Prosper Canada

Barriers to safe and affordable financial products and services for people on low incomes

- **Unexpected fees and penalties:** Low-income consumers sometimes opt out of lower-cost, mainstream financial services because they worry about incurring unexpected fees and penalties they have little or no capacity to absorb. Greater clarity about fees is one reason people cite for choosing higher cost cheque cashers and payday lenders. While financial institutions may properly disclose fees when accounts are opened, low-income consumers may require products with less risk of unexpected costs (e.g. no ability to go into overdraft) and more real time information and automated warnings that enable them to avoid triggering fees and penalties they cannot afford.

- **Poor access to affordable, short-term, small dollar credit**: Most Canadians with low incomes typically avoid taking on debt. However, like all of us, they occasionally need small amounts of short-term credit to cover costs that can't be managed through their regular income. Some also struggle with excessive debt. Mainstream financial institutions, however, rarely provide short-term and flexible credit products that respond to the preferences of people with low-incomes.

- **High cost of fringe credit providers:** Without access to mainstream credit, low-income Canadians are more likely to turn to fringe credit providers, like payday lenders. Self-reported use of fringe lending in Canada is very low (1.4% of all households), but most users appear to be repeat customers. The annualized cost of payday loans can be as high as 400%.

- **Poor practices and accountability of third party credit providers:** Low-income clients often experience problems with third-parties who provide access to mainstream consumer credit -- e.g. car dealers facilitating bank loans in the form of auto financing packages. While the law requires full disclosure of loan terms, some dealers don't comply in order to close the sale and collect their fee. Consumers who find they have entered into a costlier, and often unaffordable, loan agreement than anticipated, often have little access to recourse or dispute resolution mechanisms that would apply if they had dealt with a bank directly.

- **No local access to mainstream financial services:** Many rural and remote communities have no local banks or credit unions. As a result, people have to travel to other communities to open a bank account (the law requires this be done in person). This can be expensive for people with low-incomes, particularly those living in fly-in communities.