



Ministry of Government and Consumer Services

Payday lending: Minimizing harm

ABLE Financial Empowerment Conference
November 2, 2015

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
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- 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