# Attachment 1: Research and Engagement Feedback

## FURTHER COMMENTS

The recommendations proposed in the report are based on research conducted and feedback heard throughout 2020, as well as ongoing monitoring of the licensing and enforcement regime. This includes an analysis of complaint and enforcement data, an updated jurisdictional scan, and feedback received through public and stakeholder engagement.

### Research

### 1. Financial Effects of COVID-19

Since the October 2019 staff report on payday lending, the local and global context has changed significantly. The COVID-19 pandemic has had significant health, social and economic effects on Toronto residents. While the closure of non-essential businesses, physical distancing requirements and other public health measures were essential for preventing the spread of the virus, they have contributed to significant job losses among Toronto residents. For example, despite the gradual re-opening of the economy, the unemployment rate remains high in Toronto (13.0 percent in September 2020 compared to 6.4 percent in September 2019). It has also exacerbated existing financial challenges for Toronto's most vulnerable. Employment losses were above average for employees earning less than two-thirds of the median hourly wage, and for those paid by the hour.

All levels of government have responded to the pandemic with services and supports for residents including mortgage and property tax deferrals, eviction moratoriums, and income supplements such as the Canada Emergency Response Benefit (CERB). The CERB played an important role in supporting many Canadians who experienced job loss or reduced working hours during the pandemic – the federal government received a total of 3.5 million applications for the benefit in Ontario alone. However, many of these programs are now winding down or changing eligibility criteria. There is concern that the financial challenges that residents are experiencing may become further exacerbated if programs become less accessible while the labour market and economy continues to recover.

Research suggests that the number of residents who may access high-cost lending options (such as payday loans) may increase if other income supports or deferral programs are not accessible. The Canadian Centre for Policy Alternatives (CCPA) released a report in April 2020 that raises concerns about the high costs of payday loans and suggests vulnerable households are more likely to access these loans, typically as a last resort.

## 2. Complaint and Enforcement Data

Since the introduction of the payday loan licence in 2018, MLS has not received public complaints with respect to the payday lenders. Enforcement has focused on proactive inspections, onsite visits of unlicensed providers, and issuance of notices of violation to those operating without a licence. Through proactive enforcement, MLS has charged one payday loan establishment for illegal posting of a sign on public property and five charges have been laid for non-compliance with *Chapter 545, Licensing* (i.e. operating without a valid licence).

Consumer protection complaints, such as complaints related to predatory lending practices, would be forwarded to the Government of Ontario's Ministry of Government and Consumer Services (MGCS) as the province regulates the terms and conditions of payday loans. Between January 1, 2019 and October 9, 2020, MGCS received 7 complaints. Note, complaints require documented evidence of a potential contravention of consumer protection legislation.

## 3. Jurisdictional scan

Since October 2019, a number of Ontario municipalities have introduced new regulations for payday loan establishments such as Ottawa, Oshawa and Brantford. Similar to other jurisdictions with payday loan regulations (i.e. Toronto, Hamilton, and Kitchener), these municipalities now require that payday loan establishments obtain a business licence to continue operations, and restrict the number of locations through caps and/or minimum separation distances.

For example, Oshawa permits only two payday loan establishments per ward, and prohibits new establishment in the Downtown Urban Growth Centre. All three municipalities have introduced minimum separation distances in various forms – for example, Ottawa requires a minimum of 1000 metres between payday loan establishments, and Brantford requires a minimum of 150 metres between payday loan establishments and group homes, correctional residences, medical clinics, schools, and some gaming establishments. Brantford and Oshawa also require that credit counselling materials be displayed or distributed.

Among the jurisdictions reviewed, staff found that no municipalities have changed or introduced new regulations for payday loan establishments as a result of the COVID-19 pandemic.

# Consultations

## 1. Public and Stakeholder Engagement

Given the current physical distancing requirements and restrictions on gathering limits, staff were unable to host in-person public consultation meetings. Instead, staff provided an update on the review and asked for written submissions within a three-week period, (September 28 to October 16, 2020) from targeted stakeholders.

Payday loan licensees, community groups and anti-poverty advocates were notified of the review and engagement process through a mail-out letter, the Poverty Reduction

Strategy e-mail list-serv, targeted stakeholder e-mails and the City's website for payday loan licences. Notification of this work was also included in a weekly newsletter to Councillors, encouraging Councillors to notify their constituents.

This engagement approach recognized the high level of engagement that occurred over the spring and summer in relation to recovery and rebuild efforts. It aimed to minimize the potential for stakeholder fatigue, particularly within community groups and anti-poverty organizations who were actively responding to the effects of COVID-19 on their communities.

The following summarizes the feedback that was received from residents:

- It was highlighted that further restrictions on payday loan establishments do not address the underlying reasons that consumers demand them (i.e. limited access to traditional lending options).
- Concerns were expressed around the high costs of borrowing from payday loan establishments, and the ability of these costs to perpetuate financial hardship.
- Some supported restrictions on advertising, namely mandatory content such as the cost over specified repayment periods (i.e. 3 months, 6 months, 12 months, etc.).
- Some suggested that the federal government mandate that banks do more for those who have been unable to access traditional lending options, or feel unwelcome at traditional financial institutions.
- Broader concerns were expressed around the inadequacy of existing social supports such as Ontario Works to help residents pay their necessary expenses, and called for broader income supports (i.e. universal basic income).

The following summarizes the feedback that was received from community service providers:

- The connection between the COVID-19 pandemic, job loss, financial hardship and growing food insecurity was raised (e.g. there has been a 200% increase in the rate of new clients to food banks this year, with three quarters of new clients reporting that they required access as a direct result of the pandemic).
- The importance of developing alternative lending options was highlighted as a priority. Suggestions were made that the City could provide backing on bank loans for low-income borrowers, expand the Rent Bank to cover expenses beyond rent or create a parallel program for interest-free or low-interest loans.
- There was support for advertising restrictions to ensure plain and clear language on true interest rates, as well as providing credit counselling materials. However, it was highlighted that in the absence of lower-cost lending options, such requirements will not be successful in reducing the debt load of low-income households.
- Suggestions were made as alternatives to a local Councillor approving or denying location changes – for example, sending these requests to the Economic and Social Development Committee.

The following summarizes the feedback that was received from the payday lending industry:

- Industry representatives highlighted that payday loan establishments provide an important service for those unable to access credit through other avenues.
- The industry does not support additional restrictions such as advertising (as this is sufficiently regulated by the provincial government), and does not support granting authority for local Councillors to approve or deny a location change.
- It was suggested that requiring minimum separation distances between payday loan establishments and schools would not be impactful, as students often do not usually have sufficient employment income to qualify for a payday loan.
- It was highlighted that many payday loan establishments have taken steps to assist borrowers impacted by the pandemic, including reducing or waiving interest on arrears, restructuring loan payments or suspending loan repayment.
- Industry disputes claims that payday loan business has increased throughout the pandemic. Rather, loan volumes have actually declined (by 80% in the first 3 months of the pandemic, stabilizing at roughly 50% of traditional volumes) as a result of the loss of a steady source of income for many borrowers, reduced overall spending and federal income supports.

## 2. Toronto Office of Recovery and Rebuild Consultations

In April 2020, the City of Toronto established the Toronto Office of Recovery and Rebuild (TORR) to coordinate a city-wide approach for Toronto's recovery and rebuild. As part of this work, TORR undertook consultations with residents, businesses and communities to understand the effects of the pandemic and provide advice on a path forward.

In partnership with the Toronto Region Board of Trade, TORR convened sector consultation roundtables with 11 sectors, including the finance sector. While City Council directed TORR in June 2020 to include payday lending in these discussions, the sector roundtables had since concluded. However, feedback heard during TORR's broader engagement process informed both TORR and this report on the potential future of the finance sector and the financial effects of COVID-19 on residents. For example, during the finance sector roundtable, participants highlighted the importance of shifting to digital operations and transactions as a way to protect clients and employees from exposure to COVID-19. The industry hopes that these digital changes will remain permanently, as they are beneficial for health and safety and contribute to service efficiencies.

While the accelerated transition to digital service has been positively received by the industry, they also raised equity concerns. Many individuals face barriers to accessing financial services online, such as seniors, individuals with disabilities or those without access to internet or a computer. Furthermore, the ease and efficiency of online financial services may result in the closure of brick and mortar establishments and by extension, may potentially create "banking deserts" (i.e. areas where there are inadequate banking services) across the City.

In addition to the sector roundtables, TORR received feedback through its public survey, meetings with stakeholders and community organizations, and the residents engaged by Social Planning Toronto on behalf of the City. Feedback highlighted widespread concerns with financial challenges and increased fear that these challenges would become worse if steps were not taken to address growing personal debt. Below is a summary of common concerns that were raised:

- The inability to pay rent and mortgage payments (particularly given the high costs of housing in Toronto), as well as existing personal and student loans, were highlighted as the primary drivers of growing personal debt.
- It was suggested that grants and debt forgiveness should be considered rather than deferrals, as deferrals may only add more debt.
- Many suggested that interest rates must be capped or waived on mortgages, credit cards and loans. Some made suggestions for payday loans specifically, including urging the provincial government to introduce an interest rate cap at the prime rate.
- Some felt that their credit score had been significantly negatively affected through the pandemic, and feared that they may not be able to access credit in the future.
- Concerns were raised around the ability of vulnerable groups, unbanked individuals and those without access to credit to access online financial services (as many places no longer accept cash).
- It was emphasized that there needs to be greater options for low-income individuals to access loans, and that governments should play a role in enabling and/or providing low-cost lending options.

The above feedback was considered in the research and analysis of this report and informed the final COVID-19: Impact and Opportunities report from the TORR.

## 3. Engagement with Traditional Banks and Credit Unions

In response to City Council's 2019 direction to convene discussions with the financial services industry, the Economic Development and Culture (EDC) Division conducted targeted outreach to traditional financial institutions (i.e. banks and credit unions). Staff sought information from the Canadian Bankers Association on how its member organizations are working to improve access to financial products and services, highlighting the importance of continued partnership with the financial services industry, and ongoing education and outreach efforts.

In speaking with the industry, staff heard that the financial services industry provides a range of products and services as viable alternatives to payday loans. Many Canadian banks offer small, short-term loan and credit options such as overdraft protection, lines of credit, and credit card cash advances, all of which can be accessed at a far lower cost than payday loans. In addition, the industry both delivers and supports efforts to improve financial literacy and financial management skills to help reduce indebtedness, and provide information about payday lending. For example, the Financial Consumer Agency of Canada (FCAC) − the market conduct regulator for federally regulated financial institutions – provides advice and education to consumers on payday lending loans (https://www.canada.ca/en/financial-consumer-agency/services/loans/payday-loans.html). Further, many banks support not-for-profit credit counselling agencies across Canada, including several that operate in the Toronto area. Credit counselling agencies help overly-indebted individuals repay their debts and also provide training and education to help people better manage their money and credit, and avoid future debt problems.

EDC will continue to work in partnership with the financial services industry to amplify these efforts and increase awareness of these programs and services among low-income residents, particularly as the COVID-19 pandemic continues to put many Torontonians in positions of economic distress.