

## Alternative or fringe financial services

### Handout 4-8

**Alternative or fringe financial services are outside of the traditional, regulated banking system. They do not take deposits like a bank or credit union. These services often target low-to-moderate income earners who need fast access to cash or credit, and can result in much higher fees being paid for the service than the equivalent mainstream or community services.**

The use of these services has become more common in Canada. Increasing use of alternative or fringe financial services is concerning, since it can be a very expensive way to borrow. Some examples of alternative or fringe financial services are:

#### Cheque-cashing outlets

These are places you can go to cash cheques if you do not have a bank account. They usually charge a percentage of your cheque, plus a service fee.

**Example:** On a \$1,000 cheque, they could charge a 3% fee (\$30) plus a \$3 service fee, for a total charge of \$33. EXPENSIVE!

#### Payday loans

A payday loan is a short-term loan of two to four weeks against your next paycheque.

Payday loans are offered by private lenders and cheque-cashing outlets.

You can usually borrow up to 50% of your next paycheque amount. To get the loan, you must:

- Show proof of income, such as a month or two of pay stubs
- Show proof of your identity
- Give the lender a post-dated cheque or permission to take the money from your bank account.

Payday loans are very expensive ways to borrow money. There are many high service fees and interest charges. These get even higher if you do not pay the loan back on time. And you may not be able to avoid paying the interest – there could even be fees for paying the loan back early!

The average fee for a two-week, \$300 loan is over \$60. If you work that out to a yearly interest rate, it is 520%.

Make sure you review the loan agreement and understand its terms before you sign it.

Keep a copy for yourself.

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### Handout 4-8 (continued)

#### Rapid-refund tax services

These are services you can use to file your income tax return. They claim to provide “instant refunds”, but these are not tax refunds. They are really expensive loans.

There are high fees for these services. There are preparation fees, electronic filing fees, cheque-cashing fees, and loan charges. These fees can add up to hundreds of dollars.

You get the refund amount right away, less the fees and charges. The government sends your refund to the tax service, and that pays off your loan.

If the government denies your tax refund, or if it is smaller than expected, you still have to pay back the loan to the tax service.

#### Pawn shops

Pawn shops loan cash in exchange for valuable objects, such as jewellery and electronics. These objects are called “collateral” for a loan. If you repay the loan, you get the object back. If you don't, the pawn shop keeps the item and sells it to someone else.

You will need to show identification. The pawn shop may run a check to see if the item has been reported stolen.

Pawn shops often charge high interest and fees. They are also holding your collateral, although the loans they provide are a fraction of the true value of the object.

#### Rent-to-own programs

These are programs that allow people to purchase household items (such as electronics, appliances, or furniture) by paying a weekly fee.

There may be a charge for setting up a rental plan, a damage deposit, an insurance fee, a buy-out fee, and a cancellation fee. The interest rates are high. They can work out to as much as 28 - 40% a year. That means that by the time you pay it off, the total cost of the item can be two to six times higher than the original cost.

If you miss a payment, you may have to return the item to the store, or it may be taken away. When this happens, you may lose any payments you made so far.