



**STAFF REPORT
ACTION REQUIRED**

Pay Day Loan Offices – Supplementary Report

Date:	May 10, 2010
To:	Etobicoke York Community Council
From:	Curtis Sealock, District Manager, Municipal Licensing and Standards
Wards:	All
Reference Number:	Folder Number 10-148220 ZON 00IR

SUMMARY

In its meeting on February 9, 2010, the Etobicoke York Community Council requested the District Manager, Municipal Licensing and Standards, Etobicoke York District, to report to the Etobicoke York Community Council on the following aspects of store front personal loan businesses within the Etobicoke York District:

1. The nature and operation of this type of business;
2. The extent of federal, provincial and/or municipal regulations applying to the operation of this type of business; and
3. Issues of a municipal nature arising from operation of this type of business.

The Report was deferred to the Etobicoke York Community Council meeting to be held on May 25, 2010, to consider the proposition that some of these Payday Loan Offices may be involved in collateral businesses such as pawning or purchase of old gold or other second hand goods that may require a business licence under Chapter 545 of Toronto Municipal Code, Licensing.

RECOMMENDATIONS

The Municipal Licensing and Standards recommends the Etobicoke York Community Council:

1. Receive the information report;

2. Direct the Director of Licensing Unit, Municipal Licensing and Standards, to conduct an investigation and report on the Payday Loan Offices that may be involved in pawning or purchase of old gold or other second hand goods that may require a business licence under Chapter 545 of Toronto Municipal Code, Licensing; and
3. Specify the location(s) for the investigation.

Financial Impact

There will be no financial implications resulting from the adoption of this report.

ISSUE BACKGROUND

There have been an increasing number of store front businesses operating in Ward 11 – York South-Weston, which provide personal loans. These businesses are often advertised as providing loans in the form of a pay day advance and apparently operate not in conjunction with conventional banks and trust companies.

As there appears to be a proliferation of this type of businesses in some neighbourhoods within the Etobicoke York District, the Etobicoke York Community Council requested the District Manager, Municipal Licensing and Standards, Etobicoke York District, to report on the nature of these businesses, issues of a municipal nature that may be associated with this type of businesses, and the extent of municipal, provincial and/or federal regulation of these businesses.

It has also been suggested that some of these Payday Loan Offices may be involved in collateral businesses such as pawning or purchase of old gold or other second hand goods that may require a business licence under Chapter 545 of Toronto Municipal Code, Licensing.

COMMENTS

1. Nature and Operation of the Business

A payday loan, sometimes known as a payday advance, is a short-term loan for a small amount of money that a borrower usually is required to pay back on or before his or her next payday (whether that payday is from a job or some other income source such as a pension).

Payday lenders often limit the loan to about 30 or 40% of the expected net amount of the borrower's next paycheque. The average payday loan in Canada is about \$300 for a term of two weeks. Usually the borrower writes a cheque to the lender for the amount that was borrowed, plus all of the interest and fees. The cheque is usually post-dated to the next payday, and is usually cashed at that time. Lenders typically require a borrower to show pay stubs proving three months of continuous

employments, supply proof of address, such as a recent utility bill and have an active chequing account.

Payday loans are offered by privately owned payday loan companies and by most cheque-cashing outlets. Payday lenders also operate on the Internet.

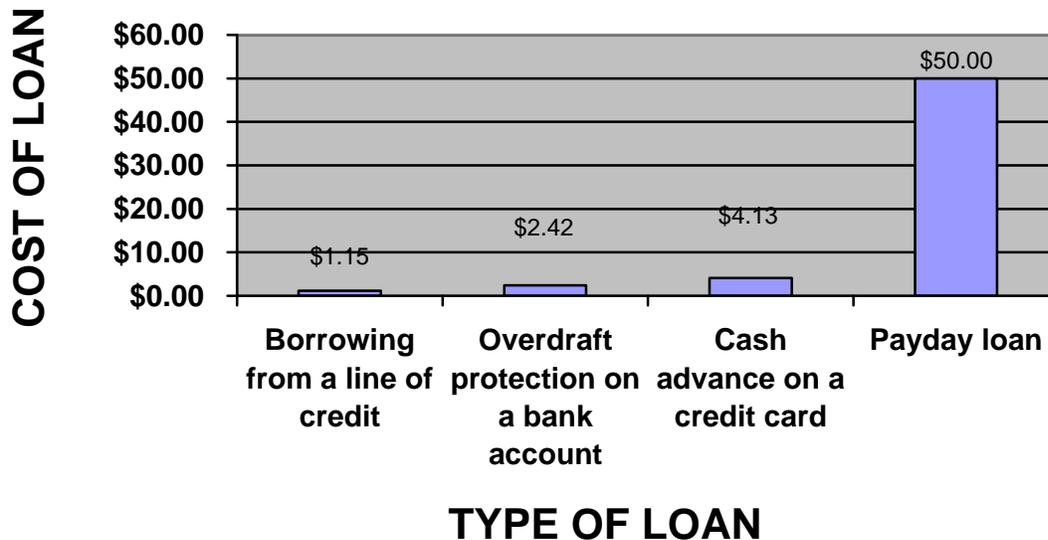
Canada's payday lending industry has grown rapidly, first appearing in western Canada in the early nineties and migrating eastward. On basis of 2009 statistics, there were about 1,350 payday loan storefronts in Canada, with about 750 of these stores operating in Ontario.

Payday loans are the most expensive way to borrow money. To ensure borrowers pay back the loan, payday lenders normally ask for a post-dated cheque or authorization for a direct withdrawal from the borrower's bank account for the amount of the loan, plus all the different fees and interest charges that will be added to the original amount of the loan. It is the combination of multiple fees and interest charges that makes payday loans so expensive.

To use the example given in "The Cost of Payday Loans" brochure published by the Canada's Office of Consumer Affairs, the cost of a \$300 loan taken for 14 days is \$1.15 for borrowing from a line of credit, \$2.42 for overdraft protection on a bank account, \$4.13 for cash advance for a credit card, and \$50.00 for a Payday loan. (<http://www.fcac.gc.ca/eng/publications/PaydayLoans/PDF/PaydayLoans-eng.pdf>)

Comparing the cost of a payday loan with other types of short-term loan

Based on a \$300 loan taken for 14 days



2. The Extent of Federal, Provincial and/or Municipal Regulations applying to Payday Loan Operations

The Financial Consumer Agency of Canada (FCAC), a federal agency, ensures compliance with the consumer protection laws that apply to banks and federally incorporated trust, loan and insurance companies. However, it does not regulate payday loan companies. The Government of Canada's Bill C-26, an Act to Amend the Criminal Code provides Provinces across Canada with the opportunity to set the maximum total cost of borrowing for payday loan agreements in their own jurisdictions if they meet specific requirements and request designation.

The Ontario Payday Loan Act 2008, which received royal assent on June 18, 2008, requires payday lenders and loan brokers to be licensed, starting on April 1, 2009. The legislation also sets a maximum total cost of borrowing cap for payday loan agreements in Ontario of \$21 per \$100 borrowed, as recommended by Ontario's Maximum Total Cost of Borrowing Advisory Board.
(http://ogov.newswire.ca/ontario/GPOE/2009/03/13/c8457.html?lmatch=&lang=_e.html)

In addition, it prohibits certain industry practices, including "rollover" loans, effective July 1, 2009, gives payday loan borrowers a two-day "cooling off" period to cancel a loan with no reason without incurring a penalty, effective July 1, 2009 and establishes an Ontario Payday Lending Education Fund, paid for by licencees.

The City of Toronto Municipal Code Chapter 545, Licensing, does not require payday loan businesses to be licensed. Municipal Licensing and Standards was previously requested by the Licensing and Standards Committee to report on this subject matter. The report was withheld because of the pending Ontario Payday Loan Act, which has now been enacted.

This legislation, which now comes under the jurisdiction of the Province, provides for enforcement through prosecutions and the ability, subject to appeal, to revoke the licences of payday lenders and loan brokers.

3. Issues of a Municipal nature arising from operation of this type of business

One of the issues of a Municipal nature that may involve the operation of Payday Loan Offices under the jurisdiction of Municipal Licensing and Standards is the possible violation of the local Zoning By-laws, in the event that office use is not permitted in that Zoning District where the Payday Loan Office is located, for example, using a residential property as a Payday Loan Office which does not qualify under the conditions of Home Occupations.

If the individual Payday Loan Offices are also involved in collateral businesses such as pawning or purchase of old gold or other second hand goods, they may, subject to investigation and review, require a business licence under Chapter 545 of Toronto Municipal Code, Licensing.

In addition, any signage for the business will require a permit and have to comply with the Sign by-law under Chapter 693 of Toronto Municipal Code.

CONTACT

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SIGNATURE

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