

## Risks to Social Welfare Posed by Over-Regulating Legal Payday Lenders: Atlantic Provinces Economic Council

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HAMILTON, ON – Caution is the watchword for policymakers considering revised regulatory measures in the payday lending market, according to *An Assessment of Payday Lending: Markets and Regulatory Responses*, a report authored by Finn Poschmann, President and CEO at the Atlantic Provinces Economic Council (APEC). “Measures that squeeze licensed markets,” writes Poschmann, “are likely to push buyers and sellers into unlicensed markets, with potential risks to social welfare.”

The new report takes a deep dive into profiling the industry, borrowers’ profiles, various regulatory approaches, analysis of the literature on the industry, and alternatives to payday loans.

“The sector’s clientele, borrowers, tend to have few legitimate alternative suppliers,” says the report. “Small-dollar loans from banks or credit unions are rare to non-existent in the Canadian marketplace, conventional loans or lines of credit are unavailable to those with poor credit, and advances on credit cards are unlikely to be available to those who are severely credit constrained.”

Poschmann discusses possible reasons why conventional financial institutions rarely offer alternatives to payday loans: “Providing short term, risky liquidity in small amounts is an expensive proposition for any lender.”

Loan fees typically are regulated, and where caps on loan fees are very low, regulated payday lenders may be pressured to exit the market, as observed in jurisdictions within Canada and elsewhere. Poschmann adds that, “some borrowers who would benefit from access to short-term liquidity, even if it was expensive, would be harmed if the [licensed payday loan] market was sharply constrained.”

Evidence from markets that have introduced restrictive payday lending legislation and regulation suggests that unregulated online lenders grow in volume.

“This report suggests flexible regulation that anticipates changing market structures and competing business models seems likely to better suit consumer welfare,” says Tony Irwin, President, Canadian Consumer Finance Association, the trade association of licensed providers of small-sum, short-term consumer finance products including instalment loans, lines of credit, and term loans, payday loans and cheque cashing services.

“After the recent release of the Conference Board of Canada’s report, *Filling the Gap – Canada’s Payday Lenders*, and Financial Consumer Agency of Canada’s survey results, *Market Trends: Payday Loans*, the APEC report is a welcome addition to the growing awareness of the millions of Canadians who need safe access to legal short-term credit,” says Irwin. “The Canadian Consumer Finance Association will continue to work with governments, advocacy groups and all interested parties to balance consumer protection with a viable industry.”

To read a full copy of this report: <http://canadiancfa.com/reports/>

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