Payday lending: Minimizing harm

ABLE Financial Empowerment Conference
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Overview

- Ontario’s approach to payday lending
- Recent reform proposals
- Beyond regulation: broader approaches to address challenges
Context

- 1996 – Payday lending emerges in Canada
- 2007 – Criminal Code amended to exempt payday loans in designated provinces from criminal interest rate
- 2009 – Ontario’s Payday Loans Act takes effect
- 2014 – Review of Payday Loans Act commences
- 2015 – Review expanded to all alternative financial services

- 812 licensed lenders
- $1.2 billion in loans
- ~25% of loans are online
Ontario’s Approach

- Payday lending Act:
  - A payday loan is loan for $1500 or less, repayable within 60 days
  - Lenders must have a license
  - Maximum total cost to borrow: $21 per $100
  - Mandatory disclosures in ads and contracts
  - Prohibited practices include:
    - Rolling over a loan
    - Tied selling
    - Multiple loans at the same time
Borrowing Behaviour

- **Increased use**: 3% of households in 2014, up from 1% in 2010
- **Repeat borrowing**: 18% take out ten or more loans a year
- 50% use payday loans for recurring expenses

- **Conclusion**: Risk of falling into payday loan Debt Trap is increasing
Potential Reforms

- 2015 consultation on potential payday loan reforms:
  - Require payday lenders to take ability to repay into account
  - Waiting periods between payday loans
  - Restrict the number of loans to a borrower in a year
  - Require lenders to provide an extended payment plan
  - Increase the information available to the consumer
  - Mandatory referral to counselling
  - Review total cost of borrowing
What we heard

- Increase in use is a symptom of broader issues
  - Financial vulnerability
  - Lack of access to alternatives
  - Alienation

- Allow payday loans until alternatives are accessible
  - But, a significant minority supported outright ban

- More regulation is needed – municipalities, advocates and service providers supported the proposals
Influencing User Behaviour

- Awareness and literacy are important but …won’t necessarily change user behaviour

- Borrowers tend to be:
  - Attracted by convenience, friendly environment
  - Thinking short term

- Strategies should be designed to change behaviours
  - easy, attractive, social and timely approaches
Broader partnerships

- Province
- Municipalities
- Service providers
- Credit counsellors
- Advocates
- Mainstream lenders
  - Credit unions
  - Banks