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TORONTO

REPORT FOR ACTION

Update on the City of Toronto Municipal Code Chapter 545, Licensing of Payday Loan Establishments

Date: August 28, 2019
To: General Government and Licensing Committee
From: Executive Director, Municipal Licensing and Standards
Wards: All

SUMMARY

On April 24, 2018, Toronto City Council adopted interim regulations for payday lending by creating a new business licence category and limiting the number and location of establishments to stop their proliferation. The number was limited to the payday loan establishments licensed by the province in each of the City's 44 wards as of May 1, 2018, a city-wide total of 212 locations. City Council also limited the location of payday loan establishments by prohibiting the establishments from relocating on or within 500 metres of Woodbine Racetrack.

Since the introduction of the payday loan licence, a total of 187 establishments have obtained the payday loan licence. The remaining establishments that were eligible for licences have since decided to close their businesses, move their services online, or merge with existing establishments. As licensees are not permitted to sell or transfer their businesses, this attrition means that the limit on the number of establishments in Toronto has decreased from 212 to 187.

This report recommends maintaining the regulations established in 2018 and updating the licensing regime to reflect the new 25-ward structure. If adopted, the City-wide total number of establishments permitted would remain unchanged, but the number permitted in each ward would be limited to the number operating in each ward, as of January 1, 2019. It is also recommended that a process be created to allow a payday loan establishment to apply for permission to move outside of a ward, in order to ensure a degree of flexibility should external factors influence the relocation of a payday loan establishment.

Staff do not recommend further restrictions on where payday lenders are permitted to operate. While limiting the availability of payday loan establishments may reduce the likelihood of predatory lending, it does not address the consumer's need for credit, as consumers typically access payday loans for emergency situations and for necessary expenses such as car repairs, rent or utility bills. This report recommends that Social

Development, Finance and Administration, Economic Development and Culture, and Toronto Employment and Social Services, in consultation with Municipal Licensing and Standards consider as part of the Toronto Poverty Reduction Strategy, initiatives to promote lower-cost financial services.

This report was written in consultation with Social Development, Finance and Administration, Economic Development and Culture, Toronto Employment and Social Services, City Planning, and Legal Services.

RECOMMENDATIONS

The Executive Director, Municipal Licensing and Standards recommends that:

1. City Council amend the City of Toronto Municipal Code Chapter 545, Licensing, as follows:

Limits on Number and Location

a. Add a provision to establish that the number of payday loan establishments per ward is capped at the total number operating with both a provincial and a municipal licence within the geographical area of each ward, as each ward exists as of January 1, 2019.

b. Add a provision to require that in order for a payday loan establishment to obtain and hold a new Chapter 545 licence, it must have been licensed without interruption under the Payday Loans Act, 2008 from May 1, 2018 and provide proof of this, as required by the Executive Director, Municipal Licensing and Standards.

c. Add a provision to require that in order for a payday loan establishment to obtain and hold a renewal of a Chapter 545 licence, it must have been licensed without interruption under the Payday Loans Act, 2008 from May 1, 2018 and under Chapter 545 from January 1, 2020 and provide proof of this, as required by the Executive Director, Municipal Licensing and Standards.

d. Add a provision to require that where the total number of wards in the City is changed and/or ward boundaries are changed, that the total number of payday loan establishments per ward is capped at the total number operating within the geographical area of each ward as it existed on the day the ward number is changed and/or the ward boundary is changed.

Location Change Process

e. Authorize the Executive Director, Municipal Licensing and Standards, despite the cap on the total number of payday loan establishments permitted in each ward, to consider and decide the deletion of a location in one ward and its replacement with a location in another ward. The application will be considered and may be deemed approved if the following conditions are met:

1. An application is made in the form prescribed by the Executive Director, Municipal Licensing and Standards;
2. The non-refundable application fee set out in the City of Toronto Municipal Code Chapter 441, Fees and Charges, has been paid;
3. The operator and/or payday loan establishment has not been convicted of an offence under the City of Toronto Municipal Code Chapter 545, Licensing, or the Payday Loans Act, 2008 in the preceding three years;
4. The operator and/or payday loan establishment is not associated with any overdue by-law fines or fees, unless the applicant provides proof that such fines or fees have been subsequently paid; and
5. The operator and/or payday loan establishment has not previously been granted a location change or the Executive Director, Municipal Licensing and Standards, has waived this requirement.

f. Add a provision to require that the Executive Director, Municipal Licensing and Standards shall provide written notice to the payday loan operator of a final decision within 30 days.

Toronto Poverty Reduction Strategy

2. City Council direct the Executive Director, Social Development, Finance and Administration, the General Manager, Economic Development and Culture, and the General Manager, Toronto Employment and Social Services, in consultation with the Executive Director, Municipal Licensing and Standards, to consider as part of the Toronto Poverty Reduction Strategy, initiatives to promote lower-cost financial services, including the delivery and promotion of financial empowerment supports and the development of inclusive alternative financial products.

3. City Council request the Province of Ontario to review the rules and interest rates around installment loans.

Fees and Set Fines

4. City Council amend the City of Toronto Municipal Code Chapter 441, Fees and Charges, to include a $645.53 application fee for a payday loan establishment location change request, adjusted annually based on the Consumer Price Index.

Implementation

5. City Council direct that the changes to the City of Toronto Municipal Code Chapter 545, Licensing, come into force on April 1, 2020.

FINANCIAL IMPACT

This report outlines a proposed location change application fee for payday loan establishments and recommends amending Toronto Municipal Code Chapter 441, Fees and Charges, by adopting a $645.53 application fee, adjusted annually based on the Consumer Price Index.

The $645.53 location change application fee would align with the business licence application fee for payday loan establishments. In all business licensing categories, when a business moves location the business owner must pay a business licence application fee in order to cover the administrative and staffing costs associated with processing that application. Aligning the location change fee with the business licence application fee for payday loan establishments maintains this convention.

It is challenging to determine the potential impact of this fee as staff cannot estimate the number of instances where the location change would be requested and approved.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

On April 24, 2018 City Council adopted LS24.3 - Interim Regulations for Payday Loan Establishments and Consultation Plan (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.LS24.3) which established interim regulations for payday lending, including a business licence for payday loan establishments and a cap on the number of provincially licensed payday loan establishments operating in Toronto, as the wards existed on May 1, 2018. City Council directed Municipal Licensing and Standards to report back within one year from the date the By-law was enacted with a comprehensive review of payday lenders, and in partnership with City Planning and Social Development, Finance and Administration, consider limiting the distances of payday loan establishments as they relate to the 31 identified Toronto Neighbourhood Improvement Areas under the Toronto Strong Neighbourhoods Strategy 2020 (TSN2020).

On January 31, 2017 City Council adopted MM24.15 - Payday Loan Act - Public Consultations (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.MM24.15) and directed Municipal Licensing and Standards to host public consultations on payday loan businesses, review other jurisdictions' practices in regulating payday loan businesses, and to report findings to the Licensing and Standards Committee. City Council also directed staff to provide comments to the Government of Ontario on the City's position and suggestions regarding changes to the *Payday Loans Act*.

On March 31, 2016 City Council adopted MM17.8 - Establishing Regulations and Minimum Separation Distances for Predatory Lenders (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.MM17.8) and directed the Chief Planner and Executive Director, City Planning to submit a report outlining an appropriate approach to regulating new alternative financial services and requested the General Manager, Economic Development and Culture to convene and encourage regulated financial institutions to locate in all communities as well as to develop suitable services such as micro-credits. City Council also requested the Government of Canada to recommend the addition of financial and banking services at Canada Post and the Government of Ontario to consider higher lender licensing fees, capping the annual interest rate for all lenders to 35 percent, directing lenders to review the borrowing patterns of clients and directing lenders to translate their fees into annualized interest rates.

COMMENTS

Interim City of Toronto Regulations for Payday Loan Establishments

In 2018, through the *City of Toronto Act,* the Government of Ontario gave the City the authority to limit the number and location of payday loan establishments through business licensing.

On April 24, 2018, Toronto City Council adopted interim regulations for payday lending by creating a new business licence category for payday loan establishments and limiting the number of establishments to the number of provincially-licensed payday loan establishments that existed at the 44-ward level as of May 1, 2018 (212 payday loan establishments). In addition, City Council prohibited payday loan establishments from relocating on or within 500 metres of Woodbine Racetrack (555 Rexdale Boulevard, Toronto, ON). The interim approach provided the City with a mechanism to mitigate the proliferation of payday loan establishments while staff conducted a review of the industry.

What are Payday Loans?

Payday loans are defined as short-term, unsecured, small-dollar loans (up to $1,500). They are intended to bridge a borrower through a cash shortfall, until the borrower's next payday when the loan is expected to be repaid in full. Payday loans fill a gap in credit for some consumers, but they are an expensive way to borrow money. For example, if a consumer borrows $300 for two weeks from a payday lender, it would cost the consumer $45. This represents an effective annual percentage rate (APR) of 390%. However, if the consumer borrowed the same amount of money using a credit card, it would cost the consumer $6.15 (with an APR of 23% and fee of $3.50).

As a result of the high costs of payday loans, consumers can become trapped in debt cycles, and may be compelled to use additional payday loans to pay previous ones. While some consumers are unaware of the high costs of payday loans, others choose to use them because they do not have access to credit, or payday loan establishments are a more convenient and quicker alternative to other credit options.

The Government of Ontario introduced legislation for payday loans in 2008. Through the *Payday Loans Act* ("*Act*"), the provincial government provides consumer protection by licensing payday lenders and regulating the terms and conditions of payday loans. The provincial government also sets the maximum cost of borrowing (currently $15 for every $100) and restricts practices such as concurrent loans (i.e. offering a new loan agreement with a borrower before 7 days have passed since the full outstanding balance was paid on a previous loan) and rollover loans (i.e. rolling a previous payday loan into a second loan).

City of Toronto Payday Loan Licence

The City of Toronto's payday loan licence was available as of August 1, 2018 from the Municipal Licensing and Standards (MLS) Licensing and Permit Issuing Office. The annual application fee for a payday loan licence is currently $645.53, while the renewal fee is $315.17. These fees were set to be the same as the application and renewal fee for the City's pawn broker licence, given the comparable costs associated with administration of the licence. Payday loan establishments with a valid provincial licence as of May 1, 2018, were instructed through letters to obtain a payday loan licence with the City of Toronto by October 1, 2018.

The City has issued 187 payday loan licences since it became available in August 2018. The remaining payday loan establishments that were eligible for the licence have since decided to either move their services online, close their business or merge with existing establishments.

Since the payday loan licence is a new business licensing category, MLS enforcement staff have focused their efforts on compliance with the By-law. This has included proactive inspections, onsite visits of all unlicensed providers, and issuance of notices of violation to those operating without a licence. For locations operating without a licence, MLS by-law enforcement officers have taken an escalated enforcement tactic, whereby officers first attend the location to confirm the payday loan establishment is operating without a licence and issue a written warning providing 14 days to obtain the licence. If the payday loan establishment has not made efforts to comply with the warning, then charges are issued. As of August 2019, 5 payday loan establishments have been charged for non-compliance.

Payday loan licensees are subject to general provisions within Toronto Municipal Code Chapter 545, Licencing, including those prohibiting the transfer or sale of a licence. This means that business licences cannot be traded or sold to other operators. When a business closes, the business licence is cancelled and another will not be issued in its place. As such, the total number of licensed establishments across the City has decreased from 212 to 187, and will continue to decrease over time.

Research and Consultations

The proposed changes for payday loan establishments are based on research and consultation completed in the fall of 2018 and throughout 2019, as well as ongoing monitoring of the licensing process. This includes an analysis of licensing, complaint and enforcement data, a jurisdictional scan and feedback obtained through public and stakeholder consultation meetings.

Complaint Data

MLS has not received complaints with respect to the payday loan business licence; however, one payday loan establishment was charged for illegal posting of a sign on public property. 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). In the past five years, annual consumer complaints filed with the MGCS have remained relatively consistent, ranging from 1to 4 complaints annually.

Consumers may also file complaints about payday loan establishments in Toronto with the Better Business Bureau. From January 2018 to June 2019, the Better Business Bureau received 21 complaints about payday loan establishments in Toronto. Half of these complaints are related to unlicensed establishments.

Jurisdictional Scan

After amendments to the *Municipal Act* and *City of Toronto Act* came into effect in 2018, several Ontario municipalities created licensing regimes for payday loan establishments. The licensing regimes focused on limiting the number of establishments per ward or instituting minimum separation distances between establishments.

The City of Hamilton was the first municipality to utilize the new licensing authority in 2018. Hamilton City Council capped the number of establishments to one per ward (to a maximum of 15) and prohibited establishments from locating to rural settlement areas. However, 30 existing payday loan establishments were exempted from the regulation. The City of Hamilton does not permit the transfer or sale of a business licence. As of July 2019, due to attrition, there were 29 establishments licensed in the City of Hamilton.

In June 2019, the City of Kitchener limited the number of establishments to two per ward (to a maximum of 10) and instituted a minimum separation distance of 150 metres between establishments. The 18 existing establishments in Kitchener were also exempted. Similarly, the City of Kitchener does not permit the transfer or sale of a business licence.

Several other Canadian municipalities have passed zoning by-laws to create minimum separation distances between payday loan establishments and/or other businesses such as pawnshops and gaming facilities. These distances range from 50 metres (in Oshawa's Central Business District) to 400 metres (Calgary and Surrey). The licensing of payday loan establishments is also under review in the cities of Brantford, Ottawa and Thunder Bay.

Public Consultation Feedback

In July 2019, staff sought feedback on the interim licensing and cap regulations for payday loan establishments. Two meetings were held: one for licensed payday loan operators, and one for the public and anti-poverty organizations. All licensed payday loan operators were sent notices through the mail. The public consultation meeting was publicized on the City's website, Twitter account, and Facebook page, as well as through councillors' newsletters and through other relevant stakeholder and divisional e-mail lists. Feedback was also solicited through a dedicated e-mail address.

Stakeholders at both consultation meetings agreed that payday loans satisfy a demand, particularly in emergency financial situations. Representatives from the Association of Community Organizations for Reform Now (ACORN) noted that traditional financial institutions such as banks and credit unions do not typically offer affordable lending products or services to low-income individuals. ACORN expressed concern that the existence of payday loan establishments in Toronto perpetuates cyclical debt, and based on their observations, establishments tend to cluster in low-income communities, which may be targeting vulnerable consumers. They suggest that the City should restrict payday loan establishments to one per ward, as the City of Hamilton does, to mitigate the risk of debt for low-income consumers. They also stated concerns over other financial products offered by payday loan establishments such as installment loans, although these fall under the authority of the Government of Ontario.

Payday loan operators and representatives from affiliated associations do not support further restrictions on the spatial distribution of payday loan establishments. According to industry operators, new provincial restrictions on the interest rates for payday loans combined with the current ward cap in Toronto have disadvantaged smaller, independent payday loan establishments, forcing some establishments to close. For industry representatives, regulations that allow establishments to move locations, open new locations around the city, and to cluster, will encourage competitive rates between establishments, which may ultimately benefit payday loan consumers.

Staff also heard concerns from industry representatives regarding the general licensing provision that prohibits the transfer or sale of a business licence. Industry participants noted that the inability to transfer or sell their licence further devalues their business. Staff noted that there are unintended consequences of amending this general provision, such as creating value for a business licence.

The ability to transfer or sell a business licence is also opposed to one of the policy intentions of the cap, which is attrition. In the April 2018 report, staff noted that the cap on the number of payday loan establishments may decrease over time because a payday loan business licence would not be transferred or sold. This is similarly seen in other jurisdictions, such as Hamilton and Kitchener, which restrict the number of payday loan establishments.

Proposed Changes to City of Toronto Regulations for Payday Loan Establishments

Cap the Number of Payday Loan Establishments at the current ward model

It is recommended that the regulations for payday loan establishments, as set out in *Toronto Municipal Code, Chapter 545, Licensing*, are maintained and updated to restrict permitted locations to the current ward model. Through the review and public consultation process, it was determined that the licensing regime and cap continues to protect consumers by limiting the availability of payday loan establishments and by extension, the likelihood of concurrent and rollover loans.

To ensure the locations of payday loan establishments are restricted to the most recent ward-model moving forward, it is recommended that the total number of locations where an operator is permitted to operate a payday loan establishment is capped at the total number operating within the geographical area of each ward as it exists on the day the ward model is changed.

A regulatory model which further limits the number of brick and mortar payday loan establishments (therefore, diminishing the convenience of borrowing) may also influence consumers to choose other options, such as online payday lending or unregulated lending options, which may be riskier financial alternatives. In the absence of low-risk borrowing alternatives (for example, credit unions or not-for-profits that offer affordable, small loans), consumers are still exposed to the risks associated with other unsecured small loans.

Research - Capping the Number of Payday Loan Establishments

Capping the number of payday loan establishments to those that existed and were provincially licensed as of May 1, 2018 provided the City with a mechanism to mitigate the proliferation of establishments while staff monitored the new licence and conducted further review of the industry. Through this review, staff found that maintaining a cap will enable operators to continue providing a product for which there is demand, while protecting consumers by restricting widespread proliferation of establishments across the City. In the April 2018 report, MLS recommended a cap at the city-level; however, this was amended at City Council to be a cap at the ward-level.

In the jurisdictional scan, staff found that several cities restricted the number of establishments by placing a cap on the number of locations permitted to operate or by applying minimum separation distances between establishments. By capping the number of payday loan establishments, cities are able to restrict the proliferation of the payday lending industry while additional work, such as building capacity for low-cost alternatives, is completed. Limiting the availability of payday loan establishments may also reduce the likelihood of consumers borrowing multiple loans from neighbouring payday loan establishments.

While limiting the availability of payday loan establishments may reduce the likelihood of concurrent or rollover loans, it does not address the consumer's need for credit, nor does it eliminate a consumer's access to high-cost loans. Research has shown that the ease, simplicity, and speed with which consumers can access a payday loan are strong factors in determining where and how consumers elect to borrow. When additional cost and travel time are factored in, a consumer may find greater appeal in more convenient, but financially riskier alternatives. For example, restricting consumers' access to brick-and-mortar establishments may compel some consumers to borrow online and inadvertently borrow from an unlicensed lender. There is also evidence to suggest that the clustering of rival establishments can compel lenders to lower their borrowing fees or offer other incentives that may reduce the risk of borrowing for the consumer.

Research - Minimum Separation Distances in Neighbourhood Improvement Areas

As directed by City Council, staff considered the location of payday loan establishments in relation to the 31 Neighbourhood Improvement Areas (NIAs). The City has 140 social planning neighbourhoods (i.e. boundaries developed to help government and community agencies with local planning). NIAs are neighbourhoods that have been identified as requiring targeted investments in well-being, including economic opportunities, social development, participation in decision-making, healthy lives and physical surroundings.

In consultation with City Planning and Social Development, Finance and Administration, staff determined that additional minimum separation distances between establishments are not recommended as there is insufficient evidence to suggest they accomplish greater consumer protection. There is also insufficient research to suggest that minimum separation distances should be used to distance payday loan establishments from other businesses such as gambling facilities. According to the Financial Consumer Agency of Canada, consumers typically access payday loans for necessary expenses such as car repairs, rent or utility bills.

Furthermore, while zoning by-laws have been used in other jurisdictions to regulate payday loan establishments, the use is not distinguishable on a land use and planning basis from other financial institutions. Consequently any attempt to regulate payday loan establishments could also impact the permissions for other financial institutions such as Banks and Credit Unions.

Impact of 25-ward Model

In the interim regulations, the locations of payday loan establishments are capped at the 44-ward model. However, in August 2018, the Government of Ontario passed *Bill 5, the Better Local Government Act* and reduced the number of City of Toronto wards to 25, aligning with current federal and provincial electoral ridings. Moving the cap to the 25-ward model ensures that the cap is reflective of the current geographic distribution of wards in Toronto.

The geographic distribution of payday loan establishments in the new 25-ward model can be found in Attachment 1. Overall, payday loan establishments are geographically located across the city of Toronto. In the 25-ward model, 53% of payday loan establishments are located on the borders of wards. This is expected as the ward boundaries are generally major roads/intersections and by extension, attractive locations for businesses.

Staff have also explored the number of payday loan establishments that are located within a short distance of one another, often referred to as clusters. There are 16 clusters of payday loan establishments in the city. For the purposes of this research, a cluster is defined as 3 or more payday loan establishments within 500m of another. A red dot on the map in Attachment 1 identifies a cluster.

Create a Location Change Process

It is recommended that a process be created that would allow a payday loan establishment to apply for permission to move outside of a ward. It is also recommended that City Council authorize the Executive Director, MLS to review, and deny or approve a location change request. MLS will review applications for a location change if the following conditions are met:

- An application in the form prescribed by the Executive Director has been completed;
- The non-refundable application fee set out in Toronto Municipal Code Chapter 441, Fees and Charges has been paid;

- The operator and/or payday loan establishment has not been convicted of an offence under Toronto Municipal Code Chapter 545, Licensing in the preceding three years;
- The operator and/or payday loan establishment is not associated with any overdue by-law fines, unless the applicant provides proof that such fines have been subsequently paid; and
- The operator and/or payday loan establishment has not previously been granted a location change or the Executive Director, Municipal Licensing and Standards has waived this requirement.

The location change process will provide flexibility should external factors influence the relocation of a payday loan establishment. The process would be considered in limited circumstances to ensure the continued policy intention of the cap. It should be noted that a location change process would not be required if the cap was moved to the City-level, as establishments could move elsewhere in the City without restriction to a specific ward.

Research

In the past year, there have been two instances where a payday loan establishment has approached MLS with a request to move to another ward. In the first instance, the corporate office of a payday loan establishment moved into the city of Toronto. The City of Toronto does not licence corporate payday lending offices as they do not typically accept walk-in clients. However, corporate offices are provincially-licensed and under the *Act*, must provide payday lending services if requested by clients. In the second instance, the City influenced the move of a payday loan establishment due to an expropriation process.

In the process of acquiring property for a transit expansion project, the City began an expropriation process with a payday loan establishment. In order to facilitate a smooth transition for the establishment and to minimize any business losses, the City would have to pay pursuant to the *Expropriations Act*, MLS permitted the relocation of a payday loan establishment beyond its existing ward. As the regulations were on an interim basis, a formal review process had not been created.

If the cap is maintained at the ward-level, it is recommended that a formal process be created to determine if a location change is permitted. This recognizes the previous two instances of moves as well as the possibility of future need. Currently, approximately half of the payday loan establishments are located on the boundaries of the 25-ward model. If a payday loan establishment seeks to move across the street, to maintain its proximity to its client base, it may inadvertently enter a new ward. For example, Eglinton Avenue West is divided by Ward 8, Eglinton-Lawrence on the north side and Ward 12, Toronto-St. Paul's on the south side. There are 4 payday loan establishments located in this area. If all conditions are met, MLS may consider a move along the ward-boundary line; however, MLS would not consider a move within the interior of another ward.

In the jurisdictional scan, such processes are observed in other licensing categories that are capped, such as adult entertainment/body-rub parlours. Jurisdictions include various conditions as part of their respective processes, including consultation with Councillors, land-use restrictions and requirements for public input.

Poverty Reduction Strategy

While limiting the availability of payday loan establishments through a licensing regime and cap may reduce the likelihood of concurrent or rollover loans, it does not address the consumer's need for credit and lack of alternatives. Research shows that consumers typically access payday loans for emergency situations and for necessary expenses such as car repairs, rent or utility bills. During public and stakeholder consultations, staff also heard that there are limited borrowing opportunities available through traditional financial institutions such as banks and credit unions, particularly for low-income individuals. As such, staff propose that the City consider initiatives to promote lower-cost financial services as part of its Poverty Reduction Strategy.

This report recommends that the City divisions responsible for leading this work (Social Development, Finance and Administration, Economic Development and Culture, and Toronto Employment and Social Services), in consultation with Municipal Licensing and Standards, consider initiatives to promote lower-cost financial services such as the delivery and promotion of financial empowerment supports and the development of inclusive alternative financial products.

Installment Loans

The Government of Ontario has the authority to regulate other alternative financial services beyond payday loans, such as installment loans. An installment loan is a loan that is scheduled to be repaid in equal installments at equal periodic intervals. They are commonly referred to as consumer loans or personal loans. Installment loans may differ from typical payday loans as they can be repaid over a longer term (for example, more than two weeks or the borrower’s next payday), are not repaid in a lump sum and may be secured by the borrower’s personal property.

High-cost installment loans can have an interest rate that is more than 35% and in some cases as high as 59.9% (an effective annual rate of interest greater than 60% is an offence under the Criminal Code). While the interest charged on installment loans is significantly less than the annual percentage rate of standard payday loans (390%), installment loans are typically for larger amounts of money and for longer periods of time. As such, high-cost installment loans may put consumers at risk of financial harm.

If Ontario were to strengthen the regulation of high-cost credit products, it would require amending the regulations under the *Payday Loans Act, 2008* and the *Consumer Protection Act, 2002*. When the Government of Ontario introduced changes to payday loan regulations in 2018, there was a preliminary review of installment loans; however, this review has not continued. This report recommends that City Council request the Province of Ontario review the rules and interest rates around installment loans.

Next Steps: Implementation and Research

It is recommended that the proposed changes come into effect on April 1, 2020, providing a period of approximately six months for staff to update licensing, administration, communications and compliance plans.

Staff will collaborate across relevant City divisions and work with industry stakeholders to develop a detailed implementation plan. Staff will report back on progress and program outcomes as required.

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SIGNATURE

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ATTACHMENTS

Attachment 1 - Payday Loan Establishment Locations with the 25-Ward Model