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High-Interest Alternative Lenders

Up to **15% of Canadians** are underbanked, meaning that many may not have access to a bank account but it does not meet their needs. Reasons for this financial exclusion include: **high NSF fees** (\$48 at most banks); **no overdraft protection** for emergencies; **geographic barriers**; **no access to low-interest credit**. As a result, many Canadians are financially marginalized and forced to rely on the services of **alternative, high-interest lenders**.

These alternative lenders operate in a consumer protection grey area. Federally, the Criminal Code mandates that loans cannot exceed **60% interest**. Payday loans are regulated provincially, with a maximum cost of **\$15 for every \$100 borrowed** in Ontario. This equates to 391% APR. There are an estimated **1,500 payday loan** outlets across Canada, often clustered in low-income neighbourhoods where banks are closing branches at an alarming rate¹.

Payday loans are typically **unsecured, small value loans** of up to \$1,500 usually repaid by the next payday. Payday loans are the **most costly form of lending** in Ontario.

Increasingly, low-income consumers are also relying on other forms of high-interest lending, such as **installment loans, car title loans, rent-to-own products**, and others. Credit reporting agency TransUnion has indicated that installment loan debt is **growing faster** than any other type of debt in Canada. In 2017, approximately **6.4 million Canadians** had an installment loan². Installment loans are typically unsecured loans of **up to \$15,000**, with set repayments over periods of **up to three years**. Interest rates can reach **59.9%**, just below the legal cap of 60%. However, ACORN has encountered examples of additional fees and insurance costs taking interest rates beyond 60%.

ACORN's 2016 Fair Banking survey of **270 ACORN members** across the country found that only **4% of respondents** who use high-interest lending services prefer to use these services³. The majority were forced to do so **out of necessity**. The reasons that people turn to alternative lenders include: **no overdraft protection with their**

¹ Anderson, J, Why Canada Needs Postal Banking (2013)

<<https://www.acorncanada.org/resource/why-canada-needs-postal-banking>>

² Evans, P, Average Canadian Mortgage Nears \$200K, Up 5% in a Year (2017)

<<http://www.cbc.ca/news/business/transunion-mortgages-%20debt-1.4256026>>

³ Fantauzzi, J, Predatory Lending: A Survey of High Interest Alternative Financial Service Users (2016) <<http://www.acorncanada.org/predatory-lending-report>>

bank, no access to a credit card, or the location of the alternative lender. The survey also found that **30%** of respondents used high-interest alternative lenders, such as payday lenders to pay for food, **17%** for housing, **16%** for bills, and **10%** for poverty in general.

Recent ACORN research has found that **25%** of people who are experiencing crisis level debt - to the extent that they must seek professional assistance - have debt with a **high-interest, alternative lender**. Of the most common high-interest lenders, **37%** of individuals experiencing crisis debt have debt with Money Mart, the largest payday lender in Canada. Money Mart also offers installment loans. **32%** have debt with installment lender, Fairstone (previously CitiFinancial).

DEBT DISTRIBUTION ACROSS THE MOST COMMON HIGH-INTEREST LENDERS

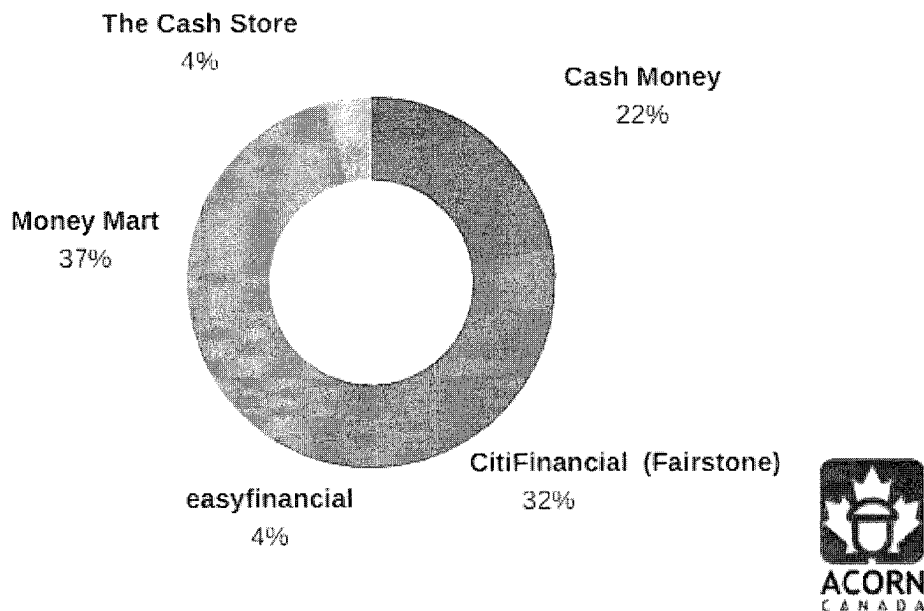


Chart 1: Consumer debt distribution across the more common high-interest lenders

ACORN Canada's Fair Banking/End Predatory Lending Campaign calls for an **inter-jurisdictional strategy** to tackle the high-interest lending that further entrenches poverty within our communities. By taking the following steps, municipal, provincial and federal governments can work together to ensure access to **fair financial services** for low and moderate income Canadians:

Jurisdiction	Action
City of Toronto	<ul style="list-style-type: none"> ● Introduce regulation that to limit the number of payday loan stores in the city, and restrict the number of licenses provided to payday lenders, as seen in Hamilton; ● Support the creation of alternative low-interest loan products.
Government of Ontario	<ul style="list-style-type: none"> ● Extend payday loan repayment, using a model similar to Alberta's repayment extension to 60 days; ● Enforce the ban on rollover loans by creating a user real-time database to monitor and avoid rollovers from company to company; ● Creating protections for installment / rent-to-own / title loans; ● Support the creation of alternative low-interest loan products.
Government of Canada	<ul style="list-style-type: none"> ● Mandate the banks to provide access to low interest credit for emergencies; ● Mandate the banks to provide low interest overdraft protection; ● Mandate the banks to provide no holds on cheques; ● Mandate the banks to lower NSF fees from \$45 to \$10; ● Create alternatives to predatory lenders, such as postal banking and credit union credit products geared toward low and moderate income families; ● Create a national anti-predatory lending strategy; ● Create a real time national tracking system (or database) to help stop roll over loans; ● Amend the Criminal Code to lower the maximum interest rate from 60% to 30%.

Submitted By: Donna Borden, ACORN

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