

# Payday Loans and You

## How it works

A payday loan is:

- usually a small value loan taken out for a short time, typically until your next payday
- loaned at a retail store or online
- the most expensive form of consumer loan in Ontario
- an unsecured loan (you cannot put any property as collateral or guarantee for the loan, you need to provide the lender with a post-dated cheque or a pre-authorized debit)

Most lenders do not do credit checks before issuing payday loans. They usually ask borrowers to:

- prove 3 months of continuous employment
- give proof of address (e.g., they can ask to see a utility bill)
- have a chequing account

## Costs

Payday loans are an expensive form of credit. Before getting a payday loan, you should consider other ways to borrow money (e.g., from family or friends, a bank or credit union or your credit card).

As of January 1, 2018, the maximum cost of borrowing a payday loan is \$15 for every \$100 that you borrow. This means:

If you borrow \$300 for 2 weeks:	Payday loan(fee)	Credit card(fee with interest at 23%)
1 loan will cost	\$45	\$6.15
2 loans will cost	\$90	\$12.29
4 loans will cost	\$180	\$24.59
6 loans will cost	\$270	\$36.88

## The law

The Payday Loans Act, 2008 helps protect people who take out payday loans.

Under the act:

- you can't be charged more than \$15 for every \$100 that you borrow
- you can't be sold or offered any goods or services in connection with the payday loan
- you have two business days to cancel a contract for a payday loan without any penalty (e.g., without paying a fee) and without having to give a reason
- "rollover" loans are not allowed (this means you can't roll what you owe on a payday loan into a second payday loan. This is because you can't get another payday loan from the same lender before paying your first loan in full)

### **Rules for payday lenders**

Payday lenders must:

- be licensed with the Government of Ontario and follow the rules set by the Payday Loans Act, 2008
- include specific information on the first page of your contract
  - the amount you are borrowing
  - the number of days that your loan is for
  - what you will pay to borrow the money
- never ask for or accept payment by automatic deduction from your paycheck (assignment of wages)
- display a poster and give out a flyer that explain the cost of taking out a payday loan over time

If you have not met the terms of your loan agreement (e.g. haven't paid), a lender can't:

- contact you more than 3 times a week (not including regular mail) or on holidays
- contact your spouse, family, household members, relatives, friends, neighbours, or acquaintances at any time
- process a post-dated cheque or pre-authorized debit more than once if it will result in your financial institution charging you any fees, like overdraft or fees for insufficient funds (if a lender does this, you are entitled to recover these fees from the lender and would not be required to pay the cost of borrowing the loan)
- use threatening or intimidating language
- use excessive or unreasonable pressure

### **New rules coming into effect**

Starting on July 1, 2018:

- lenders cannot lend you more than 50% of your net income per loan
- lenders must show the cost of borrowing a payday loan as an annual percentage rate in advertising or agreements
- the maximum fee that cheque cashing services can charge for government-issued cheques is \$2 plus 1% of the face value of the cheque, or \$10 - whichever is less

### **Extended payment plan**

Beginning July 1, 2018, lenders must give you the option of an extended payment plan if you take out three loans within a 63-day period.

If enter into an extended payment plan, you can:

- make prepayments at any time without any additional fee or penalty
- exit the extended payment plan at any time without any additional fee or penalty

You have the option to pay back your loan in equal installments over multiple pay periods. The amount you pay back per installment will depend on how frequently you are paid.

If you are paid weekly, bi-weekly, semi-monthly or more frequently:

- your installments must be spread out over at least three pay periods
- the maximum amount of each installment is 35% of the combined total of the loan and cost of borrowing

If you are paid monthly or less frequently than semi-monthly:

- your installments must be spread out over at least two pay periods
- the maximum amount of each installment is 50% of the combined total of the loan and cost of borrowing

**File a complaint**

If you believe that a payday lender has broken the rules, you can file a complaint with here:

[www.ontario.ca/page/filing-consumer-complaint](http://www.ontario.ca/page/filing-consumer-complaint)

**Check if a payday lender is licensed and ask the right questions**

Before you get a pay day loan, you should ask:

- always check that a lender is licensed (don't take out a loan unless you see an Ontario license number, even if borrowing from retail stores or online lenders)
- be aware that there are companies that pose as online payday lenders but are actually "lead generators" that collect personal information from people looking to get a payday loan and then sell it to an actual payday lender (sharing this kind of information can put you at risk of identity theft)
- plan to have enough money in your account to repay the loan and on the day it is due
- understand how much you will pay for the loan if it's overdue
- how much will it cost me to borrow this money?
- how much will I be charged if I don't pay the loan back on time?
- is this payday lender licensed and in good standing?
- am I being charged more than \$18 for every \$100 that I'm borrowing?