

September 4, 2015

**Re: Motion on Payday Lending Licensing**

Dear Members of Council:

The Hamilton Roundtable for Poverty Reduction has become increasingly concerned with the proliferation of payday lending outlets in Hamilton. We believe it's time for local action on 'predatory lending' in Hamilton and we believe the City of Hamilton, through Council's direction can take provincial leadership in implementing effective safeguards against this exploitive industry.

Through working with low income and vulnerable Hamiltonians, we have learned of unscrupulous practices and questionable conduct attached to the industry. A recent example was a [pilot project launched last Christmas in Hamilton and Niagara by payday lender Money Mart](#) which offered to buy back gift cards – but only at 50% of their value.

We deem the industry as predatory in nature because its practices and slick marketing campaigns lure vulnerable consumers into transactions when there is often nowhere else to turn in a personal financial crisis. The high levels of interest charged seems like a price worth paying when a customer is desperate, but the industry thrives on maintaining relationships and encouraging borrowers to return time and time again. As a result, a cycle of deep and persistent debt ensues for those who utilize these 'services'.

The PayDay Loan Association of Canada headquarters is located in Hamilton and claims the industry provides a needed service – at a reasonable cost and do not target those living on low incomes or push customers for repeat business. Hamilton's experience runs contrary to these assertions. In fact, research shows the vast majority of those taking out payday loans are repeat customers, who cannot afford to repay their full loans without applying for another loan to cover the previous one (which is almost always granted). The industry's own research shows that for every new customer loan, fifteen are repeat.

**PAYDAY LENDING SERIES:  
The Payday Loan Business Model**

The Canadian Payday Loan Association claims they exist for one-off emergency lending yet according to their own research:



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Many of the payday loan outlets are owned by large financial holding companies based in the United States. Profits from the payday lending industry are not re-distributed back into the Hamilton community, but are being drained from our residents and our neighborhoods and taken out of the country.

The payday loan industry of course isn't unique to Hamilton; since the 1990s payday lenders have become increasingly pervasive across Canada- with some notable exceptions. In Quebec, provincial legislation places stricter limitations on the amount of interest can charge, and as a result, payday lenders are not as prevalent.

The PayDay Loans Act came into force in Ontario in 2008 and helps protect people who take out payday loans through important, albeit limited measures. While the provincial government has a pivotal role to play in tightening up regulations to protect consumers, (and consultations are currently taking place on that front) we believe municipal governments can also step forward and use the tools at their disposal to protect their residents.

By 2015, there were 35 payday loan outlets in Hamilton – many of these store front locations in lower income neighborhoods. A recent Hamilton Spectator report mapped the location of payday lenders – and many exist within or on the fringes of our priority neighbourhoods – areas where traditional banks closed branches a decade ago and where residents may not be able to access traditional financial services.

### PAYDAY LOAN CONCENTRATIONS IN HAMILTON



Social agencies, credit counsellors and advocates working to reduce poverty view payday lenders and other fringe financial businesses as counter-productive for those looking to exit the cycle of poverty.

In collaboration with Councillor Green, we are currently in dialogue with local financial service organizations to determine if accessible, low cost borrowing for these types of loans might be offered in the Hamilton community. VanCity Credit Union provides a payday loan service in British Columbia, but at 10x lower interest rates. A service to offer short term emergency loans, without the outrageous interest rates would benefit local consumers immensely.

**The Roundtable hopes to stand with Hamilton City Council to protect vulnerable consumers. We strongly support Councillor Green's motion to ask the Provincial Government for the authority to license payday loan operations in our community.**

Sincerely,

Tom Cooper  
Director, Hamilton Roundtable for Poverty Reduction  
[www.hamiltonpoverty.ca](http://www.hamiltonpoverty.ca)

## **A Quick Look at Payday Lending**

### **What is a Payday loan?**

A payday loan in Ontario is also known as a small emergency loan with quick approvals. Lenders may negotiate funds amounting to no more than \$1500 at a time. There are currently no restrictions on a borrower going to a competitor to get a second loan. Terms can be no longer than 2 months at a maximum of \$21 on every \$100 borrowed.

### **Fees vs Annual Interest:**

At first glance \$21 on every \$100 borrowed may seem like a 21% interest rate, but it is not. With most financial products you are given an annual rate of interest. For example, a traditional unsecured loan may be set at 18%. Yet when you annualize a pay day loan of \$300 taken for 14 days, the maximum cost of borrowing results in an almost 550% annual interest rate. Comparatively speaking, payday loans are excessively expensive.

### **Who Uses Payday Loans?**

Working poor are the main users of payday loans. According to research the Momentum Community Economic Development Society in Calgary, the vast majority of loans are taken to cover ordinary every day expenses; only 28% are used for unexpected emergencies. While Stan Keyes, President of the Canadian Payday Loan Association says lenders use sophisticated means to determine credit worthiness of borrowers, a Toronto Star reporter found an unemployed Humber College student who was loaned \$250 for groceries based on her receiving child-tax benefit at the end of the month.

Momentum found payday lenders target low income neighbourhoods; recent mapping confirms this trend in Toronto and in Hamilton. These areas are where traditional banks have removed their presence. Payday lenders have expanded services accordingly, offering cheque cashing, bill payment and pre-paid VISA debit cards at a higher rate of service fees than banks.

### **The Future of Payday Loan Operations**

Credit Canada, a financial counseling charity has found that while over all debt levels show a downward trend in Canada, average payday loan debt has risen about 60% over the past years. In 2010, average debt load was \$420; in 2014, it increased to \$692.

### **Municipal Options in Dealing with Predatory Lenders**

To combat this trend the Calgary's City Council has endorsed Calgary Poverty Reduction Initiative's *Enough for All* report calling on reform of the payday lending business and the importance of understanding the options that municipalities have at their disposal. Momentum, in an earlier report entitled *The Real Cost of Payday Lending* proposed the following options for dealing with predatory lending businesses:

Amending land use bylaws to limit payday lending businesses within a certain distance of each other,  
Amending the business licensing bylaw to increase business licensing fees for payday lenders,  
Convene banking institutions to collaborate and offer appropriate banking products for the working poor.