

City Council**Notice of Motion**

MM17.8	ACTION			Ward:All
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Establishing Regulations and Minimum Separation Distances for Predatory Lenders - Councillor Kristyn Wong-Tam, seconded by Councillor Frances Nunziata

** Notice of this Motion has been given.*

** This Motion is subject to referral to the Executive Committee. A two-thirds vote is required to waive referral.*

Recommendations

Councillor Kristyn Wong-Tam, seconded by Councillor Frances Nunziata, recommends that:

1. City Council direct the Chief Planner and Executive Director, City Planning to submit a report establishing a Payday Lenders Minimum Distance By-Law that requires any new payday lenders, installment lenders, title lenders, cheque-cashing operations and cash-for-gold operations to be at least 400 metres away from existing lenders.
2. City Council request the Province of Ontario to increase the lender licence fee from \$750 per main office and \$990 per branch office to \$2,000 and \$3000 respectively, and that the increased revenue be invested into financial literacy and management programs at the community level with the goal to reduce the community need and the local demand for payday loans.
3. City Council request the Province of Ontario to:
 - i. cap the annual rate of interest for all lenders to 35 percent;
 - ii. direct lenders to review the borrowing patterns of their clients before approval to identify unsustainable borrowing patterns; and
 - iii. direct lenders to translate their lending fees to annualized interest rates to visibly highlight the differences in borrowing costs to their clients.
4. City Council request the General Manager, Economic Development and Culture to convene and encourage regulated financial institutions such as accredited banks and credit unions to locate in all communities, including low-income neighbourhoods, and to develop suitable services such as micro-credits and other financial options that can fill in the current credit gap in priority communities.

5. City Council request the Government of Canada in its current review of Canada Post to recommend the addition of financial and banking services at Canada Post, or at a minimum, a task force to determine how to deliver new financial and banking services through our postal service.

6. City Council direct staff to forward a copy of this Motion and to request favourable consideration of same at the Federation of Canadian Municipalities and the Association of Municipalities Ontario.

Summary

Toronto residents need City Council to take action to limit the proliferation of payday loan storefronts, installment lenders, title lenders, cash-for-gold, cheque-cashing operations particularly those clustering in areas where incomes are lower than the City's average. With quick approvals, high interest fees, and little regulation, there is legitimate concern that practices deployed by payday lending businesses can quickly force the poor into insolvency – particularly those with little financial knowledge or management skills.

Payday lenders offer short-term personal loans or “payday advances” for a small sum of up to \$1,500 that the client commits to pay back against a post-dated cheque or a pre-authorized debit.

In Ontario, a two-week payday loan has a fee of up to \$21 per \$100 borrowed. This fee translates into an annual rate of 546 per cent, which represents the most expensive way of borrowing in Ontario. Despite the high costs of this form of credit, payday loans are popular because they have quick approvals that are not necessarily subject to credit checks.

Payday lenders cater to the working poor who are often excluded from formal banking services and have very few financial options. People who resort to payday lending are often already struggling with debt and payday loans can worsen their financial situation.

Recent research shows that the close proximity of these offices to each other encourages borrowers to take second and third loans from competitors to pay back lenders. Calgary-based research demonstrates that the close proximity of these offices to each other can ultimately draw borrowers into ongoing debt spirals. Moreover, a recent study conducted at St. Michael's Hospital in Toronto links the clustering of payday lending businesses in low-income neighbourhoods to negative public health outcomes.

In response to these issues, in December of 2015, the Government of Ontario announced that it would impose new controls on payday lenders and other alternative financial companies to provide greater protection to financial consumers.

Similarly, several cities in Canada and the United States have already taken action:

- The City of Hamilton approved a motion to seek from the province the ability to limit the locations of payday loan and cheque-cashing outlets, while also strengthening the regulatory framework of the Payday Loans Act.
- Canadian cities such as Calgary, Surrey, Maple Ridge, Winnipeg and Burnaby have taken measures to limit the concentration of new payday and other such predatory

lenders with minimum separation distances from existing operations.

- Esquimalt, British Columbia recently increased lender license fees from \$100 to \$2,000. The increased revenue is invested into financial empowerment programs, which in turn reduces the community need or demand for payday loans.
- The Province of Quebec regulates payday loans by capping the annual rate of interest for all lenders to 35 per cent per annum.
- Some cities in the United States demand that lenders express the borrowing fees in annual interest rates so that clients can understand how their products compare to those of banks; others require lenders to review borrowing patterns with their clients to prevent them from falling into debt spirals through repeat borrowing.

It is in the City's interest and authority to set limits to payday lenders and cheque-cashing outlets, and to promote financial literacy among residents of vulnerable communities.

The City of Toronto Act and the Municipal Act give municipalities broad authority to regulate the "economic, social and environmental well-being of the City." Furthermore, Toronto's Official Plan has Community Improvement Provisions which allow the City to use "other municipal actions, programs or investments for the purpose of local physical or economic growth, improving social or environmental conditions, or promoting cultural development."

A growing number of individuals and groups within Canada and the United States support the notion of establishing postal banks to provide an alternative to predatory lenders. Postal banks are not a new or radical idea and exist in many part of the world where they are used to provide financial and banking services, increase financial inclusion, promote economic development and generate revenue to preserve and improve postal services.

Background Information (City Council)

Member Motion MM17.8