

Welcome!

Thank you for joining the webinar on **High cost lending in Canada: Risks, Regulations, and alternatives** hosted by Prosper Canada.

The presentation will begin shortly. (Audio will begin when the presentation starts)

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Webinar logistics

- Audience members have all been **put on “mute”** for this webinar
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- We will share webinar slides with all participants and post a recording of the session within a few days.
- Tweet with us at **#prosperwebinar @prospercan**

Prosper Canada – Who we are

Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation.

As **Canada's leading champion of financial empowerment**, we work with governments, businesses and groups to develop and promote financial policies, programs and resources that transform lives and foster the prosperity of all Canadians.

We help service systems and organizations in all sectors to build proven financial empowerment approaches into their businesses in ways that:

- Are **sustainable**
- Help them **achieve their goals**
- Tangibly **increase the financial well-being of the low-income people** they serve.



Our presenters



Courtney Hare
Public Policy Manager
Momentum
Calgary, AB



Jerry Buckland
Professor, International Development
Canada Mennonite University
Winnipeg, MB

Today's presentation 1:00pm-2:00pm ET

1. What do we mean by high cost credit?
2. The problems with high cost credit
3. Example: Payday loans
4. What action is happening? Multi-sector solutions
5. Advocacy efforts
6. Q&A

What do we mean by high cost credit?



Targeted marketing at vulnerable consumers

“Instantly Borrow The Money You Need Today – No Limits, No Credit Checks and No Delay!”

- Mr. Good Loans

“Good, poor, or bad credit? No problem! ... We don't do credit checks”

- Snap Car Cash

“Have you been recently laid off? In between jobs? Not a Canadian citizen or permanent resident? Claimed Bankruptcy? The Loan King does not deal with credit bureaus or credit companies.”

- The Loan King

Summary of problems

1. High cost
2. Inadequate disclosure
3. Willingness to lend to vulnerable borrowers
4. Aggressive advertising practices
5. Economic leakage



The problem is growing

- High-cost instalment loans are the second fastest-growing type of debt in Canada.
- Instalment lending accounts for **\$132 billion dollars owed** in Canada.
- **Easyfinancial** shares **gained 21 per cent in 2016** outperforming almost all mainstream lenders in Canada.
- Canadians now spend **\$260 million each year on RTO** products, many of which are essential items like mattresses, fridges, and laundry appliances.

High Cost Financial Products

What are they and what can be done about them?

“

If the poor must pay more for basic financial services, this increases material hardship associated with poverty and makes it more difficult for the poor to raise their economic status.

”

JOHN P. CASKEY 1994. FRINGE BANKING: CHECK-CASHING OUTLETS, PAWNSHOPS, AND THE POOR

Financialization

A common definition: financialization is the growing integration of *financial motives* and the proliferation of *financial devices* in the socio-economy (Epstein 2005).

Financialization



- Delivered by non-finance companies & finance companies
- Other companies that see it as a way to increase production
- Consumers who see it as a means to maintain or increase consumption

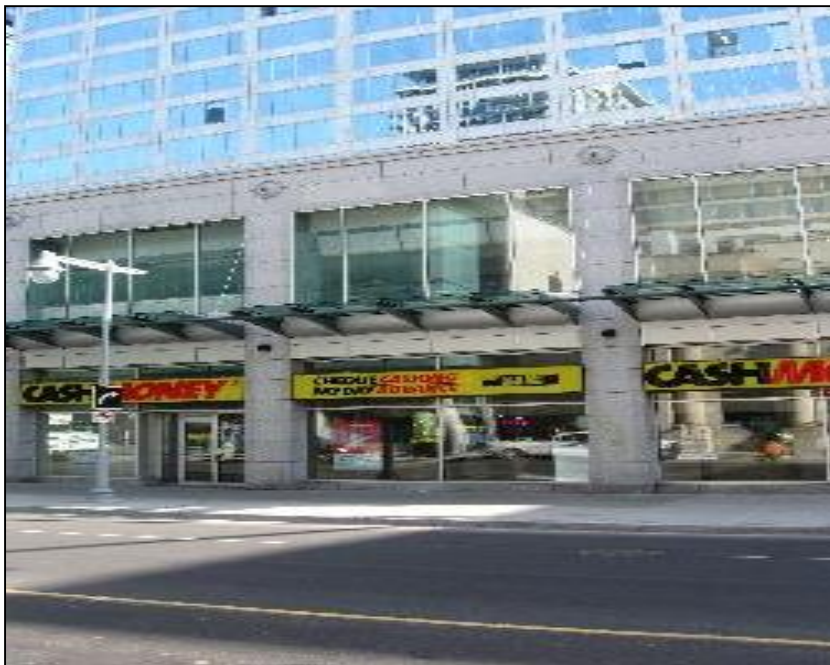
Financialization is happening at different rates in different regions, but it is a global phenomenon

Countries of the global north reaching the highest levels of deposits. Low-income countries seeing large absolute increases.

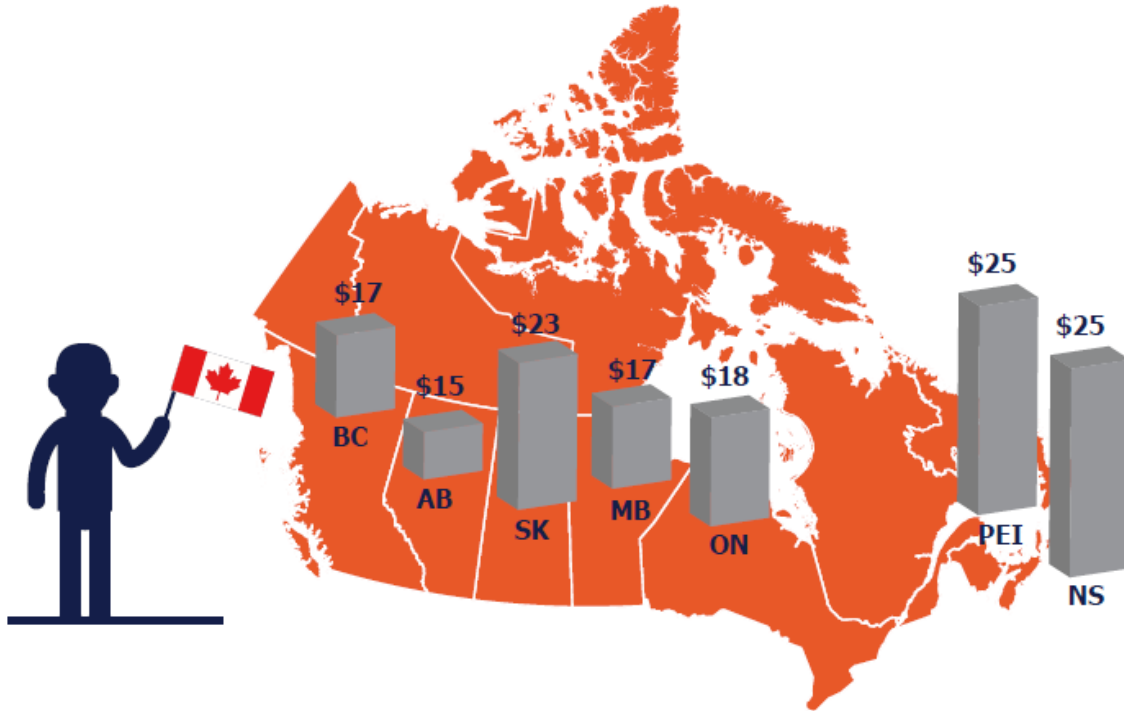
	GDP per capita	Financial system deposits to GDP (%)		
Region	(Constant 2005 USD)	1991	2001	2011
East Asia and Pacific (developing only)	2,673	29.7	33.6	44.7
Euro area	32,219	60.8	77.4	105.2
Latin America and Caribbean (developing only)	5,481	21.0	30.9	37.5
South Asia	989	21.7	34.4	54.1
Sub-Saharan Africa (developing only)	967	13.7	15.1	26.5
High income	30,595	54.3	66.7	79.5
Low income	403	11.4	13.9	24.6

Payday lending

Payday loan outlet
at Department of
Finance building,
140 O'Connor St.,
Ottawa



Cost of a payday loan in Canada (fee per \$100 borrowed)



APR equivalents	
BC	517%
AB	456%
SK	700%
MB	517%
ON	548%
PEI	760%
NS	760%

“

Payday lending now forms global chains...which are capable of extracting value from the edges of the financial system and drawing value back into the very core of financial markets.

”

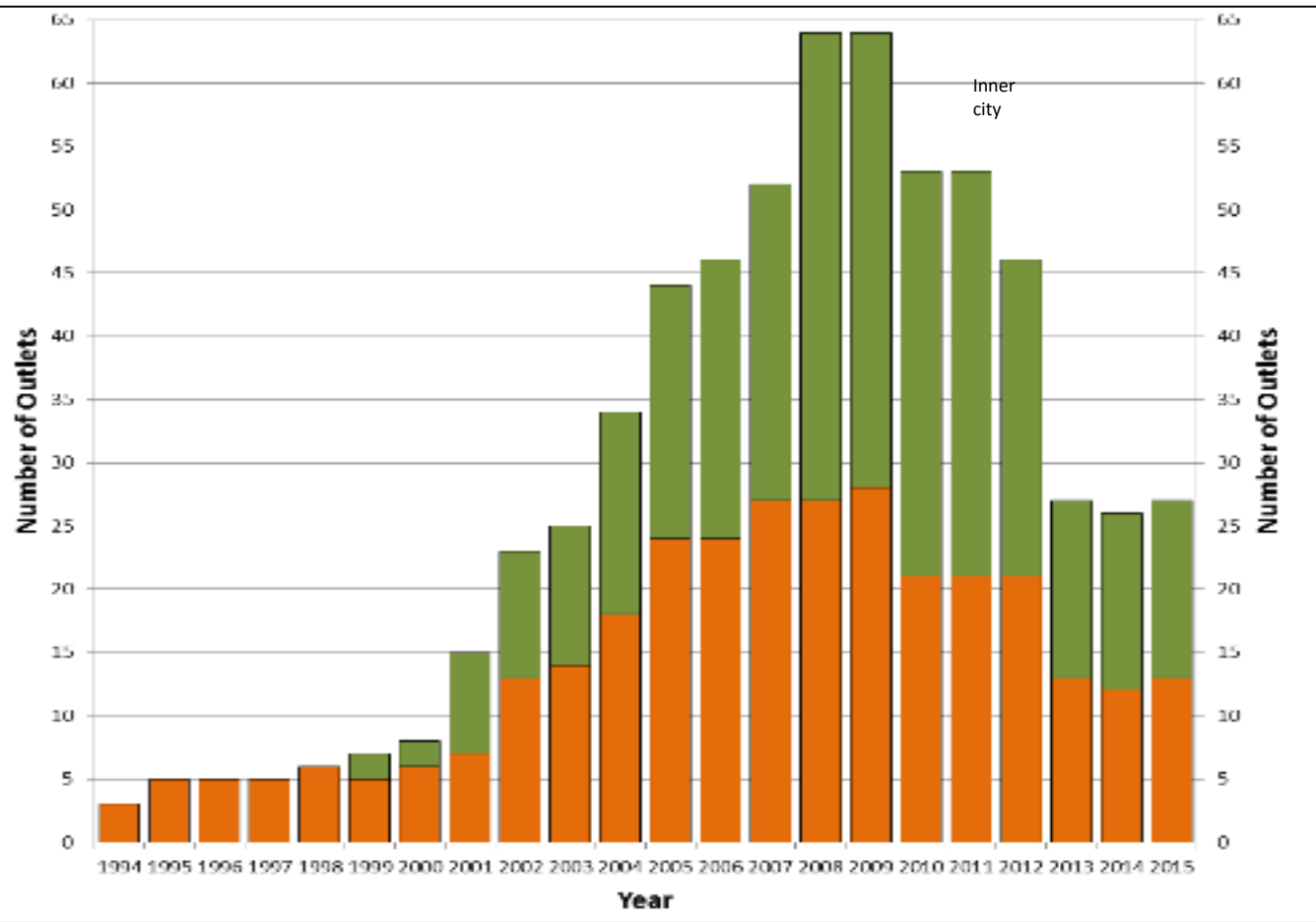
ROBERT
AITKEN 2015.
FRINGE
FINANCE:
CROSSING AND
CONTESTING
THE BORDERS
OF GLOBAL
CAPITAL

Payday lending is not a 'Mom & Pop' sector

- It is a mature industry
- With corporate structure
- Global reach

Inner-city and Suburban Payday Lenders in Winnipeg from 1994 to 2015

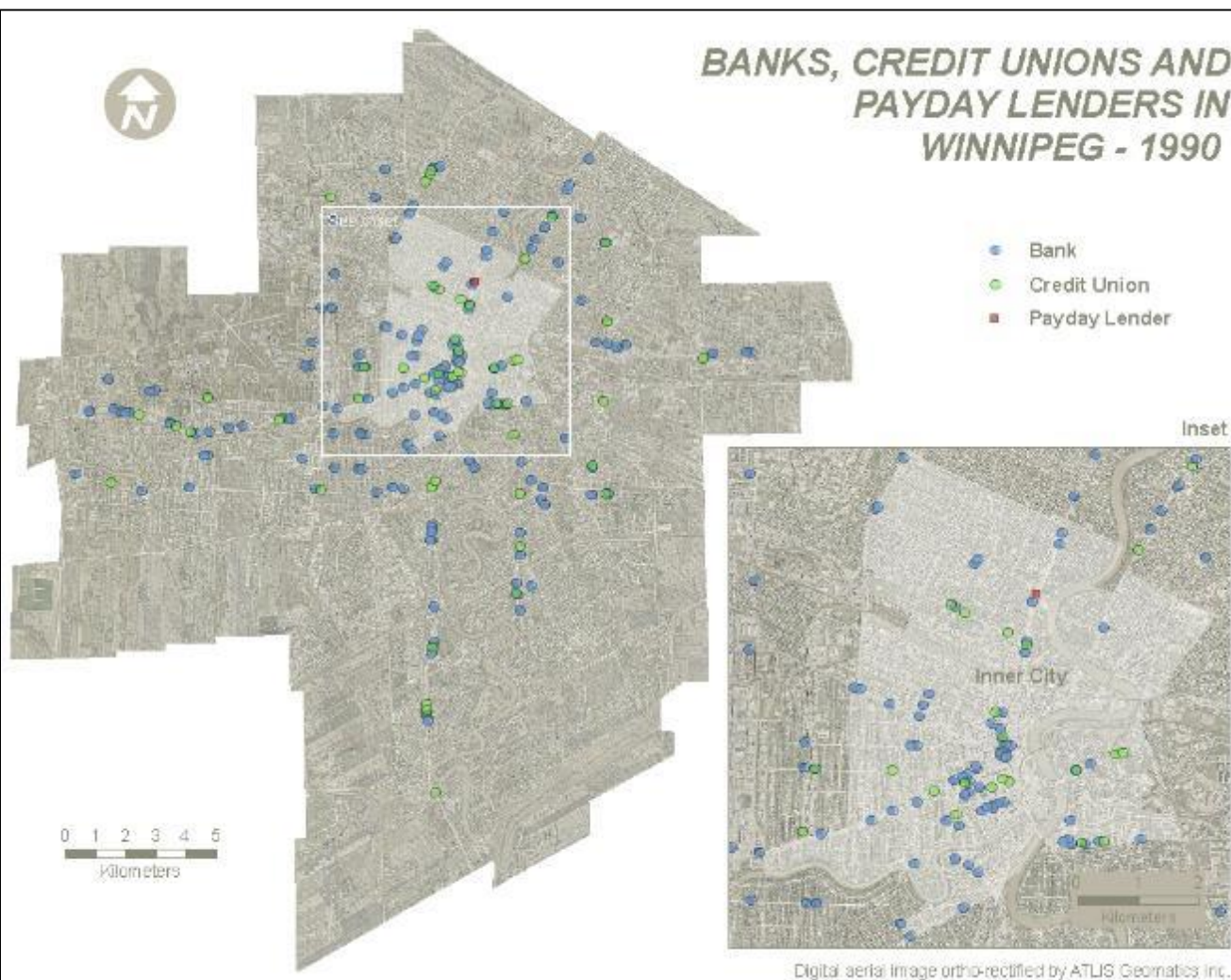
Suburban
Inner-city



1994 - 2009 Data Source: Brennan, M., B. McGregor and J. Buckland, 2011. The Changing Structure of Inner-city Retail Banking: Examining Bank Branch and Payday Loan Outlet Locations in Winnipeg, 1980-2009. Canadian Journal of Urban Research, Vol. 20(1), pp.1-32.
2010 - 2015 Data Source: The Manitoba Consumers Bureau.

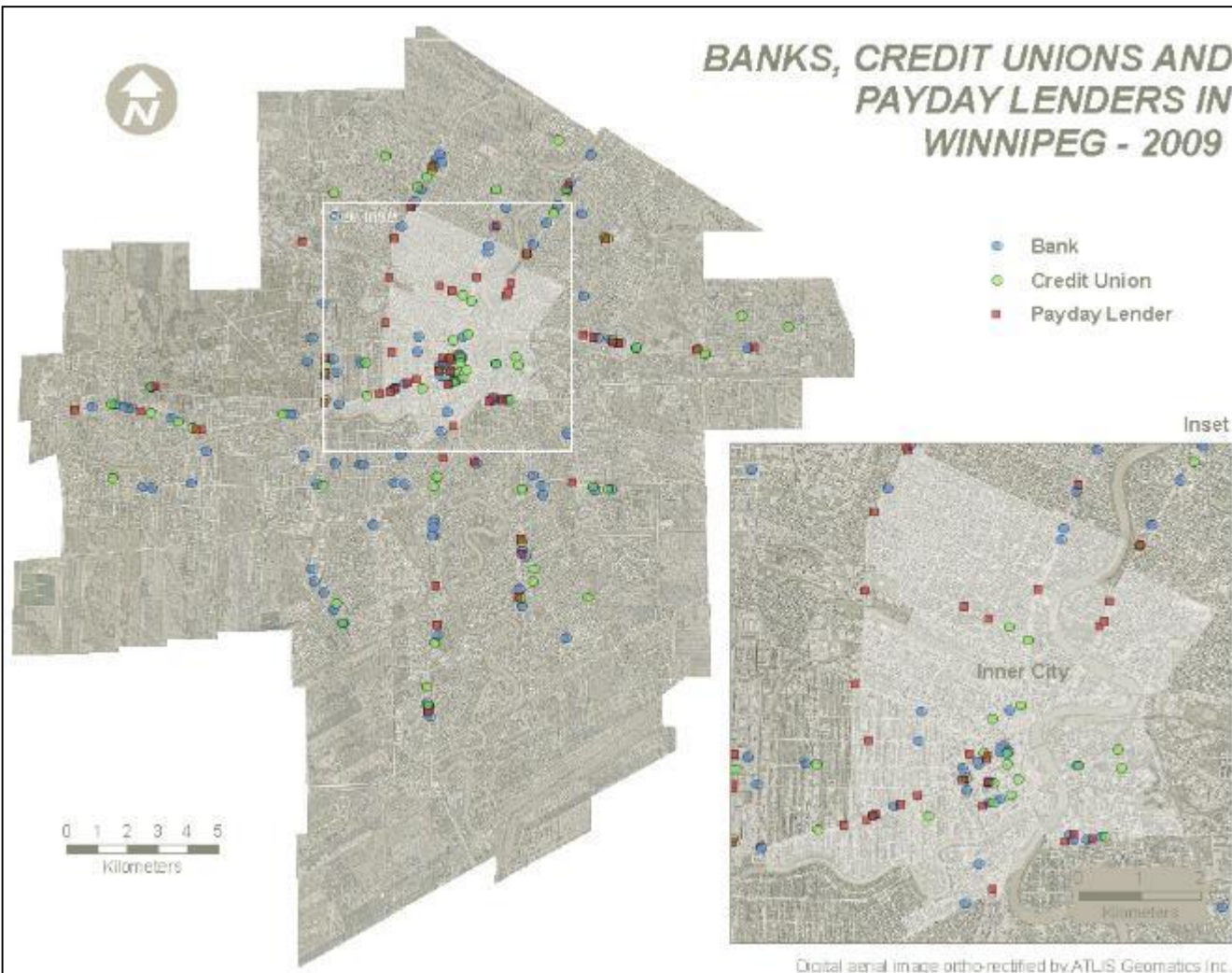
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BANKS, CREDIT UNIONS AND PAYDAY LENDERS IN WINNIPEG - 1990

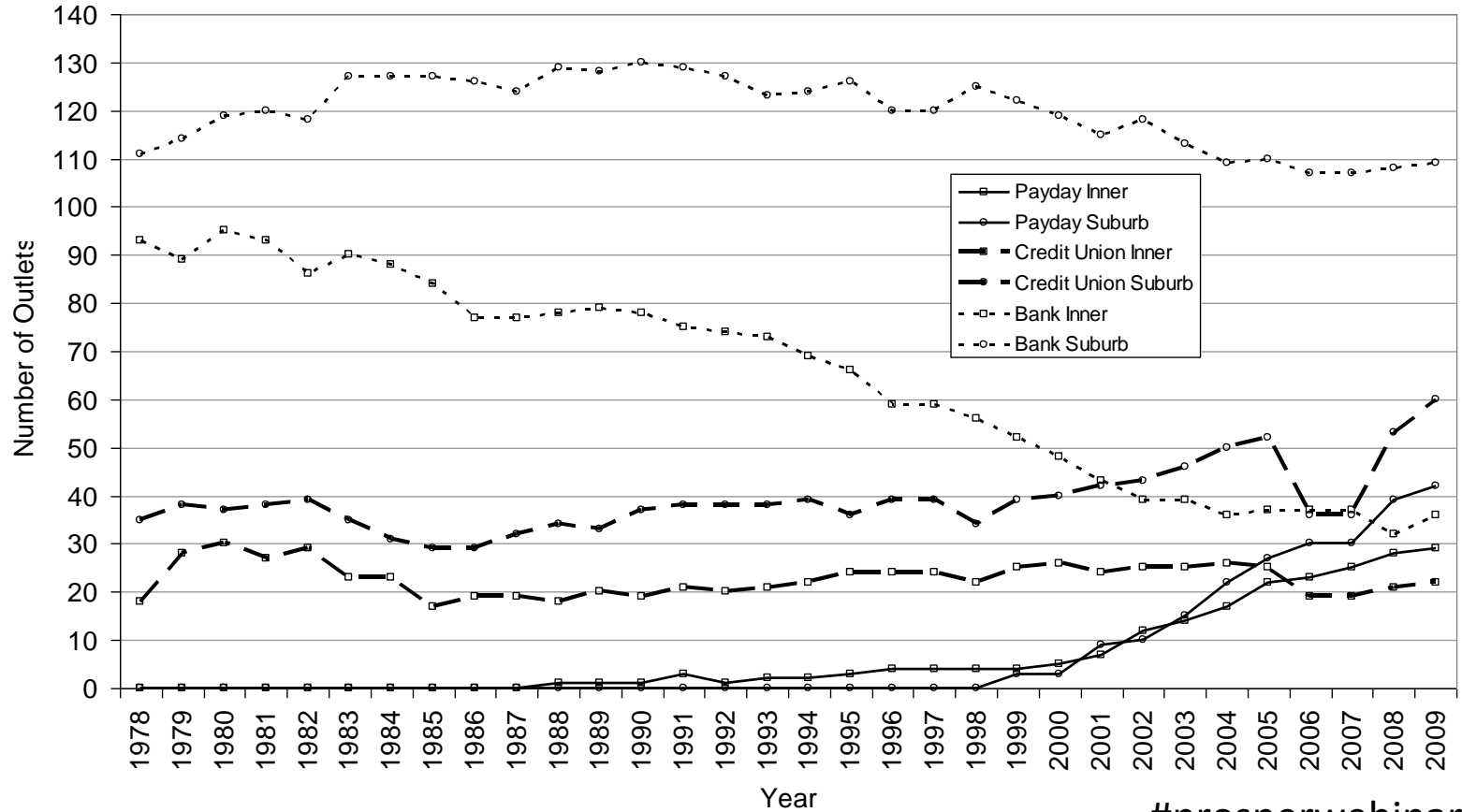


Digital aerial image ortho-rectified by ATUS Geomatics Inc.

BANKS, CREDIT UNIONS AND PAYDAY LENDERS IN WINNIPEG - 2009



**Inner-city and Suburban Banks, Credit Unions and Payday Lenders in Winnipeg
from 1978 to 2009**



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Dynamics of the Location of Financial Institutions: Who Is Serving the Inner City?

Economic Development Quarterly
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Abstract

Cities are a significant source of economic growth and prosperity, but they may also contribute to social and economic problems, including unemployment, poverty, and inaccessible financial institutions. The authors have gathered a unique panel data set for Toronto that locates financial institutions by census tract and links this information to census public use microdata from 1981 to 2006 to show that mainstream financial institutions have migrated to the suburbs and that, simultaneously, so-called fringe financial institutions, especially payday lenders, have expanded their operations in the inner city. The authors then use panel regression models and, among other results, find that census tracts with low income are less attractive to mainstream institutions over time and more attractive to fringe institutions, which provide more limited and expensive services. The results imply that the dynamics of the location of financial institutions may present an additional barrier to upward economic mobility for inner-city residents.

What action is being taken?



Movement across the sectors

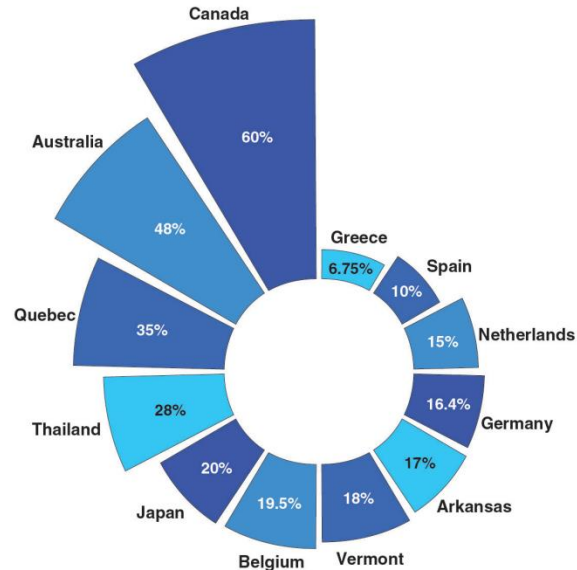
1. Non-profits
2. Academia
3. Government
4. Financial institutions
5. Community groups
6. Consumers/borrowers

Policy recommendations

1. Lower the cost of borrowing
2. Host a pan-Canadian consultation for a national consumer protection strategy
3. Improve disclosure requirements
4. Improve access to safe and affordable credit through the Bank Act

Lower the allowable cost of borrowing

Figure 1
Examples of interest rate caps around the world



Host a pan-Canadian consultation on consumer protection





Improve disclosure requirements

FINANCIAL FACTS	
Loan amount \$5000	
Loan term 12 months	
Annual interest rate* 59.9%	
Monthly Payment \$249.58	
Total fees \$0	
Insurance fee \$0	
Late payment fee \$15.50	
Percentage of budget going to loan payment* 12.5%	
Total cost of borrowing per year: \$2995	
*Based on a monthly net income of \$2000	

Improve access to safe and affordable credit

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Financial Sector Policy Branch
Department of Finance Canada James
Michael Flaherty Building 90 Elgin Street
Ottawa ON K1A 0G5

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examenlegislatif.fin@canada.ca](mailto:fin.legislative-review-examenlegislatif.fin@canada.ca)

Telephone: 613-369-9347



Questions?



Resources

- Momentum – High-Cost Alternative Financial Services: Policy Options
http://www.momentum.org/files/Publications/Part%203%20High-Cost%20Alternative%20Financial%20Services%20Policy%20Options_0.pdf

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- **We will be sending you an email soon with:**
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