducted a national survey of 1,500 payday loan users to identify important trends and inform strategies to reduce consumer dependency on these establishments.\(^5\) Some key findings regarding the profile of payday loan users included:

Many payday loan users were unaware of the high costs of payday loans compared to their alternatives.

43% of survey respondents understood that payday loans are more expensive than available alternatives. More than 60% of respondents stated they did not have access to a credit card, while 88% stated they did not have access to a line of credit.

Most payday loan users reported borrowing to cover necessary expenses.

45% of survey respondents reported that they used payday loans for unexpected expenses such as car repairs, or expected expenses such as utility bills.

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Payday loan use was not restricted to low-income Canadians.

Survey respondents showed that payday loans are primarily used by people with low to moderate incomes. However, 20% of respondents reported household incomes exceeding $80,000, with 7% over $120,000.

Recent articles and academic sources indicate that an increasing number of post-secondary students are taking out Pay-Day Loans, particularly across North America and the United Kingdom. Since 2018, data has demonstrated that as many as 38% of university students have considered taking out a pay-day loan, while over 25% of students have done so at some point in their university career. Only a decade ago, less than 11% of students had borrowed from a pay-day lender. The cause of this trend is linked to low wages and rising costs of living, including housing and food. Additionally, many students indicate that government funded student loans do not cover all costs of their university expenses, meaning that they are forced to turn to other means of acquiring money.

Some students are aware of the costs and risks of taking out pay-day loans (with interest) vis-à-vis the cost of other alternatives. In some cases, students have found that pay-day loans can be the best option financially at times when money is urgently needed. Nonetheless, students are extremely vulnerable to high interest rates, and can be easily exploited by bankers, as they have minimal experience managing finances. Studies have shown that only 39% of students regularly stick to a budget, while 40% of students surveyed did not know what the acronym APR (annual percentage rate) stood for. Even upon graduation, young people are drawn to take out student loans, as they become desperate for money to pay off student loans, while buying homes and starting families. Currently, 51% of Millennials (ages 22-37) have taken out a pay-day loan at some point in their lives.

Other demographic data collected by the FCAC survey indicated that typical payday borrowers are employed, young, with children, rent their home, and come from moderate-income households with few liquid assets. It is important to note that while 99% of Canadians have a bank account, 35% of FCAC survey respondents reported that they did not have access to a bank account at the time of their last payday loan. This means that people remain underserved by mainstream financial institutions and face barriers to accessing financial services and products. The survey also found that more than 60% percent of respondents said they did not have access to a credit card, and 88% said they did not have access to a line of credit.

To reduce dependency and debt associated with payday loans, measures can be taken to support financial inclusion, especially for vulnerable people. Flexible small-dollar loans, paired with financial literacy and debt counselling services, have been recognized
across multiple jurisdictions as some of the best practices for reaching individuals who have been excluded or underserved by mainstream financial institutions.

**Social Services Initiatives**

The Ministry of Children, Community and Social Services is phasing out cheques as a method of payment for social assistance. Direct Bank Deposit (DBD) remains the preferred method of payment. City of Brantford Social Services encourages their clients to register with Direct Bank Deposit (DBD) for monthly social assistance payments. This effort specifically works to reduce costly cheque cashing services, while facilitating relationships with mainstream financial institutions and access to other financial services. It has been emphasized that identification remains the one of the most persistent barriers to getting their clients banked and registered with DBD. The Housing Resource Center’s Lost Wallet Kits assist clients in replacing up to three forms of identification including Birth Certificates, Health Cards, and SIN Cards.

Ontario Disability Support Program (ODSP) clients who remain unbanked have already been shifted to the Reloadable Payment Card. Once RPC is implemented across all programs, it will be a payment method available to ODSP, OW recipients and families who receive ACSD financial assistance, who are unable to open or maintain a bank account for DBD. RPC allows recipients to: receive benefits, pay bills, purchase goods and services, and withdraw cash quickly, easily, securely and conveniently. These Cards are provided by RBC and can be used wherever Prepaid VISA cards are accepted (including online).

The City of Brantford is in the very early stages of implementing the RPC provincial initiative. All clients currently receiving cheques should be transitioned to RPC by the end of 2020, which will largely eliminate the need for individuals receiving social assistance to access payday loan establishments for cheque cashing.

Municipalities can further encourage and support the development of local community initiatives to offer flexible small dollar loans, financial literacy tools, and connections to relevant community support services. Some examples are noted below.

**Low Barrier Banking Alternatives**

Various credit unions across Ontario have provided alternatives to payday loans. These efforts tend to take the form of small dollar loans programs with flexible payment periods. These services often require a membership to access lending services, which generally involves an initial small deposit (usually $5-$10). The Windsor Family Credit Union launched the SmartCash program to meet the needs of payday loan consumers by charging $1.42 per $100 borrowed, instead of the capped $15 (previously $20) per $100 charged by payday lenders.
Serving the Metro Vancouver area, Vancity's cooperative banking provides an alternative borrowing program to payday lenders. The Vancity Fast & Fair Loans program emphasizes the ability to respond to sudden financial emergencies, offering a flexible payback schedule, lower interest rates, and no additional fees. The status of these loans are closely monitored, as staff work with individuals to determine a repayment term that will help them repay the loan and reduce the risk of default.

The Causeway Community Finance Fund in Ottawa is a collaborative initiative to provide access to flexible, low interest loans and financial literacy supports across the City. Eligibility for loans and services is determined by the status of an individual’s outstanding payday loans. This fund was established through partnerships with the Causeway Group of Social Businesses, local credit unions, and support from the Ottawa Community Foundation and the Ontario Trillium Foundation. The long-term goal of the fund is to help individuals in need build lasting relationships with financial institutions.

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3 (September 2019). Students increasingly turning to payday loans. YourMoney.com https://www.yourmoney.com/credit-cards-loans/students-increasingly-turning-to-payday-loans/


6 (August 2019). Payday lenders targeting students heading off to university offering loans charging up 1,294% interest. The Sun. https://www.thesun.co.uk/money/9777082/pay-day-lenders-students-university/


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