The Conference Board of Canada Le Conference Board du Canada

Filling the Gap.

Canada's Payday Lenders

CANADIAN Consumer Finance ASSOCIATION

REPORT NOVEMBER 2016

Filling the Gap: Canada's Payday Lenders
Sabrina Bond

Preface

The Conference Board of Canada undertook this research for the Canadian Consumer Finance Association. In keeping with Conference Board guidelines for financed research, the Board determined the research design method, as well as the content of this study. Sabrina Bond, Economist with the Forecasting and Analysis Division of the Conference Board, conducted the research. The author would like to thank Pedro Antunes, Deputy Chief Economist, and Craig Alexander, Chief Economist, at the Conference Board for their helpful insights and feedback. The author also wishes to share her gratitude with Professor Ronald Mann at Columbia University and Craig Bellefontaine at Fasken Martineau for providing external reviews of this research.

To cite this report: Bond, Sabrina. *Filling the Gap: Canada's Payday Lenders*. Ottawa: The Conference Board of Canada, 2016.

An accessible version of this document for the visually impaired is available upon request.
Accessibility Officer, The Conference Board of Canada
Tel.: 613-526-3280 or 1-866-711-2262 E-mail: accessibility@conferenceboard.ca

CONTENTS

EXECUTIVE SUMMARY

Filling the Gap: Canada's Payday Lenders

At a Glance

- In 2014, the licensed Canadian payday loans industry provided nearly 4.5 million short-term loans to Canadian households, at a total value of $2.2 billion.
- Despite its unfavourable reputation, the licensed payday loans industry provides a necessary service for cash-strapped Canadians.
- Placing inappropriate regulations on the industry may reduce access to credit for the financially vulnerable. Consumer education is advised to protect the financial welfare of borrowers and deter the growth of unregulated lending channels.

The payday loans industry has an unfavourable image with the public, and politicians and the media mainly discuss it in a negative light. Despite its unfavourable reputation, the licensed payday loans industry provides a necessary service for cash-strapped Canadians who lack access to alternate sources of credit in times of need. It also generates a substantial economic footprint for the national economy in the process.

In 2014, the licensed Canadian payday loans industry provided nearly 4.5 million in short-term loans to Canadian households, with a total loan value of $2.2 billion. This activity generated 6,930 full-time equivalent jobs for the Canadian economy, with accompanying total salaries of $273.3 million. Extrapolating the economic footprint of licensed payday lenders since 2014, it is projected that Canada's licensed payday lending industry will issue nearly 6 million loans to households in 2016 at a value of $3 billion.[1] Data from the Bank of Canada[2] indicate that credit issued by the licensed payday loans industry represents 4.2 per cent of the $70 billion in total outstanding household consumer credit (excluding residential mortgages) issued by non-bank institutions in 2016. This makes payday loans an important source of credit for Canadians.[3] Consumer credit includes, but is not limited to, credit card loans, personal lines of credit, automobile loans, and other types of personal loans.

The Conference Board of Canada analyzed data from Statistics Canada's 2014 Canadian Financial Capability Survey (CFCS), which indicated that households that use payday loans only do so infrequently (80 per cent of payday loan customers borrow a maximum of twice

1 Grant Thornton, *Confidential Canada-Wide Member Survey*.

2 All computations, use, and interpretation of these data are entirely those of The Conference Board of Canada. As per the Bank of Canada's definition, non-banks include trust and mortgage loan companies, credit unions and caisses populaires, life insurance companies, non-depository credit intermediaries, and other institutions (e.g., automobile leasing and sales financing companies).

3 Bank of Canada, *Household Credit*.

There is no prototypical payday loan consumer in Canada. Instead, there are two distinct categories with widely divergent needs.

annually).[4] However, research in the United States reveals that access to, and use of, licensed payday loans helps borrowers who use fewer than 10 loans per year to survive financially.[5]

There is no prototypical payday loan consumer in Canada. Instead, there are two distinct categories of clients with widely divergent needs. The first category, "ALICE"—which stands for "asset limited," "income constrained," and "employed"[6]—is a relatively financially vulnerable customer who relies on payday loans to cover the cost of both periodic, unexpected expenses and ongoing necessities. ALICE customers' lack of an established asset base severely restricts access to alternate consumer credit through conventional financial channels. The second type of client is "ARTI"—"asset rich, temporarily illiquid"[7]—a more economically stable client who uses payday loans as interim financing (often as productive capital) to cover unexpected expenses.

ALICE and ARTI clients both use payday loans due to infrequent, adverse spending shocks. However, ALICE clients have the additional challenge of being among the working poor. This is a characteristic that would be better addressed outside the context of the payday loans industry through community support and social service programs that support labour market skills development, financial literacy, and access to affordable living.

The policies required to address the needs of two such different clients will necessarily diverge. As such, paternalistic or broad market initiatives that may superficially appear to be welfare-enhancing for one or both consumer segments may well have unintended, deleterious effects for at least part of the market. For example, research in the United States shows that the implementation of inappropriate fee ceilings constrains access for all types of customers to short-term consumer credit.

4 All computations, use, and interpretation of these data from the survey are entirely those of The Conference Board of Canada.

5 Wilson and others, *An Experimental Analysis of the Demand for Payday Loans*.

6 United Way, "ALICE: Asset Limited, Income Constrained, Employed."

7 Ibid.

High default rates resulting from lending to a largely subprime consumer base characterize the licensed payday lending business model and fee structure. Furthermore, such policies have the undesirable effect of crowding customers out of relatively safe and regulated markets, and causing some of them to use imperfect payday loan substitutes. Notably, these include illegal online lenders or more expensive, regulated forms of short-term credit such as overdraft fees, late bill payment fees, and service cancellation fees. The welfare losses resulting from inadequate access to safe credit will be felt disproportionately by the most vulnerable consumers, for whom the cost of financial instability is highest.

Provincial legislation governing the licensed payday loans industry in Canada provides safeguards against the exploitation of households. Furthermore, legislated fee ceilings on licensed payday loans appear broadly consistent with the cost structure of the licensed payday loans industry in Canada. This industry is characterized by low market power, cannibalization by illegal online lenders, and a high incidence of bad debt. Nevertheless, there is some risk that licensed payday lending could become uneconomical if aggressive policy changes are implemented surrounding fee caps. Careful analysis of the industry's cost structure in Canada reveals that current legislative maximum fees in some provinces with low interest ceilings, such as Alberta, may not adequately cover the cost of providing payday loans. Policy-makers are urged to exercise caution in lowering provincial maximum fees, and to use judicious, evidence-based approaches to securing the financial welfare of Canadian households.

Analysis of natural experiments in the United States concerning the imposition of inappropriate industry regulations reveals that aggressive attempts to cap loan fees significantly reduces access to consumer credit for those who use licensed payday loans, with resultant welfare losses to households. In addition, other conventional sources of consumer credit are imperfect substitutes for payday loans. As a result, displacement of consumers from legal payday-lending channels can result in spillover of borrowers into unregulated (alternate) lending channels that cause consumers to incur higher debt costs.

Consumer education regarding illegal lenders would be a critical step toward protecting Canadian payday loan borrowers' financial welfare.

Imposing inappropriate regulatory requirements on an industry that is already significantly regulated may only serve to reduce access to credit for a financially vulnerable segment of the population. Instead, a public policy approach favouring consumer education is advised. Specifically, consumer education around distinguishing licensed online payday loan lenders from illegal lenders would be a critical step toward protecting the financial welfare of Canadian payday loan borrowers, and deterring the growth in unscrupulous, unregulated channels. Efforts to increase financial literacy, such as the federal government's current initiative in this area, are also critical to ensure that Canadians are making the best financial decisions possible.

CHAPTER 1

Introduction

Chapter Summary

- According to Statistics Canada's 2014 Canadian Financial Capability Survey, 4.2 per cent of adult Canadians surveyed had used payday loan services in the previous 12 months.
- The aim of most regulations related to Canada's payday loans industry is to limit the fees per $100 of loan in provinces that have legislated exemptions to federal usury law.
- If regulated fee limits are inappropriate, payday loans providers may be forced out of specific markets, causing some people to potentially turn to unregulated or underground loan options, or face higher borrowing costs from legal substitutes for payday loans.
- This report provides context to the economic footprint of, and optimal regulatory mix for, the licensed payday loan industry. The research draws from and analyzes existing literature on payday lending practices in Canada and abroad.

Canada's regulated (licensed) payday loans industry provides short-term loans to Canadians who need quick access to cash, mostly to pay for unplanned expenses.[1] These loans are for less than two months, and often for much shorter periods. Payday loan users tend to be individuals who are underbanked, with limited access to credit. According to Statistics Canada's 2014 *Canadian Financial Capability Survey*, 4.2 per cent of adult Canadians surveyed had used payday loan services in the previous 12 months.

The payday loans industry has an unfavourable image with the public, and politicians and the media mainly discuss it in a negative light. Still, the small numbers of Canadians that have used licensed payday loan providers view the industry much more favourably than the public.[2] In comparison to typical bank loans or credit cards, payday lenders charge the equivalent of high interest fees (on an annualized basis), but on relatively small amounts of money over very short terms—in most cases less than two weeks—with payday customers borrowing only infrequently. The industry argues that such fees are required to cover administration costs and potential loan losses.[3]

Currently, the federal and provincial governments license and regulate Canada's payday loans industry. Most regulations aim to limit the fees per $100 of loan in provinces that have legislated exemptions to federal usury law. If the limits are inappropriate, these payday loan providers may be forced out of specific markets. This may leave some people without access to loan services, causing them to potentially turn to

1 Environics Research, *Understanding Consumers of Canada's Payday Loans Industry*.

2 Ibid.

3 Federal Reserve Bank of New York, *Reframing the Debate About Payday Lending*.

Displaced borrowers may turn to unregulated or underground loan options.

unregulated or underground loan options, or face higher borrowing costs from legal substitutes for payday loans (e.g., overdraft fees, late bill payment fees, and service cancellation fees) than payday loan fees.

This report provides context to the economic footprint of, and optimal regulatory mix for, the licensed payday loans industry. It is based on research that draws from and analyzes existing literature on payday lending practices in Canada and abroad. In the first chapter, we provide a description, facts, and data about recent economic performance of Canada's licensed payday loans industry, including an assessment of the industry's cost structure and market power. The second chapter details the current regulatory environment in Canada, with comparisons of policies adopted in other jurisdictions. The third chapter discusses the behavioural and demographic characteristics that define payday loan customers. This informs a discussion of the potential implications of tightening regulations for payday lending in the fourth chapter. The research concludes with some policy recommendations.

CHAPTER 2

Recent Performance of the Canadian Payday Loans Industry

Chapter Summary

- Licensed Canadian payday lenders issued 4,473,110 short-term loans in the consumer credit market in 2014, at a total value of nearly $2.2 billion.
- In 2014, the licensed payday loans industry created 6,930 full-time equivalent jobs in Canada, with an accompanying total salary bill of $273.3 million.
- Costs per $100 payday loan in 2016 dollars would be expected to range from $20.79 to $28.09 per $100 loan, with an all-firm average of $25.37 in costs across Canada. These figures are aligned with the fee structure currently in place for payday loans across several provinces.
- The licensed Canadian payday loans industry enjoys limited market power and faces a high degree of threats in three of the core drivers of competitive advantage—strong supplier bargaining power, high rates of entry into the industry, and intense rivalry.

The Structure of the Canadian Payday Loans Industry

The relatively nascent payday lending industry was first introduced to Canada in the 1990s.[1] The licensed payday lending industry has since grown to more than 1,400 outlets across Canada. These lenders operate as either mono-line providers—with payday loans as the sole service provided—or as multi-line providers that offer additional non-bank financial services such as cheque cashing, wire transfers, and tax refunds. As detailed below, more than 90 per cent of licensed payday lending occurs in physical stores, with Internet-based licensed loans comprising less than 10 per cent of loan volumes and values.

The dominant business model in the industry involves lenders incurring the full burden of operating costs and financing loans from their own capital, with a heavy weighting in favour of equity financing.[2] This capital structure largely reflects the hesitancy of conventional banks to extend debt financing to payday lenders due to concern about the inherent high risk of bad debt among the payday client base.

The Canadian Landscape

Licensed Canadian payday lenders issued 4,473,110 short-term loans in the consumer credit market in 2014, with a total value of nearly $2.2 billion.[3] (See Table 1.) The industry offers small-dollar, short-term credit through two channels—physical stores and online dealers—with

1 Caskey, *The Economics of Payday Lending*, 3.

2 Ernst and Young, *The Cost of Providing Payday Loans in Canada*, 7.

3 Grant Thornton, *Confidential Canada-Wide Member Survey, 2014*. Used with permission of the Canadian Consumer Finance Association. All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada.

stores accounting for 92 per cent of total licensed industry loans on both a volume and value basis. Private member data provided by the Canadian Consumer Finance Association (CCFA) demonstrate that the value of the licensed Canadian payday loans industry grew at a compound annual rate of 16.1 per cent between 2010 and 2014, with the number of loans issued expanding by 15.3 per cent on an annualized basis over the same period across all channels. This is a stronger rate of growth than that experienced by chartered banks. The Bank of Canada estimates that household consumer credit issued by Canadian chartered banks grew by only 2.5 per cent in the 12 months prior to August 2016.[4]

Table 1

Value and Volume of Canadian Payday Loans Transactions by Channel, 2010–14

Loans by licensed CCFA* members	2010	2014	Compound annual growth rate, 2010–2014 (percentage)
Total number of loans advanced (000s)	2,530.4	4,473.1	15.3
Number of loans advanced by stores (000s)	2,433.1	4,107.2	14.0
Number of loans advanced online (000s)	97.3	365.9	39.3
Total value of loans advanced ($ millions)	1,205.8	2,187.7	16.1
Value of loans advanced by stores ($ millions)	1,171.3	2,016.8	14.6
Value of loans advanced online ($ millions)	34.4	170.9	49.2

* Canadian Consumer Finance Association
Sources: The Conference Board of Canada; Canadian Consumer Finance Association.

4 Bank of Canada, *Household Credit*. All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada. Note that, as per the Bank of Canada's definitions, non-banks include trust and mortgage loan companies, credit unions and caisses populaires, life insurance companies, non-depository credit intermediaries, and other institutions such as automobile leasing and sales financing companies.

Credit issued by the licensed payday loans industry represents 4.2 per cent of the $70 billion of total outstanding household consumer credit.

By extrapolating the economic footprint of Canadian payday lenders by the compound annual growth rates of the value and volume of loans issued from 2010 to 2014, the licensed payday lending industry in Canada is projected to issue 5,946,593 loans to households in 2016 at a value of $3 billion.[5] Data from the Bank of Canada indicate that credit issued by the licensed payday loans industry represents 4.2 per cent of the $70 billion of total outstanding household consumer credit issued by non-bank institutions in 2016 (excluding residential mortgages). Consumer credit includes, but is not limited to, credit card loans, personal lines of credit, auto and other personal loans.

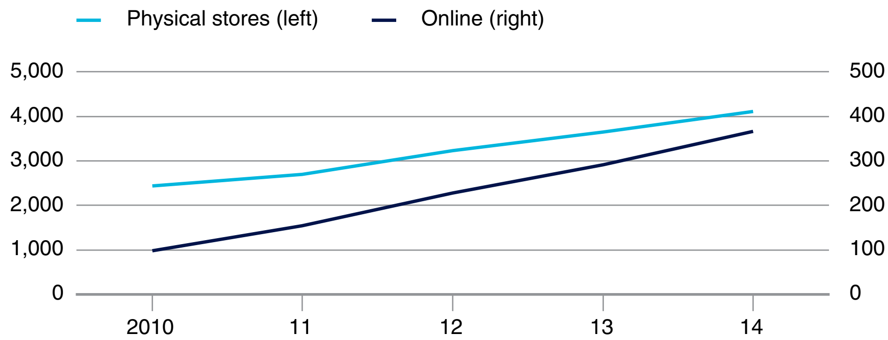
Since 2010, the market share of the licensed online channel has grown substantially from a small base. In both the conventional and alternative financial services industries, the proliferation and scalability of e-banking delivery has supported sustained strength in consumer demand for short-term credit. (See Chart 1.) Since 2010, growth in both the volume and value of loans has moved in virtual lockstep. As a result, average loan values have grown only moderately—from $476.50 per loan in 2010 to $489.08 in 2014—and remain well below provincial legislated maximums.

The distribution of the licensed payday loans industry across Canada is roughly proportionate to population, with the exception of Quebec, and Newfoundland and Labrador, where the industry is much less active. (See Chart 2.) In Quebec, lenders are limited to charging interest on all consumer loans to 35 per cent annual interest, effectively making any activity by licensed payday lenders economically unfeasible. Newfoundland and Labrador loans default to the federal maximum annual percentage rate (APR) of 60 per cent. The Canadian industry has consolidated since 2011, largely in response to widespread regulatory reform at the provincial level. The number of licensed lenders across Canada declined from a peak of 1,778 in 2011 to 1,408 in 2016.[6]

5 Ibid.

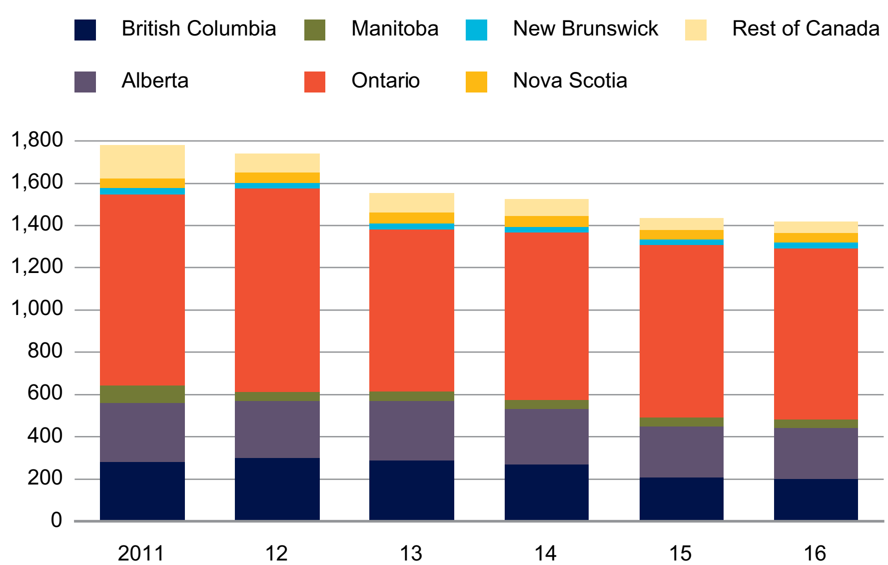
6 Canadian Consumer Finance Association, private member data.

Chart 1
Number of Canadian Payday Loans Issued by Licensed CCFA* Members, by Channel, 2010–14



*Canadian Consumer Finance Association
Sources: The Conference Board of Canada; Canadian Consumer Finance Association.

Chart 2
Licensed Canadian Payday Lenders, by Region, 2011–16



*Canadian Consumer Finance Association
Sources: The Conference Board of Canada; Canadian Consumer Finance Association.

Data from a 2014 private member survey, completed under regulatory requirements by the CCFA, reveal that the licensed payday loans industry generates a large, direct employment impact on the Canadian economy. In 2014, the licensed payday loans industry in Canada created 6,930 full-time equivalent jobs, with an accompanying total salary bill of $273.3 million.[7] These encompass only the direct economic impact of employment in the industry. The complete economic impact resulting directly from employment would be a multiple of the direct impact, and would include indirect and induced effects of spending by the payday loans industry and its employees in the broader economy. Data from Statistics Canada's 2010 input-output (IO) tables calculate a multiplier of 2.22 for firms engaged in activities related to credit intermediation for employment income, suggesting a stronger economic contribution than direct salaries entail.[8] This is the type 2 multiplier, which is calculated as direct, indirect, and induced impacts divided by direct impact.

The Cost of Providing Payday Loans in Canada

The conspicuously high rates of interest charged by payday loan providers in Canada and abroad are a source of consternation, and it is understandable that some mistakenly conflate the interest rates charged with profit margins. Without a complete understanding of the cost structure underlying the industry's business model, however, it is ill-advised to conclude a priori that the legislative maximum fees imposed by the Canadian provinces are predatory. Further investigation is required to reach an informed conclusion.

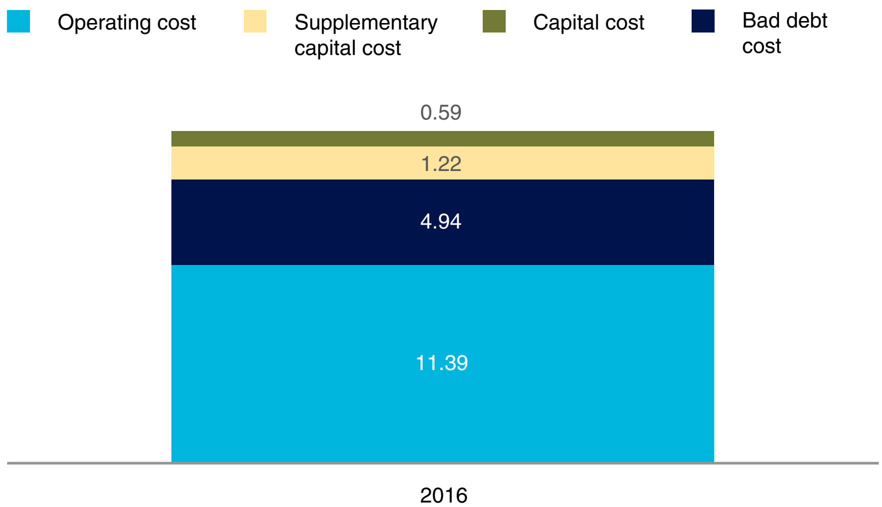
In July 2016, Deloitte conducted a detailed analysis of the cost of providing payday loans by licensed providers in Ontario, where more than half of payday lending in Canada takes place. In Deloitte's calculations, only the costs associated with the provision of payday

7 Ibid.

8 Statistics Canada, *Input-Output Multipliers, 2010*.

loans were included in costing estimates for multi-line payday lenders. In 2016, the total cost per $100 of providing a licensed payday loan in Ontario was estimated at $18.14.[9] (See Chart 3.)

Chart 3
The Cost of Providing Payday Loans in Ontario, per $100 loan, by Cost Component, 2016
(C$)



Sources: The Conference Board of Canada; Deloitte.

Of the total cost of providing $100 of payday loans, two-thirds ($11.39) were attributable to direct operating costs.[10] This category includes, but is not limited to, expenditures such as salaries and benefits, employee incentive plans, security, rent, utilities, insurance, credit checks, bank service charges, advertising, depreciation and amortization, and taxes.

9 Deloitte, *Summary of the 2016 Survey*, 2.

10 Ibid.

Defaulted loans account for between 12 and 19 per cent of payday loans in Canada.

Bad debt costs associated with uncollectable or delinquent customer accounts comprised nearly one-quarter of total costs, or $4.94 per $100 loan.[11] The high share of sub-prime borrowers among payday loan customers implies a high default ratio, with the defaulted loans accounting for between 12 to 19 per cent of the value of payday loans in Canada, depending on the province.[12, 13, 14] (In their research, economists Will Dobbie and Paige Martin Skiba found a 19 per cent default rate among U.S. payday loans.) By contrast, delinquency rates on conventional consumer loans are considerably lower. The Canadian Bankers Association reveals there is a 0.87 per cent delinquency rate on consumer credit cards in Canada in the second quarter of 2016.[15] Furthermore, Industry Canada estimates that 4.3 per cent of consumer loans in Canada entered insolvency last year.[16] In the United States, data from the Board of Governors of the Federal Reserve System report average delinquency rates at commercial banks of 1.99 per cent on all consumer loans, 2.15 per cent on consumer credit cards, and 1.84 per cent on other loans as of the first quarter of 2016.[17] Presumably, default rates for conventional banking will be lower, since delinquency includes all situations in which a borrower is late in paying a loan, and default is a subset of this category of bad debt. (Default is a less common occurrence since it involves a further level of loss to the lender in which the borrower fails to honour the loan repayment schedule outlined in the promissory note signed upon origination of the loan.)

The cost of supplementary capital accounts for 7 per cent of the total cost of providing licensed payday loans—or $1.22 per $100 loan.[18] This cost category includes capital required to finance fixed assets and

11 Ibid.

12 Grant Thornton, *Confidential Canada-Wide Member Survey*, 2014, 6.

13 Ibid., 6–7.

14 Dobbie and Skiba, "Information Asymmetries," 1.

15 Canadian Bankers Association, *Credit Card Delinquency and Loss Statistics*.

16 Office of the Superintendent of Bankruptcy Canada, *Annual Consumer Insolvency Rates*.

17 Board of Governors of the Federal Reserve System, *Charge-Off and Delinquency Rates*.

18 Deloitte, *Summary of the 2016 Survey*, 2.

The cost of serving payday loans in Canada is estimated at $25.37 per $100 loan on average.

ensure sufficient cash flow to service new loan requests, in addition to debt and equity directed to the disbursement of the principal on payday loans. The cost of loan capital accounts for the remaining 3 per cent of costs—or $0.59 per $100 loan—which comprises the debt and shareholder equity that is required to operate the business. The assumed weighted average cost of capital (the proportional cost of debt and equity financing) of 14 per cent is necessarily higher than the regional banks and money centres—3.92 per cent and 4.27 per cent, respectively[19]—due to the higher risk credit profile of payday loan customers.

The total Ontario cost figure is broadly consistent with estimates of the cost of servicing payday loans in Canada, which is estimated at $20.66 per $100 loan on average across all sizes of firms.[20] Ernst and Young found evidence of economies of scale, with the cost per $100 loan in 2004 dollars ranging from $16.93 for large firms to $22.88 for small payday lenders across Canada as a whole.[21] Extrapolated at the rate of growth of the Canadian consumer price index, costs per $100 loan in 2016 dollars would be expected to range from $20.79 to $28.09, with an all-firm average of $25.37.[22] In their 2005 working paper, Mark Flannery and Katherine Samolyk calculate the average fee charged by U.S. payday lenders at US$17.71—or C$28.90 using the current exchange rate of C$1.32 per US$ (at the time of writing this report) and translated into 2016 dollars using growth in the U.S. all-items consumer price index.[23]

In his 2007 paper, Aaron Huckstep calculates profit margins in the U.S. payday loans industry of 3.57 per cent, compared to average margins of 13.04 per cent among conventional financial institutions such as banks

19 Damodaran, *Cost of Capital by Sector* (US), 31.

20 Ernst and Young, *The Cost of Providing Payday Loans in Canada*, 31.

21 Ibid.

22 All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada.

23 All use and interpretation of these data are entirely that of The Conference Board of Canada.

and credit unions.[24] A 2009 study by Ernst and Young of the cost of providing payday loans in the United States estimated a pre-tax profit margin of 8.98 per cent ($1.37 per $100 loan) among licensed multi-line payday lenders. Assuming a 40 per cent[25] corporate income tax rate, the after-tax profit margins for U.S. payday loans providers are projected to be 5.39 per cent, compared to an average after-tax margin of 9.46 per cent for the broad U.S. market.[26]

Regrettably, profit margin data for the Canadian payday loans industry are not publicly available, but margins are expected to be lower than south of the border. This is due to two dynamics. First, U.S. estimates do not remove the cross-subsidization of payday lending with other lending activities carried out by multi-line payday lenders, which is less prevalent in Canada. Second, there are also likely fewer economies of scale in Canada.[27] By comparison, Canadian banks operate at high net profit margins. In the year leading up to October 2016, net profit margins for the largest Canadian banks were 25.9 per cent for Canadian Imperial Bank of Commerce, 27.4 per cent for Toronto Dominion Bank, 30.1 per cent for Royal Bank of Canada, and 24.3 per cent for Bank of Montreal.[28]

Market Power Assessment

Professor Michael Porter of the Harvard Business School developed a comprehensive framework to assess market power and industrial competitiveness. The framework, detailed in Exhibit 1, assesses factors driving five key determinants of an industry's capacity to capture a sustainable competitive advantage over its competitors. As discussed in the following chapter, the licensed Canadian payday loans industry

24 Huckstep, "Payday Lending," 227–228.

25 KPMG, *Corporate Tax Rates Table*.

26 Damodaran, *Margins by Sector (US)*.

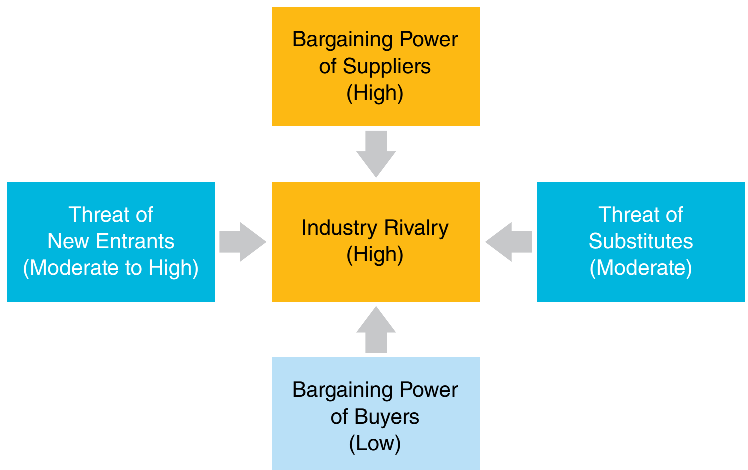
27 Tal, *Higher Levels of Profit Margins*.

28 Google Finance, *Canadian Imperial Bank of Commerce*.

enjoys limited market power and faces a high degree of threats in three of the core drivers of competitive advantage—strong supplier bargaining power, high rates of entry into the industry, and intense rivalry.

Exhibit 1

Porter's Framework for Industry Analysis: Factors Contributing to Market Power of Canada's Licensed Payday Loans Industry



Source: Michael E. Porter, "The Five Competitive Forces that Shape Strategy."

Industry Rivalry: High

Canada's regulated payday loans industry is characterized by a **high degree of rivalry** due to:

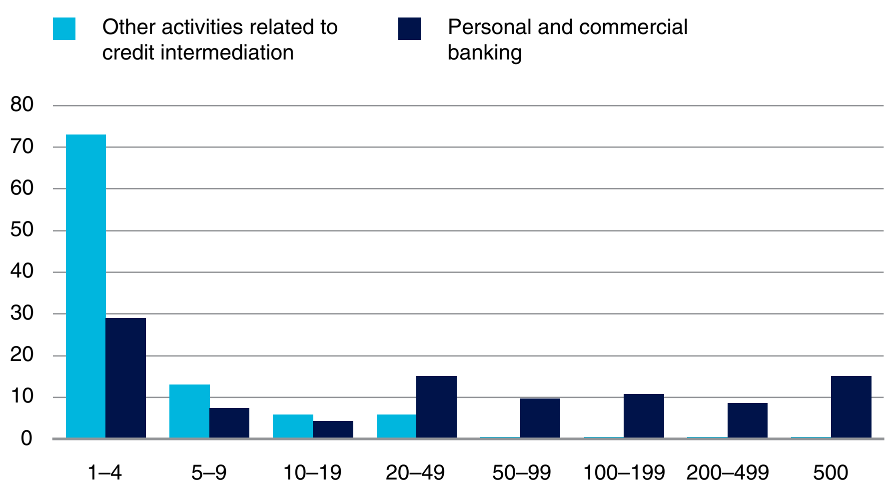
- low firm concentration;
- limited ability to innovate the industry's products or business model;
- rapid growth of unlicensed online lenders.

Data from Statistics Canada's 2013 Business Register provide an indication of the number of firms in a given industry, segmented by number of employees. These data provide a good indication of the degree of rivalry within an industry, as well as the distribution of relative bargaining power and economies of scale of enterprises in an industry.

Canada's licensed payday loans industry is subsumed in "other activities related to credit intermediation."[29] In 2013, there were a total of 412 enterprises concentrated in the "other credit intermediation industry," of which 185—or 45 per cent—employed at least one employee. The other credit intermediation industry is highly fragmented: 88 per cent of these lenders employ less than five workers, and 94 per cent have less than 10 employees. With only three firms with more than 100 employees, there are arguably limited economies of scale being captured by the vast majority of the industry. Of enterprises with employees in other credit intermediation, 73 per cent have fewer than five employees. (See Chart 4.) Given the small scale of the firms in the other credit intermediation industry and the high degree of competition among them, they are individually unlikely to exert any significant influence over market prices, which will drive prices to an equilibrium approaching perfect competition.

Chart 4

Concentration of the Licensed Payday Loans Industry



Sources: The Conference Board of Canada; Statistics Canada, *Business Register 2013, NAICS 522390*.

29 Statistics Canada, *Business Register 2013, NAICS 522390*.

As a point of comparison, the personal and commercial banking industry,[30] which offers consumer loans and deposits through banks and credit unions, is characterized by a strong degree of supplier concentration. The industry comprises a total of 140 firms, of which two-thirds (93) have employees other than the owners. Enterprises with more than 100 employees account for more than one-third of all businesses in this industry. It is expected that this high degree of concentration would confer significant economies of scale for larger, oligopolistic enterprises, enabling them to exert a degree of control over market prices.

The scope for innovation in product delivery or the business model is relatively limited in the Canadian payday loans industry due to a propensity of lenders to pursue a risk-minimizing corporate structure in an effort to avoid sanctions under federal usury laws.

Perhaps the most troubling—and pressing—driver of industry rivalry for Canada's licensed payday lending industry is the proliferation of competition from illegal online lenders. The payday loans industry in the United States is more mature than in the Canadian market, and serves as a benchmark for future trends in the Canadian payday lending industry. South of the border, one-third of the payday loans industry has an online presence. Of this channel, six out of 10 online payday lenders are unregulated, representing one-fifth of the total U.S. payday loans industry.[31] An estimated 41 per cent of these illegal lenders operate offshore.[32] In an interview with the consultancy Policis, one U.S. regulator observed: "The ones [online lenders] that are not licensed are just loan sharks. They roll people over, they wipe out bank accounts, and they do not respect any legal authority whatsoever."[33]

30 The personal and commercial banking industry is North American Industry Classification System (NAICS) code 522111.

31 Policis, *The Future of Illegal Lending*, 7.

32 Ibid.

33 Ibid., 11.

The scope for entry into the market is limited for new licensed payday lenders.

There is a risk that the lower operating costs of illegal online lenders resulting from regulatory non-compliance could enable the unlicensed online payday loans channel to crowd out licensed lenders (both online and in physical stores) who would otherwise be able to economically serve the Canadian payday loans market.

Threat of Entrants: Moderate to High

Canada's regulated payday loans industry is characterized by a **moderate to high threat of new entrants** due to:

- low barriers to entry;
- proliferation of unlicensed online lenders;
- mitigated by high cost structure.

Low barriers to entry and the proliferation of unlicensed lenders in the online channel of the payday loans industry create an environment characterized by a moderate to high potential rate of new entry into the payday lending market. These characteristics are mitigated by the effect of high operating costs associated with lending to high-risk clients. Unfortunately, although strong competition is usually welfare enhancing for consumers, that tendency is undermined in circumstances where incentives favour the disproportionate entry of unscrupulous competition into the market.

The dominant business model in licensed payday lending is predicated on the financial risk assumed by a small group of owners who finance the loans they issue with their own equity. Since margins are small for licensed lenders, and provincial regulatory oversight is becoming increasingly inappropriate, the scope for entry into the market is limited for new licensed payday lenders. Those entrants will be disproportionately concentrated among small firms that have a higher cost structure than larger firms that are able to capture economies of scale.[34] However, delivery of loans through online channels provides a

34 Ernst and Young, *The Cost of Providing Payday Loans in Canada*.

strong incentive for unlicensed (illegal) lenders to reduce their operating costs (including those associated with regulatory compliance)—a cost component that accounts for two-thirds of total costs for licensed payday lenders in Ontario.[35]

Threat of Substitutes—Moderate, Bargaining Power of Buyers: Low

Canada's regulated payday loans industry is characterized by a **moderate threat of substitutes and low buyer bargaining power** due to:

- lack of close substitutes for payday loans;
- limited access to alternate sources of credit among payday borrowers.

Economics Professor Jonathan Zinman of Dartmouth College in New Hampshire conducted event analysis related to the imposition of a ceiling on payday lending fees in the state of Oregon 2007. This research determined that other short-term loans (e.g. auto loans, credit cards) and other forms of short-term credit (e.g., bounced cheques, overdrafts, and insufficient fund charges) serve as limited substitutes for payday loans. Furthermore, as detailed in Chapter 4, payday loan borrowers have significantly lower access to informal credit networks than the general population, as well as lower rates of access to conventional consumer credit such as auto loans, credit cards, and mortgages. Demand for short-term credit among payday loan customers is inelastic (not easily affected by the cost of financing).

Bargaining Power of Suppliers: High

Canada's regulated payday loans industry is characterized by **high supplier bargaining power** due to:

- a high degree of concentration among suppliers of debt financing;
- high risk of default among.

35 Deloitte, *Summary of the 2016 Survey.*

As demonstrated in Chart 4, the network of debt financing suppliers to payday lenders—specifically, banks and credit unions—is more highly concentrated than the fragmented payday loans industry. This imbalance, combined with a risk of delinquency that is six to eight times higher among payday loan customers than for conventional consumer credit,[36] confers a disadvantage on payday lenders in negotiating affordable terms on loans used to support payday lending activity. It also necessitates high interest rates on payday loans.

36 Board of Governors of the Federal Reserve System, *Charge-Off and Delinquency Rates*.

CHAPTER 3

Canadian Regulatory Environment

Chapter Summary

- The most substantial portion of regulation around the issue of payday loans centres on imposing ceilings on maximum fees charged per $100 loan, which currently range from $15 to $25 in regions where province-specific Acts regulating the payday loans industry exist.

- In Canada and abroad, delivery of payday loans is rapidly shifting to online channels.

- Online payday loans grew at an annual compound rate of more than 39 per cent between 2010 and 2014, accounting for roughly 8 per cent of total licensed loans issued in Canada in 2014—by both volume and the value of loans issued. Online lending now provides an attractive opportunity for illegal lenders to enter the Canadian payday loans market.

- The U.S. experience of payday lending suggests that ensuring adequate customer access to licensed lending is central to ensuring vulnerable borrowers are not subject to predatory lending practices.

Licensed Canadian Payday Lenders

Maximum Fees, Loan Rollovers, and Extended Payment Plans

The Canadian federal government delegated the authority to regulate payday loans to the provinces in 2006–07 in Bill C-46, *An Act to Amend the Criminal Code*, which amended section 347 of the Criminal Code (Canada).[1]

Since that time, the provincial governments have independently implemented a range of legislative controls aimed at regulating the industry. Seven provinces—British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Prince Edward Island, and Nova Scotia—have legislated province-specific acts to regulate the administration of payday loans in their respective jurisdictions. New Brunswick has not yet proclaimed its *Cost of Credit Disclosure and Payday Loans Act*, which imposes limited regulation around payday lending. Newfoundland and Labrador, and Quebec do not have specific legislation governing payday lending. The most substantial portion of regulation around the issue of payday loans centres on imposing ceilings on maximum fees charged per $100 loan. (See Chart 5.)

In three provinces (British Columbia, Saskatchewan, and Manitoba), payday lenders are restricted in lending only up to a predetermined share of a borrowers' net pay, typically between 30 and 50 per cent of pre-tax net income, to a maximum of $1,500. In the remaining provinces, payday loans are not restricted by net pay.

Payday loans are issued for a term of 1 to 14 days—longer in British Columbia, where half of loans exceed a term of 30 days[2]—with the loan closing on payday, at which time a post-dated cheque issued by the borrower for the principal plus interest of the loan is cashed by the lender. Alternatively, for additional convenience, payday loan

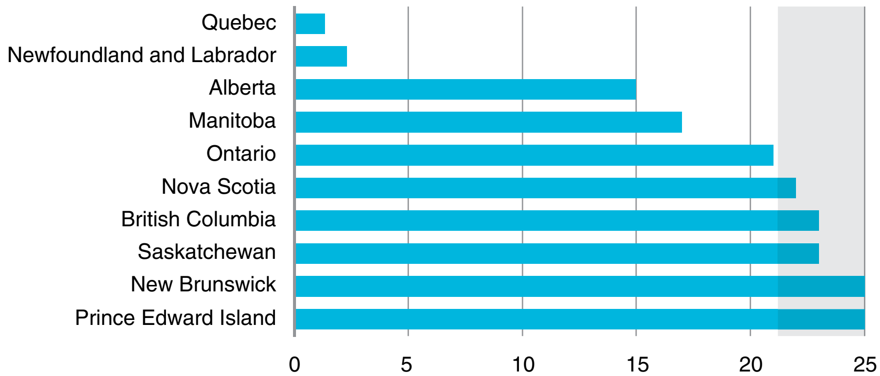
1 Openparliament.ca, *Bill C-26 (Historical).*

2 British Columbia's longer term on loans is due to a mandatory extended payment plan requiring that a third loan borrowed within a 62-day period be repaid over three pay periods.

Chart 5

Regulatory Maximum Fee per $100 Payday Loan, Indexed to a 14-Day Term, by Province

(C$)



Note: Newfoundland and Labrador defaults to the federal usury annual percentage rate (APR) cap of 60 per cent. Quebec caps interest charges for all consumer loans at 35 per cent APR. The shaded area is the cost range per $100 of payday loan provided in Canada.
Sources: The Conference Board of Canada; various provincial regulations. All use and interpretation of fee equivalent data for Quebec, and Newfoundland and Labrador are entirely that of The Conference Board of Canada.

borrowers may sign a pre-authorized debit agreement allowing payday lenders to automatically debit a selected bank account on the loan due date. Rescission rights are extended to payday loan customers in all provinces, permitting the cancellation of a loan at no cost within a mandated period—usually one to two business days.

Maximum permitted fees among provinces with legislation specific to the payday loans industry range from $15 per $100 loan in Alberta, including insurance charges (the equivalent of 391 per cent APR using simple interest over a 14-day term) to $25 per $100 loan in PEI (652 per cent APR over 14 days). Nova Scotia's mandated ceiling of $22 per $100 loan includes insurance fees. In Newfoundland and Labrador, payday lenders are governed by the federal usury laws, which impose an interest ceiling of 60 per cent APR on loans, which is the equivalent of $2.30 in fees per $100 loan with a 14-day term. British Columbia recently brought in legislation that revises its current $23 fee ceiling downward to $17 per $100 loan effective January 1, 2017. Quebec legislation imposes

Provincial cost structures may allow some regional operators to lend profitably where lenders in other provinces cannot.

a 35 per cent APR cap on all consumer interest, or $1.34 per $100 loan for a comparable term. It is noteworthy that the maximum chargeable fees in the provinces with legislation governing licensed payday loans fall within the low end of the range of estimated payday loan costs in Canada (depicted in the shaded region in Chart 5). All provinces allow licensed Internet lending. Provincial cost structures will vary somewhat from the national average, and may allow some regional operators to lend profitably where lenders in other provinces cannot.

If the payment for a completed loan cannot be processed due to insufficient funds in the borrower's account, a default fee can be levied. Default fees per loan range from payments not exceeding $20 for "not sufficient funds" in Manitoba to "reasonable charges" not exceeding $50 in Ontario and P.E.I. Defaulted loans with outstanding balances are subject to fixed interest rates for repayment, ranging from 30 to 60 per cent APR. All provinces have imposed some degree of restriction to limit loan "rollovers," in which a follow-on payday loan is borrowed to finance a prior one.

In the United States, payday lending is legal in 28 states, partially permitted in "hybrid" storefront operations with some limitations in 9 states,[3] and "restricted" in 14 states,[4] including the federal District of Columbia.[5] The states with liberal payday loan regulatory regimes allow single-repayment loans with APR in excess of 391 per cent ($15 per $100 loan or greater).[6] In these states, from 2 to 13 per cent of the population uses payday loans.[7] Colorado, for example, caps

3 "Hybrid" states include Washington, Oregon, Florida, Colorado, Minnesota, Maine, Virginia, Delaware, and Rhode Island.

4 "Restrictive" states include Montana, Arizona, Arkansas, Georgia, North Carolina, West Virginia, Maryland, Pennsylvania, New Jersey, New York, Connecticut, Massachusetts, New Hampshire, Vermont, and the federal District of Columbia.

5 The Pew Charitable Trusts, *State Payday Loan Regulation and Usage Rates*.

6 "Liberal" states include Idaho, California, Nevada, Alaska, Utah, Wyoming, South Dakota, North Dakota, Nebraska, Kansas, Oklahoma, Texas, New Mexico, Hawaii, Louisiana, Mississippi, Alabama, Tennessee, Kentucky, Missouri, Iowa, Illinois, Indiana, Wisconsin, Michigan, Indiana, Ohio, and South Carolina.

7 The Pew Charitable Trusts, *State Payday Loan Regulation and Usage Rates*.

maximum interest charges at 20 per cent of the first $300 loaned.[8] States implementing liberal and hybrid legislation impose a variety of limits on cooling, off periods, rollovers, and recourse to extended payment plans. In the restricted states, there are no licensed payday loan storefronts.

Licensed and Unlicensed (Illegal) Online Payday Lending

In Canada and abroad, there is a wholesale shift afoot to online delivery of payday lending, with a growing presence of unlicensed lenders. Online payday loans accounted for roughly 8 per cent of total licensed loans issued in Canada in 2014, both by volume and the value of loans issued.[9] The segment has enjoyed growth at an annual compound rate of more than 39 per cent between 2010 and 2014,[10] and now provides an attractive opportunity for illegal lenders to enter the Canadian payday loans market.

Online lending has similarly proliferated in other jurisdictions. In Australia, for example, online loans account for nearly one-third of the total market, with one-fifth of these online lenders non-compliant with regulatory requirements.[11] In the United Kingdom, data from the Financial Conduct Authority (FCA) indicate that 83 per cent of high-cost, short-term credit (HCSTC, or payday loans) is borrowed through online channels, with regulators suggesting that the market could well evolve to an exclusive online delivery channel in the near term.[12]

The American experience indicates that unlicensed online lending comprises a large share of total online payday loan transactions, and foreshadows the impact unlicensed online lending could take in Canada. A 2015 article in the *Wall Street Journal* by Alan Zibel revealed

8 Ibid.

9 Canadian Consumer Finance Association, private member data.

10 Ibid.

11 Hobday, *Payday Lenders Taken to Court*.

12 Financial Conduct Authority, *Consultation Paper CP14/10***: Proposals for a Price Cap*, 15.

Unlicensed online lenders typically offer higher interest loans than traditional storefront payday lenders.

that approximately one-third of all payday loans issued in the United States are conducted through online transactions, of which 60 per cent are carried out by unregulated lenders. In total, 41 per cent of online payday loans issued to U.S. customers are sourced from illegal offshore lenders.[13] In response to the preponderance of illegal payday lending, the U.S. Department of Justice launched *Operation Choke Point* in 2013 with a mandate to target illegal payday lenders by restricting their access to conventional banking services.[14] Twenty states have enacted legislation rendering debt to unlicensed payday lenders uncollectable, although these measures have been largely unsuccessful.[15] In the 20 states where unlicensed online payday loans are legislated as uncollectable, unlicensed lending is actually more prevalent than in states that have not enacted such provisions. These loans account for 85 per cent of total online payday loans in states with "void and unenforceable" statutes, compared to 60 per cent in states that do not have such legislation in place.[16]

A study conducted by The Pew Charitable Trusts in 2014 reveals the nature of lending practices undertaken by unlicensed U.S. online payday lenders. One-third of unlicensed online lenders structured payday loans to automatically renew, despite legislative prohibitions against such a practice.[17] Unlicensed online lenders typically offer higher interest loans than traditional storefront payday lenders, with fees charged exceeding 650 per cent APR.[18] In addition, nearly half of U.S. online payday loan customers report having their accounts overdrawn by lenders.[19]

13 Policis, *The Future of Illegal Lending*, 7.

14 Consumers Council of Canada, *Consumer Experiences*, 26.

15 Policis, *The Future of Illegal Lending*, 16.

16 Policis, *The Outcomes for Consumers of Differing Approaches to the Regulation of Small Dollar Lending*, 39.

17 The Pew Charitable Trust, *Fraud and Abuse Online*.

18 Ibid.

19 Ibid.

Collection practices of unlicensed online lenders egregiously violate industry best practices: "30 per cent of online payday loan borrowers report being threatened by an online lender or debt collector."[20]

From a regulatory perspective, the American experience suggests that ensuring adequate customer access to licensed lending is central to ensuring vulnerable borrowers are not subject to predatory lending practices. The volume of licensed online lending in the U.S. is disproportionately concentrated (80 per cent) in states with liberal payday lending regulations.[21] Payday loan consumers in those states are more than twice as likely as residents in hybrid or restrictive states to use a licensed payday loan service.[22]

20 Ibid.

21 Policis, *The Future of Illegal Lending*, 21.

22 Ibid.

CHAPTER 4

A Profile of Payday Loan Users

Chapter Summary

- The payday loans market comprises two distinct customer segments, ALICE and ARTI, both of which are characterized by short-term liquidity constraints, but driven by different behavioural motivations for accessing payday loans.
- In 2014, 4.2 per cent of the adults surveyed reported having used payday loan services in the previous 12 months, the equivalent of 1.15 million Canadians.
- Payday loan users are more likely than the average Canadian to be employed full time and to have attained a high level of education. However, financial literacy remains a challenge for roughly half of these consumers, who also lack access to forms of credit other than payday loans.
- Payday loans are primarily used to finance unexpected expenses—such as out-of-pocket medical bills or home or car repairs—as well as ongoing household expenses.

Meet ALICE and ARTI: Segmentation of Payday Loan Users

Alice

Meet Alice, a 27-year-old single mother of two boys who holds multiple low-paying jobs in the services sector.[1] Alice typically earns $35,000 per year, but her income stream fluctuates between paycheques depending on the number of hours she can secure at work. On weekdays, she is employed as a part-time early childhood educator at a neighbourhood Montessori school. Alice supplements her income by waitressing at a local restaurant and providing ad hoc after-school child care to local families. It has been a challenge to juggle multiple jobs, and Alice has been unable to secure a consistent schedule that provides her with a reasonable degree of income stability.

Alice is conscientious in her budgeting and works hard to save as much of her after-tax income as possible for her family. However, the challenge of balancing volatility in her earnings and care for her children means she often has a negligible balance in her bank account at month's end. One weekend, for example, her older son suffered an asthma attack, and Alice had to give up a lucrative Saturday night waitressing shift to take him to the emergency room. Alice has no credit card due to a low credit rating and owns few assets that could serve as collateral against the costly credit for which she is eligible. She currently rents a small two-bedroom apartment in Etobicoke and, while she would like to purchase a home for her family some day, it will remain a financial impossibility until she can secure full-time work in her field of study as an early childhood educator.

Last month, the owner of the restaurant where Alice waitresses announced that the dining room would be renovated, a process expected to take a little more than a month to complete. Alice has been assured that her job is secure, but she now faces at least a month with a significant cut to her expected income while the restaurant is closed. She is concerned about how she will cover rent and utilities expenses

1 Dijkema and McKendry, *Banking on the Margins*, 20.

The ALICE population encompasses workers who are gainfully employed but unable to consistently afford basic necessities.

in the intervening time, and wants to avoid further damage to her credit score caused by lapsed or missed payments. She opts to take out a 10-day, $400 loan at the payday lender outlet on her street with an interest cost of $84, judging the fees to be less expensive than the cost of reconnecting her utilities—which can exceed $100 where she lives—in the event of non-payment.

The Alice described above is a composite profile of the payday loans industry's primary target customers. In its study of financial hardship, the United Way says "ALICE" stands for "asset limited," "income constrained," and "employed."[2] The ALICE population encompasses a growing number of workers who are gainfully employed but unable to consistently afford basic necessities, such as housing, food, child care, medical care, and transportation.[3] (See Exhibit 2.)

Exhibit 2
"ALICE" and "ARTI" at a Glance: Characteristics of Payday Loan Customer Segments

"ALICE" Borrower Asset-Limited, Income Constrained, and Employed	**"ARTI" Borrower** Asset-Rich, Temporarily Illiquid
• include low-income borrowers working multiple service sector jobs; • require short-term loans to cover necessary costs of living or unexpected, episodic expenses (e.g. car repairs, medical bills); • are characterized by lack of collateral and low credit scores; • do not own collateralizable liquid assets.	• include borrowers spanning multiple income and wealth categories; • include temporarily unemployed individuals, seasonal or commission workers, and individuals and small business owners requiring short-term financing; • own liquid assets against which loans are collateralized at preferential rates.

Sources: The Conference Board of Canada; United Way. All use and interpretation of these data are entirely that of The Conference Board of Canada.

2 United Way, *ALICE®: Asset Limited, Income Constrained, Employed*.

3 Ibid.

Dollar Financial Corporation (DFC)—the parent corporation to Canada's largest payday loan franchise, Money Mart—has identified an opportunity to fill the gap left in lending to ALICE customers by conventional financial institutions that have minimal presence in the sub-prime credit market. In a June 2013 filing with the U.S. Securities and Exchange Commission, DFC identified ALICE customers as one of two target consumer segments who are currently underserviced by banks and other financial institutions:

> Generally, ALICE customers are service sector workers, small business owners, or employees of small businesses. ALICE customers typically hold more than one lower paying job in order to satisfy their monthly bills and living expenses. Many of these individuals periodically require short-term loans to provide cash necessary for living and other episodic or unexpected expenses. They may not be able, or even desire, to obtain loans from banks as a result of their immediate need for cash, the irregular receipt of payments from their employers, a lack of tangible collateral, or the unavailability of bank loans in small denominations for relatively short periods of time.[4]

Arti

Meet Arti, a 32-year-old entrepreneur managing the start-up of a specialized software development firm. After working for four years as an assistant professor in the computer science department of a local university, Arti found an opportunity in the market for commercial civil engineering software. He has spent the last six months developing his business plan, networking with financiers, and developing the internal systems necessary for a successful launch of his new company, in tandem with maintaining his tenure-track professorship. The dean of his department recently approved a one-year sabbatical for Arti to pursue his start-up goals.

4 United States Securities and Exchange Commission, *DFC Global Corp. Form 10-K, 2013*.

The Arti demographic segment spans the income and wealth spectrum.

However, Arti has learned through experience that the early stages of seeking seed capital are gruelling, and he has had to self-finance a large contingent of his start-up costs, including a steep salary bill for his software design team. Over the last six months, Arti has put more than $80,000 of personal funds toward his business since taking out a second mortgage on his condominium. He has a moderate retirement portfolio consisting primarily of securities, but prefers not to withdraw the capital and incur high capital gains costs at this time to finance his start-up costs, which can crop up periodically and run higher than he initially projected.

This week, Arti's lawyer advised him that he will need to file an additional set of compliance papers with his provincial regulator to secure his patent sometime in the next 10 days, at a projected cost of $1,000. A large order from a new client is expected to be paid in full within the next months, which is too late, and Arti's paycheque at the university is being directed entirely to cost of living and mortgage repayment. He is frustrated at his temporary cash shortfall and opts to take out a $1,000, 14-day payday loan at an interest cost of $250. The penalty on withdrawing his retirement funds would be comparable on a tax-adjusted basis after factoring in lost contribution space, and he does not want to incur the reputation risk of losing regulatory approval at this early stage in his firm's development.

The Arti described above is a composite profile of the second customer demographic segment targeted by the payday loans industry. DFC and other payday loan providers offer non-bank financial services to a clientele denoted as ARTI, which stands for "asset rich, temporarily illiquid."[5] This segment spans the income and wealth spectrum, and can include temporarily unemployed individuals, commission workers with volatile earning schedules, individuals, and small business owners requiring short-term financing. What ARTI customers share in common is a liquid asset base against which short-term loans can be collateralized at preferential interest rates.

5 Ibid.

Incidence of Use of Payday Loan Services

Various data sources provide insight into the proportion of Canadian adults using the services of the payday loans industry, and the intensity of that use. Based on Statistics Canada's 2014 Canadian Financial Capability Survey (CFCS), 4.2 per cent of the adults surveyed reported having used payday loan services in the previous 12 months, the equivalent of 1.15 million Canadians.[6] This proportion is more than double the 1.8 per cent reported in the 2009 CFCS and the 2 per cent reported in the 2006 survey by Les Études de Marché Créatec on behalf of the Financial Consumer Agency of Canada (FCAC).[7,8] Slow economic growth since 2009, weak job creation, modest wage growth, and rising household debt—combined with consumers' increasing familiarity with the services offered by alternate financial services (AFS) providers—may explain the sustained demand for payday loan services. The more recent figures align with the results of a 2005 national survey of payday loan users conducted by Environics Research, which found that 5 per cent of Canadians have used a payday loan service, showing a stable base of demand over time.[9]

Regarding the intensity of use, the majority of customers do not rely on these services frequently. According to Statistics Canada's 2014 CFCS, less than one-quarter of Canadian adults who reported using payday loan services had done so three or more times in the previous 12 months. The majority reported borrowing a payday loan twice in the previous 12 months. (See Chart 6.) This is expected to be an under-estimate of the true frequency of payday loan rollovers in Canada since it is based on customers' retrospective, self-reported assessment

6 All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada. See Statistics Canada, *Canadian Financial Capability Survey*.

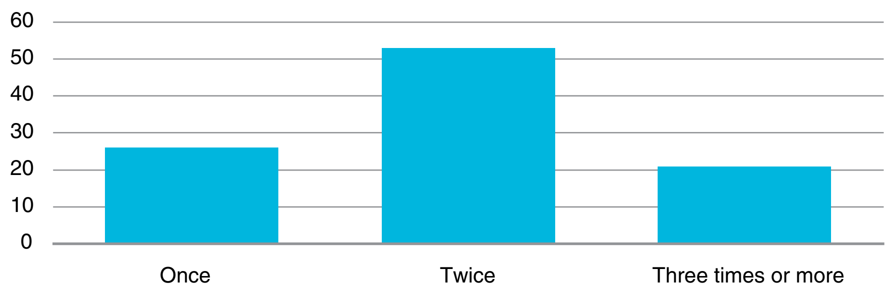
7 Simpson and Bazarkulova, *Payday Loans Consumer Profile*.

8 Les Études de Marché Créatec, *General Survey*.

9 Environics Research, *Understanding Consumers*, 5.

of payday loan use. In the United States, the Consumer Financial Protection Bureau estimates that 22 per cent of new payday loans are renewed six times or more.[10]

Chart 6
Frequency of Payday Loan Service Use Reported by Customers in the Past 12 months, 2014
(percentage)



Sources: The Conference Board of Canada; Statistics Canada, Canadian Financial Capability Survey (2014).

Demographic Characteristics of Payday Loan Customers

Employment Status

Canadian payday loan customers are strongly represented in the labour force, as suggested by the ALICE acronym. A 2005 national survey of 1,000 Canadian payday loan users and 1,000 members of the general population by Environics Research revealed that 78 per cent of payday loan customers are employed full or part time, or are self-employed.[11] (See Chart 7.) Of this group, 68 per cent are engaged in full-time

10 Consumer Financial Protection Bureau, *CFPB Finds Four Out of Five Payday Loans*.

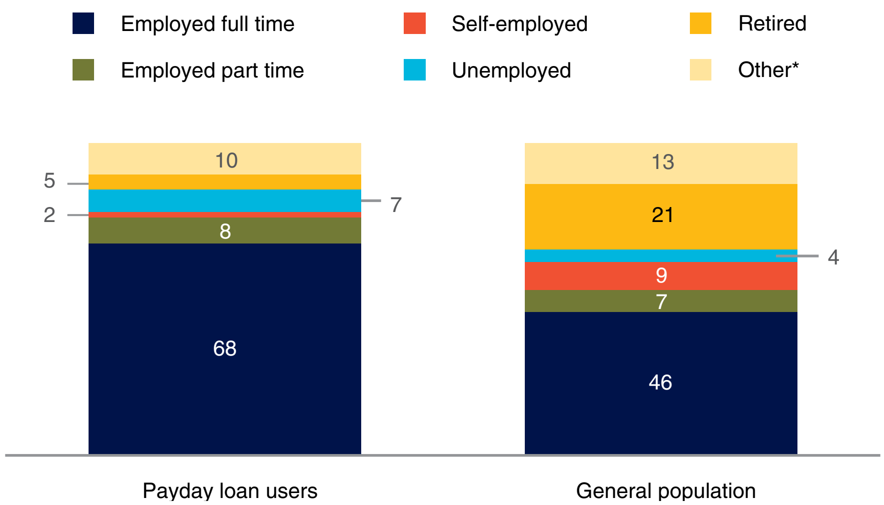
11 Environics Research, *Understanding Consumers*, 11.

employment. By comparison, 62 per cent of respondents in the general population are employed or self-employed, of which 46 per cent are engaged in full-time work.[12]

Chart 7

Employment Status of Payday Loan Users and the General Population, 2005

(percentage)



*Other includes homemakers and students.

Sources: The Conference Board of Canada; Environics Research.

Payday loan users are less affluent than the general Canadian population, and their high level of employment may arise from an economic necessity to work rather than an inborn higher propensity to work. The incidence of retirement among the general population is 21 per cent, compared to only 5 per cent of payday loan users.[13] Furthermore, payday loan customers are under-represented among homemakers and students.

12 Ibid.

13 Ibid.

The customer base from which payday loan clients are drawn spans the income spectrum.

Household Income

A study of the demographic and behavioural characteristics of payday loan customers conducted by Statistics Canada based on 2005 CFCS data found that, although a large share of them are actively employed, many of them face periodic income constraints. This drives demand for payday loan services in times of financial strain. Low-income families are twice as likely to have used payday loan services (4.6 per cent), compared to those in higher income brackets (2.3 per cent).[14,15] Statistics Canada defines low-income families as households with a threshold level of after-tax income that would require them to spend 20 percentage points more than the average family as a share of income on food, clothing, and shelter.[16]

Nevertheless, although there is strong representation of payday loan users among lower-income Canadians, the customer base from which payday loan clients are drawn spans the income spectrum, and is not far removed from the average Canadian. (See Chart 8.) The average household income for payday loan users is $41,376, compared to $56,400 among the general population.[17] This finding is confirmed by Statistics Canada, which found that the highest incidence of payday loan use is among households with incomes between $40,001 and $66,000.[18] The Statistics Canada study determined that lower household income is a significant predictor of payday loan borrowing in a simple logistic regression model. (Logistic regression models estimate the likelihood of a given outcome, such as payday loan use, based on a set of explanatory variables.) However, after controlling for liquid savings, income ceases to be a predictor of payday loan usage. "ARTI" clients, including small business owners and seasonal workers facing fluctuating liquidity, would be expected to be more heavily represented at higher income levels.

14 Pyper, "Payday Loans."

15 Ibid.

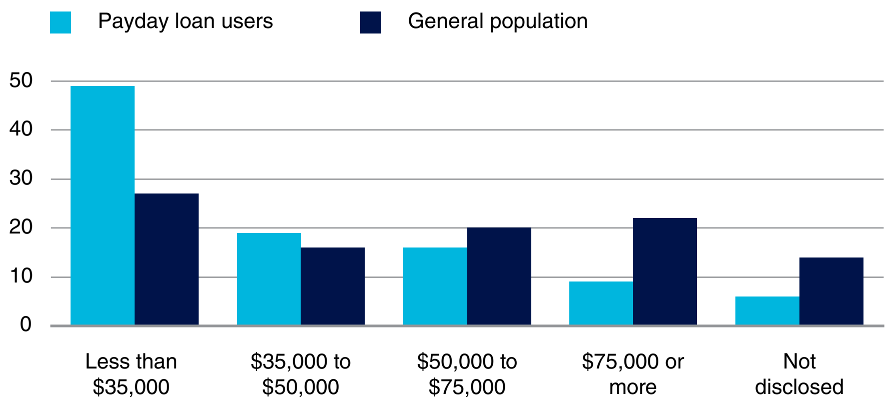
16 Statistics Canada, *Low Income Cut-Offs*.

17 Environics Research, *Understanding Consumers*, 11.

18 Pyper, "Payday Loans," 8.

Chart 8

Share of Payday Loan Users and General Population by Level of Household Income, 2005



Sources: The Conference Board of Canada; Environics Research.

Liquidity and Access to Other Financial Resources

The results of the 2005 Statistics Canada study suggest that liquidity constraints, rather than household income, chiefly drive the decision to seek a payday loan. Income, therefore, acts as a secondary contributor to demand for payday loans, with lower income levels being less supportive of a households' ability to accumulate and maintain liquid and illiquid assets. In the Statistics Canada model, illiquidity was highly predictive of payday loan usage. After controlling for other household characteristics, families with less than $500 of liquid assets (proxied as bank account holdings) were 2.6 times more likely to have used a payday loan than households with between $2,001 and $8,000 of liquid assets.[19]

Credit cards provide comparable liquidity and convenience as cash, and the ability to consistently pay off monthly balances is an indirect reflection of prospective borrowers' access to liquidity. In Statistics Canada's 2005 study, 57 per cent of payday loan customers reported having a credit card, compared with 83 per cent of respondents who

19 Ibid.

had not used payday loans.[20] Nearly three-quarters of credit card holders who had not previously used payday loan services reported paying off their monthly balances on time, versus 58 per cent of payday loan users.[21] Even after controlling for other household characteristics, households lacking access to a credit card are more likely to use payday loan services. Survey respondents who have voluntarily opted not to hold a credit card are 2.1 times more likely to use payday loans than credit card holders, with the likelihood of using payday loans increasing by a factor of 3.6 for individuals who have been refused a credit card.[22]

Home ownership rates, a good proxy for illiquid asset endowments, are significantly lower among payday loan customers. Of the families that use payday loans, 7 out of 10 were renters, compared to 37 per cent of the population of non-borrowers.[23] More broadly, half of payday loan customers fall in the lowest total net-worth quintile and 80 per cent are represented below the 40th percentile.[24]

The difference in illiquid asset holdings between payday users and non-users might be largely attributable to life cycle factors. As a group, payday loan customers are considerably younger than Canadians who have not used payday loan services: they are four times more likely to have a major income recipient between the ages of 15 and 24 than households without recourse to payday loans.[25] In addition, less than 1 per cent of households with a primary income earner aged 45 and over had borrowed a payday loan, compared with 10 per cent of families with major income recipients aged 15 to 24.[26]

20 Ibid., 10.

21 Ibid.

22 Ibid.

23 Ibid., 8–9.

24 Dijkema and McKendry, *Banking on the Margins*, 20.

25 Ibid., 5–6.

26 Ibid.

Payday loans can provide security in times of financial difficulty for households with limited support networks.

The availability of credit through informal lending networks of friends, family, and community organizations can provide a source of financial stability when individuals face significant unexpected expenses and have limited access to liquidity. Almost half of families having recourse to payday loans reported not having someone they could turn to for assistance in difficult times. By comparison, nearly three-quarters of the population who had not used payday loans acknowledged having such support.[27] This suggests that payday loans can provide security in times of financial difficulty for households with limited support networks.

Payday loan users in Canada are not drawn heavily from the unbanked since customers are required to have a bank account when applying for a payday loan. A 2013 Environics survey of Ontario payday loan customers commissioned by the Canadian Payday Loans Association indicated that 94 per cent of Ontario payday loan users hold a debit card, 92 per cent have a chequing account at a bank or credit union, and 58 per cent have a savings account.[28] Similarly, a 2005 Environics survey of 1,000 clients of the Canadian Association of Community Financial Service Providers (CACFS) found that 96 per cent of payday loan users reported having a debit card, while 94 per cent held a chequing account and 60 per cent had a savings account at a bank or credit union.[29] According to a survey conducted by Ipsos-Reid on behalf of the FCAC, only 7 per cent of users of cheque cashing outlets and payday loan companies reported doing so because they did not have an account—that is, they were unbanked.[30]

Highest Level of Education

As is the case with income, payday loan users span the educational spectrum, with a particular concentration among graduates of vocational/technical post-secondary studies. (See Chart 9.) At the national level,

27 Ibid., 10.

28 Environics Research, *Payday Loan Users Study: Ontario*, 8.

29 Ibid., 3.

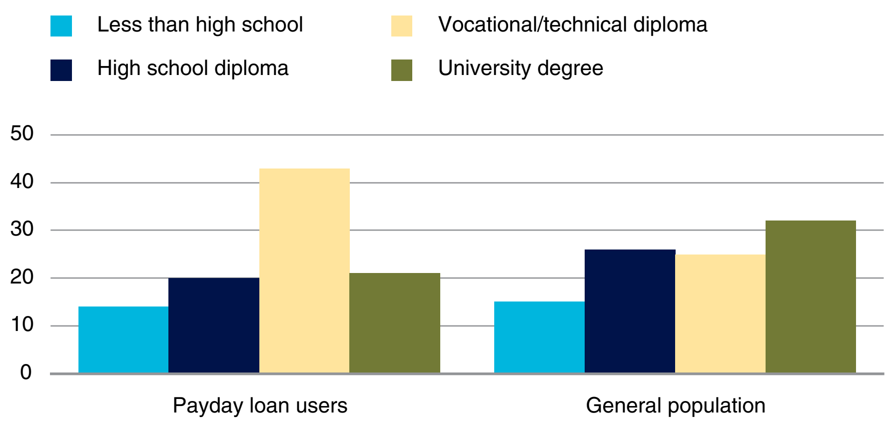
30 Ipsos-Reid, *Public Experience with Financial Services and Awareness of the FCAC*.

43 per cent of payday loan users hold a vocational/technical diploma, versus one-quarter of the general Canadian population.[31] A further 21 per cent of payday loan customers have a university or post-graduate degree.[32] Combined, nearly two-thirds of payday loan users held a vocational/technical diploma or university degree, compared to 58 per cent of Canadians broadly.

Chart 9

Highest Level of Education Attained by Payday Loan Users, 2005

(percentage)



Sources: The Conference Board of Canada; Environics Research.

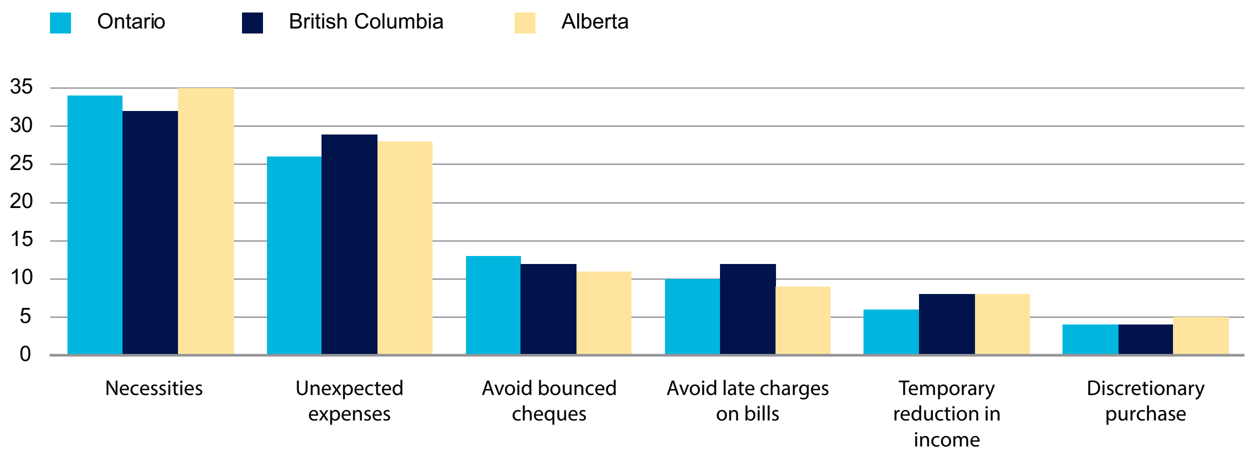
How Do Payday Loan Customers Use the Borrowed Funds?

In 2013, the Canadian Payday Loans Association commissioned Environics Research to conduct a series of studies on payday loan users in Ontario, British Columbia, and Alberta to assess customers' primary motivations for taking out a payday loan. (See Chart 10.) For two-thirds of payday loan users, the borrowed funds act as a financial stopgap to

31 Environics Research, *Understanding Consumers of Canada's Payday Loans Industry*, 12.

32 Ibid., 12.

Chart 10
Main Reason for Borrowing Payday Loans, First Survey Response, 2013
(percentage)



Sources: The Conference Board of Canada; Environics Research.

weather unexpected expenses and temporary shocks to income, and to avoid delinquency in other consumer and financial accounts.[33] On average, nearly 3 out of 10 payday loan users identified unexpected expenses, such as higher-than-expected medical bills or car repairs, as the driving factor behind borrowing a payday loan.[34] To a lesser degree, payday loans were used to maintain good financial standing with other institutions or creditors: 12 per cent wanted to avoid bounced cheques, and an additional 10 per cent wished to avoid late charges on bills.[35] There is some indication that payday loans serve as a way to smooth income for a minority of people who use payday loans, as 7 per cent cited a temporary reduction in income as the impetus for using payday loans.[36] It appears that discretionary purchases are rarely financed using payday loans, with only 4 per cent of payday loan customers taking out

33 Environics Research, *Payday Loan Users Study: Ontario; Payday Loan Users Study: British Columbia; Payday Loan Users Study: Alberta*.

34 Ibid.

35 Ibid.

36 Ibid.

a loan to support optional personal consumption.[37] A third of payday loan customers are financially vulnerable on a persistent basis and cited a need for "emergency cash" to cover the cost of necessities, such as food, housing, and clothing.[38]

37 Ibid.

38 Ibid.

CHAPTER 5

Potential Impacts of Inappropriate Regulations

Chapter Summary

- Payday loans can serve to enhance the welfare and productive capacity of informed consumers, enabling them to manage their finances in a way that optimizes their participation in the labour force and family health outcomes.
- Effective policy regulations must centre on targeting the behavioural characteristics of more payday loan customers, as opposed to demographic characteristics.
- The imposition of a strict payday loan fee cap in the U.S. state of Oregon was associated with a marked reduction in access to regulated credit following regulatory reform, with the likelihood of accessing legal payday loans falling by 86 per cent in the long term.
- Inappropriate restrictions in the attributes of payday loans—or the conditions permitted in providing them—can create a regulatory environment in which it becomes uneconomic for payday lenders to operate.
- Restrictive market regulation leaves a need for credit unmet among regulated sources for displaced consumers.

Regulated Payday Loans: Risks and Rewards to Consumer Welfare

Recent public discussions surrounding the optimal degree of regulation in the payday loans industry have generated interest in the question of whether, and to what extent, restricting access to high-interest, short-term loans helps households avoid over-borrowing. Among the policies considered are caps on maximum fees per $100 of loans, the introduction of cooling off periods between issue of payday loan, and the introduction of extended payment plans. Any discussion of the expected impacts of regulation in the Canadian payday loans market requires an analysis of the dynamics of an unregulated or less regulated policy framework.

A Snapshot of Preferences Over Time: Key Terminology

Economists assess individual- or firm-level decision-making on the basis of preferences, which can change over time.

- Borrowers who value current and future consumption equally have what are termed, **time consistent** preferences. Such borrowers are said to exhibit **neoclassical or exponential discounting** in their assessment of the value of current and future consumption.
- Borrowers who value current consumption more than future consumption are said to have **time inconsistent** preferences. These borrowers engage in **hyperbolic discounting** of future consumption, meaning they devalue future consumption at an increasingly high rate.

Expanding access to credit improves welfare for entrepreneurs and small businesses.

The economic literature on commercial credit is widely supportive of the view that expanding access to credit to facilitate investment in productive capital improves welfare for entrepreneurs and small businesses.[1] Under neoclassical (exponential) discounting, firms are expected to maintain consistent preferences over time in their decision-making and use of borrowed funds—that is, they do not over-value current resources relative to future ones. By contrast, opinion is divided for consumer markets.

One school of thought suggests the structure of payday loans causes borrowers to disregard the future burden of loan repayment, causing a cycle of over-borrowing. Proponents of this view express concern that the structure of short-term, high-interest loans capitalizes on inborn psychological and behavioural biases that fuel serial borrowing and dependency on credit.[2] In a 2007 working paper for the National Bureau of Economic Research in the U.S., David Laibson and his co-authors argue that time inconsistency can cause consumers to exhibit present-biased preferences and result in over-borrowing.[3] There is some empirical validation of this phenomenon for a segment of payday loan consumers. Other U.S. research determined that payday borrowing patterns reflect "naïve" hyperbolic discounting that over-weights current consumption.[4]

Other explanations for over-borrowing include biased expectations[5] and under-estimation of future borrowing costs resulting from exponential discounting (as distinct from preferences reflected by exponential discounting).[6] Proponents of this view argue that psychological and behavioural biases lead consumers to self-harm through over-use of

1 Morduch, "The Microfinance Promise" and "The Microfinance Schism"; Armendáriz and Morduch, *The Economics of Microfinance*; Cetorelli and Strahan, "Finance as a Barrier to Entry"; Guiso, Sapienza, and Zinglaes, "Does Local Financial Development Matter?"

2 Bertrand and Morse, "Information Disclosure," 1865.

3 Laibson, Repetto, and Tobacman, *Estimating Discount Functions*.

4 Skiba and Tobacman, *Payday Loans, Uncertainty, and Discounting*.

5 Ausubel, "The Failure of Competition in the Credit Market."

6 Stango and Zinman, "Exponential Growth Bias and Household Finance."

expensive liquidity, and advocate that policy-makers enact regulations that help consumers avoid over-borrowing. These studies highlight the possibility that greater financial literacy might reduce the use of payday lending. However, recent research suggests that borrowers are largely aware of how they will use the loan. A 2013 paper in the *Supreme Court Economic Review*[7] estimates that approximately 60 per cent of payday loan users accurately predict the period of loan repayment, which contradicts the view that serial borrowing is the result of borrower self-deception.

Although the concerns above are certainly legitimate for a subset of payday loans users, recent research supports an alternative view that suggests payday loans can serve to enhance the welfare and productive capacity of informed consumers, enabling them to manage their finances in a way that optimizes their participation in the labour force.[8] Contrary to the concern that payday loans psychologically entrap borrowers in serial debt, a 2010 study conducted in partnership with South African lenders determined that expanding access to consumer credit by making qualifying criteria less inappropriate—even at high interest rates—can be welfare improving for individual borrowers.[9] The authors found that extending loans to marginal borrowers led to increased employment and reduced poverty, suggesting that short-term, high-interest consumer credit can be used for productive investments and smoothing inter-temporal consumption. Borrowers exposed to treatment (access to consumer credit) increased the likelihood of employment by 11 percentage points over the untreated control group, and were 7 percentage points less likely to be below the poverty line.[10] These results are consistent with Paul Samuelson's theory of revealed preference, which argues that the purchasing habits of consumers

7 Mann, "Assessing the Optimism of Payday Loan Borrowers."

8 Morgan and Strain, *Payday Holiday;* Wilson and others, *An Experimental Analysis*; Morse, *Payday Lenders*.

9 Karlan and Zinman, "Expanding Credit Access."

10 Ibid.

Payday loans can be viewed as akin to microcredit financing.

reveal their preferences.[11] By the logic of revealed preference, consumers will only borrow payday loans if they receive a benefit, in expectation, of doing so.

Payday loans can also be viewed as akin to microcredit financing used to complement extended health insurance for low-income borrowers. A May 2016 study of the impact of extending formal microcredit to Chinese households between 2000 and 2004 found a causal relationship between access to microcredit and improved child health outcomes.[12] Microloans were found to assist in consumption smoothing around adverse health shocks, and in minimizing financial risk to households incurring out-of-pocket expenses for health care. Although a large proportion of health care costs in Canada are provided under the public health care umbrella, Canadian households may still incur productivity losses due to an inability to afford out-of-pocket expenses for medical and dental care in the absence of access to payday loans. Such households may also suffer directly from work time lost by primary income earners and indirectly in lost productive time resulting from the care of dependents. This hypothesis is supported by the findings of a 2016 paper in *World Development*, which found that access to microcredit improves the well-being of low-income households even after controlling for the presence of microinsurance.[13,14]

There is also current evidence suggesting that access to payday loans enables households to absorb the effects of systemic exogenous (external) shocks. In a 2010 paper, Associate Professor Adair Morse of the University of California Berkeley used natural disasters as an exogenous shock to assess whether access to high-interest credit such as payday loans—with interest in excess of 400 per cent APR—exerts

11 Samuelson, "Consumption Theory."

12 Jing, "Lending to Parents and Insuring Children."

13 Akotey and Adjasi, "Does Microcredit Increase Household Welfare in the Absence of Microinsurance?"

14 World microfinance interest rates fall below standard rates of interest on Canadian payday loans, ranging between 20 and 40 per cent APR globally. See Rosenberg and others, *Microcredit Interest Rates*.

a damaging or protective effect on measures of individual financial distress in the State of California. Morse determined that communities with payday lenders "experience an overall increase in foreclosures after disasters, but much less so compared to matched communities experiencing a disaster without access to a lender."[15] California foreclosures were found to increase by 4.5 units per 1,000 homes in the year subsequent to a natural disaster; however, access to payday loans reduced the foreclosure figure by 1.0 to 1.3 per 1,000 homes.[16]

More broadly, Professor Bart Wilson of Chapman University and others conducted a computer-based laboratory simulation to assess the role played by access to payday loans, and intensity of use, in individuals' ability to manage and survive financial setbacks. Participants in the study were undergraduate students recruited at a large state university in the United States. The authors found that financial survivorship rates (proxied by ability to continue to self-sustain financially in a simulation) were increased for the 78.1 per cent of participants with access to payday loans who elected to borrow up to 10 payday loans.[17] Consumer welfare losses relative to an environment without payday loans (proxied by financial survivorship) were only registered for those 21.9 per cent of borrowers with loan frequency in excess of 10 payday loans per simulated year.[18] These findings are an important guide concerning the distribution of payday loan users who are either helped or harmed by access to high-interest payday loans. They provide evidence that effective policy regulations must centre on targeting the behavioural characteristics of more payday loan customers, as opposed to demographic characteristics, which is discussed in Chapter 5.

15 Morse, *Payday Lenders*, 19.

16 Ibid., 1.

17 Wilson and others, *An Experimental Analysis*, 16.

18 Ibid., 16–17.

Evidence suggests payday lenders do not earn excess profits.

Oregon's Experience of Capping Payday Loan Fees: A Natural Experiment

An effective way to analyze the impact of a public policy change is to study the outcome of a natural experiment. In social sciences, natural experiments compare the outcomes of select variables for "treated" individuals in one jurisdiction exposed to a policy change with the experience of a "control" population in another region.[19] It is important for the public policy framework in treatment and control groups to be as similar as possible prior to introducing the natural experiment to ensure that the treatment effect is isolated from confounding explanatory variables.

In the United States, one such natural experiment occurred between the states of Oregon and Washington with respect to new legislation in the payday loans industry. Oregon introduced binding restrictions to payday lending effective July 1, 2007, capping the combined finance charges and fees that can be charged to consumers at a maximum interest rate of 150 per cent APR for payday loans. That is the equivalent of $10 of fees per $100 of loans, with a minimum loan term of 31 days.[20,21] Given evidence that suggests payday lenders do not earn excess profits,[22] it could have been surmised ex ante that the imposed cap was binding on the cost structure of payday lending operations, which would lead to reduced access to consumer credit. Prior to the cap, lenders typically charged at least $15 per $100 for two-week loans,[23] with market rates approaching 400 per cent APR. Washington State, by contrast, continued to permit loan fees of $15 per $100 loans for amounts up to $500, with no minimum loan term.[24]

19 Dunning, *Natural Experiments in the Social Sciences*.

20 OregonLaws.org, *725A.064: Prohibited Conduct for Payday Loan Lender*.

21 Zinman, *Restricting Consumer Credit Access*, 3.

22 Flannery and Samolyk, *Payday Lending;* Skiba and Tobacman*, Payday Loans, Uncertainty, and Discounting*.

23 Zinman, *Restricting Consumer Credit Access*, 3.

24 Ibid.

Economics Professor Jonathan Zinman of Darmouth College in New Hampshire assessed ex post difference-in-differences estimates of the effect of the Oregon policy change on access to credit and financial outcomes in the five months following the cap. He discovered that access to short-term credit fell precipitously among recent payday loan users in Oregon relative to Washington, with borrowers diverted into "incomplete and plausibly inferior"[25] substitutes for payday loans (such as bank overdrafts and late bill payments). As of December 31, 2006—six months prior to the Oregon payday loans cap—there were 346 licensed payday outlets in Oregon. The number of licensed payday loan providers dropped to 105 in February 2008 and to 82 outlets by September 2008, representing a 76 per cent contraction in the 14 months following the policy change.[26] These results are consistent with the impact on payday lending in Manitoba caused by the introduction of a considerably higher maximum fee of $17 per $100 loan (equivalent to an APR of 443 per cent with simple compounding) in October 2010. Between 2011 and 2012, the number of licensed payday loan outlets in Manitoba fell 48 per cent.[27]

The likelihood of accessing payday loans in Oregon in the five months following the cap fell by between 26 and 29 per cent, and by 86 per cent in the long term.[28] Access to other short-term loans (e.g., auto loans, credit cards) and other forms of short-term credit (e.g., bounced cheques, overdrafts, and insufficient fund charges) declined at considerably less than the rate of access to payday loans. These other forms of short-term credit absorbed only a fraction of the displaced demand for payday loans following the cap, suggesting they are imperfect substitutes for rationed payday credit. (See Table 2.)

Declines were also captured in subjective measures of financial well-being among Oregon respondents in the five months after the 2007 cap was introduced. Oregon residents anticipated they would

25 Ibid., 2.

26 Ibid., 3.

27 Canadian Consumer Finance Association, private member data.

28 Ibid., 7.

experience an adverse economic event, such as unemployment or a deterioration in personal finances, at a rate 14 to 15 per cent higher than Washington controls over the next six months.[29] Rates of unemployment and involuntary underemployment were also higher among Oregon respondents, though not at a level of statistical significance. Broad macroeconomic conditions at the time—not simply the change in payday loans caps—could account for the observed change in expected financial well-being and personal financial metrics.

Table 2

Estimated Effects of Oregon Payday Loan Fee Caps on Access to Short-Term Consumer Credit, 2007

(difference between Oregon and Washington; percentage change)

Form of credit	Five months following cap	Long term
Payday loans	–26 to –29	–86 to –87
Other short-term loans	–27 to –28	–47 to –48
Short-term credit: bounced cheques, overdrafts	–11	–30
Short-term credit: late bills	–7	–23 to –24

Sources: The Conference Board of Canada; Jonathan Zinman, *Restricting Consumer Credit Access.*

Market Failure and Lost Access to Affordable, Legal Credit as Outcomes of Inappropriate Regulation

As demonstrated in the case of Oregon, where long-term access to payday loans declined by 86 per cent following fee caps, inappropriate restrictions in the attributes of payday loans—or the conditions permitted in providing them—can create a regulatory environment in which it becomes uneconomic for payday lenders to operate. Without a cautious assessment of the cost structure of regional payday lending operations by policy-makers, tight restrictions around payday lending could

29 Ibid., 8.

precipitate partial or total market failure where demand continues to exist. This is a particularly important consideration from a social justice perspective, as the demand for sub-prime credit—which is already rationed on the basis of creditworthiness or stable employment—is considerably more inelastic (not easily affected) than its supply.[30] Professors David Cayne and Michael Trebilcock at the Faculties of Law at McGill University and the University of Toronto caution: "very serious exclusionary consequences for borrowers would result from collective withdrawal of lenders from a regulated marketplace in which they find it uneconomic to operate."[31] This is troubling given the documented welfare-enhancing effects of access to payday loans for a large segment of the payday loans market, as noted earlier.

Zinman revealed a low degree of substitutability between payday loans and alternate sources of short-term credit,[32] suggesting that restrictive market regulation leaves a need for credit unmet among regulated sources for displaced consumers. Canadian legal scholars caution that displaced payday loan customers who lack alternate sources of credit could resort to substituting a regulated form of credit with illegal or unregulated credit channels: "Given the inelasticity that typifies low-income consumers' demand for credit, loan sharks and other criminal lenders are likely to take advantage of "rate ceilings [that] eliminate the efficient lender."[33] A policy paper by the Consumer Measures Committee, a forum for Canadian federal-provincial-territorial government officials involved in optimizing the consumer marketplace, corroborates this view: "Full enforcement of existing law could have the potential consequence of shutting down the ACCM [alternate consumer credit market], leading consumers to less desirable credit options associated with loansharking and organized crime."[34]

30 Cayne and Trebilcock, "Market Considerations," 414.

31 Ibid.

32 Zinman, *Restricting Consumer Credit Access*.

33 Talai, *A Behavioural Economic Analysis, 15;* Cayne and Trebilcock, *"Market Considerations*."

34 Consumer Measures Committee, *Consultation Paper on the Framework Options*, 3.

There is a significant risk that the cost of alternate sources of credit could exceed the cost of accessing payday loans.

In his seminal work, *The Poor in the Market Place*, Milton Huber describes a cycle of dependency on illegal credit among low-income households fostered by fraudulent creditor practices. Since low-income borrowers face barriers to the conventional financial services market based on their elevated credit risk, Huber argues, the absence of conventional, regulated lending options can leave these borrowers subject to unscrupulous lenders on a serial basis. One procedure, Huber notes, involves creditors issuing falsified negative credit reports for borrowers who are compliant with lending agreements to perpetuate the illegal lending relationship and limit consumers' future access to legal credit instruments.[35]

Recent data support the view that displaced payday loan customers have few alternate options. In Zinman's study, 70 per cent of Oregon payday loan users were unable to cite a preferred alternate source of credit. An additional 5 per cent revealed they would use payday loan services in another state, and only 15 per cent identified other regulated short-term credit as the preferred alternative to payday loans.[36] Data from Statistics Canada's Canadian Financial Capability Survey reveal that payday loan borrowers face similar limitations in accessing liquidity, and are considerably less likely than the general population to have access to informal networks of financial support.[37]

Even in markets where consumers have recourse to legal lenders, there is a significant risk that the cost of alternate sources of credit could exceed the cost of accessing payday loans. The May 2005 issue of *Consumer Reports* compared the implicit APR on alternate sources of short-term credit, including bounced checks and various forms of overdraft protection. The report estimated an APR for overdraft protection ranging from 608 to 791 per cent, and a comparable figure of 487 to 730 per cent for bounced cheques.[38] The upper limits for these

35 Huber, "The Poor Man in the Market Place," 167–168.

36 Zinman, *Restricting Consumer Credit Access*, 4.

37 Pyper, "Payday Loans."

38 Consumer Reports, "False Security," 45.

ranges correspond to fees of $30 per $100 loan at a 14-day term using simple interest calculations—a level well in excess of even the highest payday loan fees currently legislated in Canada.[39]

39 All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada.

CHAPTER 6

Policy Recommendations

Chapter Summary

- The policies required to address the needs of two distinct categories of payday loan clients will necessarily diverge.
- Broad market initiatives that may superficially appear to be welfare-enhancing for one or both consumer segments may well have deleterious effects for at least part of the market.
- Welfare losses resulting from inadequate access to safe credit will be felt disproportionately by customers in the more vulnerable ALICE segment, for whom the cost of financial instability is highest.
- A twofold approach is recommended. Widespread consumer education is required to support enhanced financial literacy among consumers of household credit as well as effective financial decision-making. Aggressive regulation of unlicensed (illegal) lending is imperative to ensure consumers do not fall prey to unscrupulous lending practices.

In formulating effective public policy to protect consumers, it is critical to have a good understanding of how regulatory reform will differentially affect various segments of the population. Canada's payday loans industry has no prototypical consumer; instead, it comprises two distinct categories of clients with widely divergent needs.

The first, ALICE, is a relatively financially vulnerable customer who relies on payday lending to cover the cost of both periodic, unexpected expenses and ongoing necessities, and whose lack of an established asset base severely restricts access to alternate consumer credit through conventional financial channels. The second, ARTI, is a more economically stable client who uses payday loans as interim financing—often as productive capital—to cover unexpected expenses. Both ALICE and ARTI are drawn to payday loans due to infrequent, adverse spending shocks, but ALICE clients have the additional challenge of being among the working poor. This latter ALICE characteristic would be best addressed outside the context of the payday loans industry, through community support and social service programs, to support labour market skills development, financial literacy, and access to affordable living.

The policies required to address the needs of two such different clients will necessarily diverge. As such, paternalistic or broad market initiatives that may superficially appear to be welfare-enhancing for one or both consumer segments may well have deleterious effects for at least part of the market. For example, research from the United States has taught us that the implementation of inappropriate fee ceilings constrains access to short-term consumer credit for all types of customers. Furthermore, such policies have the undesirable effect of crowding customers out of relatively safe and regulated markets, and displacing them into imperfect substitutes for payday loans (notably, illegal online lenders or more expensive regulated forms of short-term credit). The welfare

Formal education does not necessarily equate with financial literacy.

losses resulting from inadequate access to safe credit will be felt disproportionately by the more vulnerable consumer segment, for whom the cost of financial instability is highest.

The Canadian provinces have widely enacted a framework of industry best practices that minimizes harm to payday loan customers, to which licensed payday loan providers are adherent. However, given the proliferation of unlicensed online lenders, more can be done to ensure that Canadians who use payday loans receive the protection they need to securely and confidently manage their own finances. As such, we recommend a policy approach that relies heavily on consumer empowerment through financial literacy education and aggressive targeting of illegal online payday lending.

Consumer Education

As discussed in Chapter 4, Canadian payday loan customers are well-educated, with nearly two-thirds holding a technical/vocational or university credential. However, it appears that formal education does not necessarily equate with financial literacy. A 2005 survey conducted by the FCAC indicated that only 48 per cent of recent payday loan users were able to correctly identify interest charges on payday loans as being higher than those incurred with credit cards.[1] Surprisingly, despite this apparent lack of financial literacy among even well-educated Canadians, there has been a limited attempt by provincial or federal regulators to provide customers with the tools they need to make informed financial decisions. At the provincial level, Manitoba and Ontario's legislation includes provisions for payday lenders to support customer education funds. In Manitoba, each outlet is charged an annual levy of $500 per year to defray the cost of consumer education. In Ontario, an education fund exists, but no levy is prescribed. Arguably, both provincial and federal jurisdictions have a responsibility for effective consumer education in the area of financial literacy concerning payday loans. While payday lenders are regulated at the provincial level, the federal

1 Ipsos-Reid, *Public Experience*, 18.

government amended the Criminal Code in 2007 to include section 347.1, which exempts payday lenders from the criminal rate of interest if the province has a regulatory regime for payday lenders in place.

At relatively little cost, effective tools could be designed by appropriate regulatory bodies to counteract common psychological biases, such as present-biased discounting. Provincial government websites could provide simple online calculators that link the interest costs associated with a given payday loan to tangible current or future streams of expenditures or income to elicit time consistent discounting by borrowers. For example, such tools could calculate household budgets for payday borrowers and reference interest costs to individual borrowers' concrete benchmarks (e.g., share of rent paid, share of food bill). The FCAC maintains a similar online mortgage calculator tool on its website to help consumers ensure that the home ownership strategies they are considering are affordable.

A second approach to enhancing financial literacy of consumers is the provision of explicit training programs by the federal and provincial governments. In Ontario, for example, completion of mandatory online training is required in several areas: workplace health and safety training programs are a requirement of employment, and boat safety training is compulsory to legally operate motorized watercraft. Participation in such training requires a minimal time commitment, which could be made a precondition of payday loan approval for first-time borrowers and high-loan-volume customers (for example, those who borrow 10 or more payday loans per year) at little cost to the lender. Such educational programs could provide APR rates benchmarked against other credit instruments and headline rates in other jurisdictions.

One challenge with this approach is the time sensitivity of payday loan borrowing, since payday loan users might not have adequate lead time to plan for training before taking a loan. A second concern centres on the perceived invasiveness of having payday loan clients self-identify to government—a step not required for consumers of other financial products, such as credit card applicants. To address these challenges, an alternative training system could be incorporated into compulsory

It is the role of regulators to level the playing field so that an unfair advantage for illegal lenders ceases to exist.

high school civics classes—to satisfy high school graduation requirements—that would provide financial literacy training on a broad array of common financial products. This revised approach would pre-empt the borrowing decision and alleviate time pressures and privacy concerns of prospective payday loan customers.

Aggressive Regulation of Illegal Lending

Experience in the United States has revealed the difficulty associated with curtailing the supply of illegal payday lending, particularly in the online channel. U.S. regulators have had limited success with even strong legal intervention against illegal online lenders, including cease-and-desist actions, court action, null-and-void provisions, and denial of payment and banking services to unregulated payday lenders.[2] Perhaps a better and less costly course of action is to create a secure, consolidated database of registered lenders—particularly unlicensed online lenders—through provincial government resources. Analogous frameworks exist in the regulation of financial markets at the federal and provincial levels. For example, the FCAC currently maintains a database of federally regulated banks, trust and loan companies, and other financial services providers. Similarly, provincial governments have enacted a parallel listing of licensed insurers and credit unions within their respective jurisdictions. When partnered with the consumer education strategies detailed above, making such an initiative publicly available would help consumers distinguish reputable from disreputable lenders with certainty, and increase the cost of customer acquisition for unlicensed online payday loan providers.[3] Illegal lenders thrive on information asymmetry; it is the role of regulators to level the playing field so that such an unfair advantage ceases to exist.

2 Policis, *The Future of Illegal Lending*, 26.

3 Consumers Council of Canada, *Consumer Experiences*, 6–7.

Conclusion

Despite its unfavourable reputation in the press, the payday loans industry provides a necessary service for cash-strapped Canadians who lack access to alternate sources of credit in times of need, and it generates a substantial economic footprint for the national economy in the process.

In 2014, the licensed Canadian payday loans industry provided nearly 4.5 million short-term loans, with a total loan value of $2.2 billion. This activity generated 6,930 full-time equivalent jobs, with an accompanying total salary bill of $273.3 million. Extrapolating the Canadian payday lenders' economic footprint since 2014, the licensed payday lending industry in Canada is projected to issue nearly 6 million loans to households in 2016 at a value of $3.0 billion.[4] Data from the Bank of Canada indicate that credit issued by the licensed payday loans industry represents 4.2 per cent of the $70 billion of total outstanding household consumer credit[5] (excluding residential mortgages) issued by non-bank institutions in 2016.[6,7]

Provincial legislation governing the licensed payday loans industry in Canada provides some safeguards against the exploitation of households. Data from Statistics Canada's 2014 Canadian Financial Capability Survey indicate that households that use payday loans only do so infrequently; 80 per cent of payday loan customers borrow a

4 Ibid.

5 Consumer credit includes, but is not limited to, credit card loans, personal lines of credit, auto loans, and other personal loans.

6 Bank of Canada, *Household Credit*.

7 All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada. Note that, as per the Bank of Canada's definitions, non-banks include trust and mortgage loan companies, credit unions and caisses populaires, life insurance companies, non-depository credit intermediaries, and other institutions such as automobile leasing and sales financing companies.

Consumer education would be a critical step toward protecting the financial welfare of Canadian payday loan borrowers.

maximum of twice annually. [8] However, research from the United States reveals that access to, and use of, licensed payday loans is supportive of financial survival for borrowers who use less than 10 loans per year. [9]

Analysis of natural experiments in the United States concerning the imposition of inappropriate regulations in the payday loans industry reveals that aggressive attempts to cap loan fees for licensed payday loan providers result in significant impairment of access to consumer credit for payday loan users, with resultant welfare losses to households. Furthermore, other conventional sources of consumer credit are imperfect substitutes for payday loans.[10] As a result, displacement of consumers from legal payday lending channels can result in spillover into unregulated lending and higher costs of debt from alternate credit.

Careful analysis of the cost structure of licensed payday lending in Canada reveals that current legislated maximum fees in some provinces with low interest ceilings may not adequately cover the cost of providing payday loans. Imposing inappropriate regulatory requirements on an industry that is already significantly regulated might only serve to reduce access to credit for a financially vulnerable segment of the population. Instead, a public policy approach favouring consumer education is advised. Specifically, consumer education around financial literacy and distinguishing licensed online payday loan lenders from illegal lenders would be a critical step toward protecting the financial welfare of Canadian payday loan borrowers.

Tell us how we're doing—rate this publication.
www.conferenceboard.ca/e-Library/abstract.aspx?did=8369

8 This analysis is based on Statistics Canada's *Canadian Financial Capability Survey* of 2014. All computations, use, and interpretation of these data are entirely that of The Conference Board of Canada.

9 Wilson and others, *An Experimental Analysis*, 16.

10 Zinman, *Restricting Consumer Credit Access*.

APPENDIX A
Bibliography

Akotey, Joseph Oscar, and Charles K. D. Adjasi. “Does Microcredit Increase Household Welfare in the Absence of Microinsurance?” *World Development* 77, (January 2016): 380–394.

Armendáriz, Beatriz, and Jonathan Morduch. *The Economics of Microfinance*. Cambridge, Massachusetts: MIT Press, 2005.

Ausubel, Lawrence M. “The Failure of Competition in the Credit Market.” *American Economic Review* 81, no. 1 (March 1991): 50–81.

Bank of Canada. *Household Credit*. http://credit.bankofcanada.ca/householdcredit#cc (accessed August 17, 2016).

Bertrand, Mariane, and Adair Morse. “Information Disclosure, Cognitive Biases and Payday Borrowing.” *Journal of Finance* 66, no. 6 (December 2011).

Board of Governors of the Federal Reserve System. *Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks*. file:///P:/Payday%20Lenders/2.%20Literature%20review%20research/3.%20Government%20policies/FRB_%20Charge-Off%20and%20Delinquency%20Rates%20on%20Loans%20and%20Leases%20at%20Commercial%20Banks.html (accessed August 17, 2016).

Canadian Bankers Association. Credit Card Delinquency and Loss Statistics. www.cba.ca/credit-card-delinquency-and-loss-statistics (accessed August 22, 2016).

Canadian Consumer Finance Association, private member data, 2009–2016.

Caskey, John P. *The Economics of Payday Lending*. Swarthmore, Pennsylvania: Swarthmore College, April 2002.

Cayne, David, and Michael J. Trebilcock. "Market Considerations in the Formulation of Consumer Protection Policy." *University of Toronto Law Journal* 23, no. 4 (Autumn 1973): 396–416.

Cetorelli, Nicola, and Philip Strahan. "Finance as a Barrier to Entry: Bank Competition and Industry Structure in Local U.S. Markets." *Journal of Finance* 61, no. 1 (February 2006): 437–461.

Consumer Financial Protection Bureau. *CFPB Finds Four Out of Five Payday Loans Are Rolled Over or Renewed*. www.consumerfinance.gov/about-us/newsroom/cfpb-finds-four-out-of-five-payday-loans-are-rolled-over-or-renewed/ (accessed October 19, 2016).

Consumer Measures Committee (ACCM Working Group). *Consultation Paper on the Framework Options for Addressing Concerns with the Alternative Consumer Credit Market*. Ottawa: Consumer Measures Committee, 2002. http://cmcweb.ca/eic/site/cmc-cmc.nsf/vwapj/CMC_credit_e.rtf/$FILE/CMC_credit_e.rtf (accessed August 3, 2016).

Consumer Reports. "False Security: Check-Bounce Protection." *Consumer Reports* 70, no. 5 (May 2005): 45.

Consumers Council of Canada. *Consumer Experiences in Online Payday Loans*. Toronto: Consumers Council of Canada, 2015.

Damodaran, Aswath. *Margins by Sector* (US). New York University. http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html (accessed August 17, 2016).

—. *Cost of Capital by Sector* (US). New York University. http://people.stern.nyu.edu/adamodar/New_Home_Page/datafile/wacc.htm (accessed August 17, 2016).

Deloitte. *Summary of the 2016 Survey on the Cost of Providing Payday Loans in Ontario*. Deloitte, July 28, 2016.

Dijkema, Brian, and Rhys McKendry. *Banking on the Margins: Finding Ways to Build an Enabling Small-Dollar Credit Market*. Hamilton, Ontario: Cardus, February 2016. www.cardus.ca/research/workandeconomics/publications/ (accessed July 27, 2016).

Dobbie, Will, and Paige Marta Skiba. "Information Asymmetries in Consumer Credit Markets: Evidence from Payday Lending." *American Economic Journal: Applied Economics* 5, no. 4 (October 2013): 256–282. https://scholar.princeton.edu/sites/default/files/Dobbie_Skiba_PDL_0.pdf (accessed August 17, 2016).

Dungan, Ellen, Randy Coutts, and Rhiannon MacDonnell. *Fair Financing: Expanding Small-Dollar Short-Term Credit for Albertans*. Calgary: EMD Consulting Ltd., March 2016.

Dunning, Thad. *Natural Experiments in the Social Sciences: A Design-Based Approach*. Cambridge, Massachusetts: Cambridge University Press, October 2012.

Environics Research. *Payday Loan Users Study: Ontario*. Hamilton: Canadian Payday Loan Association, April 15, 2013.

—. *Understanding Consumers of Canada's Payday Loans Industry*. http://www.cpla-acps.ca/english/reports/PaydayLoansReportPresentationJune9.ppt (accessed November 11, 2016).

—. *Payday Loan Users Study: Alberta*. Hamilton: Canadian Payday Loan Association, April 15, 2013.

—. *Payday Loan Users Study: British Columbia*. Hamilton: Canadian Payday Loan Association, April 15, 2013.

—. *Payday Loan Users Study: Manitoba*. Hamilton: Canadian Payday Loan Association, May 2013.

—. *Payday Loan Users Study: Ontario*. Hamilton: Canadian Payday Loan Association, April 15, 2013.

—. *Understanding Consumers of Canada's Payday Loans Industry*. Toronto, June 9, 2005. www.cpla-acps.ca/english/mediastudies.php (accessed June 03, 2016).

Ernst and Young. *The Cost of Providing Payday Loans in a US Multiline Operating Environment*. Financial Service Centers of America, September 2009.

—. *The Cost of Providing Payday Loans in Canada*. Canadian Association of Community Financial Service Providers, October 2004.

Federal Reserve Bank of New York. *Reframing the Debate About Payday Lending*. http://libertystreeteconomics.newyorkfed.org/2015/10/reframing-the-debate-about-payday-lending.html#.V1RoVrXrudI (accessed June 3, 2016).

Financial Conduct Authority. *Consultation Paper CP14/10***: Proposals for a Price Cap on High-Cost Short-Term Credit*. London, United Kingdom: Financial Conduct Authority, July 2014. www.fca.org.uk/publication/consultation/cp14-10.pdf (accessed November 10, 2016).

Flannery, Mark, and Katherine Samolyk. *Payday Lending: Do the Costs Justify the Price?* Working Paper, Federal Deposit Insurance Corporation (FDIC), Centre for Financial Research, June 2005.

Google Finance. *Canadian Imperial Bank of Commerce*. www.google.ca/finance?cid=675087 (accessed October 19, 2016).

Grant Thornton, *Confidential Canada-Wide Member Survey*, 2014. Vancouver: Grant Thornton, October 2015.

Guiso, Luigi, Paola Sapienza, and Luigi Zingales. "Does Local Financial Development Matter?" Cambridge, Massachusetts: *The Quarterly Journal of Economics* 114, 2004.

Hobday, Liz. *Payday Lenders Taken to Court over Interest Rates 'of Up to 160pc*.' July 4, 2014. www.abc.net.au/news/2014-07-02/payday-lenders-taken-to-court-over-interest-rate-charges/5567400 (accessed August 17, 2016).

Huber, Milton J. "The Poor Man in the Market Place," *Power, Poverty, and Urban Policy* 151, no. 2 (1968): 167–168.

Huckstep, Aaron. "Payday Lending: Do Outrageous Prices Necessarily Mean Outrageous Profits." *Fordham Journal of Corporate and Financial Law* 12, no. 1 (2007): Article 4.

Ipsos-Reid. *Public Experience with Financial Services and Awareness of the FCAC*. Ottawa: Financial Consumer Agency of Canada, March 24, 2005.

Jing, You. "Lending to Parents and Insuring Children: Is There a Role for Microcredit in Complementing Health Insurance in Rural China?" *Health Economics* 25, no. 5 (May 2016): 543–558.

Karlan, Dean, and Jonathan Zinman. "Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts." *Review of Financial Studies* 23, no. 1 (January 2010): 433–464.

KPMG. *Corporate Tax Rates Table*. https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html (accessed August 17, 2016).

Laibson, David, Andrea Repetto, and Jeremy Tobacman. *Estimating Discount Functions With Consumption Choices Over the Lifecycle*. Working Paper 11314, Cambridge, Massachusetts: National Bureau of Economic Research, 2007.

Les Études de Marché Créatec. *General Survey on Consumers' Financial Awareness Attitudes and Behaviour*. Montréal: Prepared on behalf of the Financial Consumer Agency of Canada, December 15, 2006.

Lewis Priestly, Jennifer. *Payday Loan Rollovers and Consumer Welfare*. Kennesaw, Georgia: Kennesaw State University, December 5, 2014.

Lott, Alison, and Michael Grant. *Fringe Lending and Alternative Banking: The Consumer Experience*. Ottawa: Public Interest Advocacy Centre, 2002. www.ic.gc.ca/app/oca/crd/dcmnt.do?id=1643&lang=eng (accessed July 27, 2016).

Mann, Ronald. "Assessing the Optimism of Payday Loan Borrowers." *Supreme Court Economic Review* 21, no. 1 (January 2013): 105.

Melzer, Brian T. "The Real Costs of Credit Access: Evidence From the Payday Loans Market." *Quarterly Journal of Economics* 126, no. 1 (2011): 517–555.

Morduch, Jonathan. "The Microfinance Promise." *Journal of Economic Literature* 37, no. 4 (December 1999): 1569–1614.

—. "The Microfinance Schism." *World Development* 28, no. 4 (April 2000): 617–629.

Morgan, Donald P. *Defining and Detecting Predatory Lending*. New York: Federal Reserve Bank of New York, January 2007.

Morgan, Donald P., and Michael R. Strain. P*ayday Holiday: How Households Fare After Payday Credit Bans*. New York: Federal Reserve Bank of New York, February 2008.

Morse, Adair. *Payday Lenders: Heroes or Villains?* Working Paper, Chicago: University of Chicago, 2010. http://faculty.haas.berkeley.edu/morse/research/papers/morsepayday_jfe2.pdf (accessed August 16, 2016).

Office of the Superintendent of Bankruptcy Canada. *Annual Consumer Insolvency Rates by Province and Economic Region*. www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br01820.html (accessed August 22, 2016).

Openparliament.ca. *Bill C-26 (Historical)*. https://openparliament.ca/bills/39-1/C-26/?page=2 (accessed August 17, 2016).

OregonLaws.org. *725A.064: Prohibited Conduct for Payday Loan Lender*. www.oregonlaws.org/ors/725A.064 (accessed August 16, 2016).

Policis. *The Future of Illegal Lending*. https://policis.com/images/iml2014_2/5/illegal_lending_presentation_171214.pdf (accessed August 17, 2016).

—. *The Outcomes for Consumers of Differing Approaches to the Regulation of Small Dollar Lending*. April 12, 2016. www.pub.gov.mb.ca/payday_loan_review2016/pub_13_policis_submission_to_mub_120416_final_v2.pdf (accessed October 19, 2016).

Porter, Michael E. “The Five Competitive Forces that Shape Strategy.” *Harvard Business Review* 86, no. 1 (January 2008): 78–93.

Pyper, Wendy. “Payday Loans.” *Perspectives*, Statistics Canada Catalogue no. 75-001-XIE (April 2007).

Rosenberg, Richard, Scott Gaul, William Ford, and Olga Tomilova. *Microcredit Interest Rates and Their Determinants: 2004–2011*. Washington: Consultative Group to Assist the Poor (CGAP). www.samaif.com/pub-doc/samaif-doc1.pdf (accessed October 19, 2016).

Samuelson, Paul. “Consumption Theory in Terms of Revealed Preference.” *Economica* 15, no. 60 (1948): 243–253.

Simpson, Wayne, and Dana Bazarkulova. *Payday Loans Consumer Profile Based on the 2009 Canada Financial Capabilities Survey*. Winnipeg: University of Manitoba, n.d..

Skiba, Paige Marta, and Jeremy Tobacman. *Payday Loans, Uncertainty, and Discounting: Explaining Patterns of Borrowing, Repayment, and Default*. Working Paper, Nashville, Tennessee: Vanderbilt University, 2008.

Stango, Victor, and Jonathan Zinman. “Exponential Growth Bias and Household Finance.” *Journal of Finance* 64, no. 6 (2009): 2807–2849.

Statistics Canada. *Business Register 2013, NAICS 522390*. *North American Industry Classification System (NAICS) Canada 2012*. Ottawa: Statistics Canada, 2013.

—. *Canadian Financial Capability Survey (CFCS)*, Ottawa: Statistics Canada, 2014.

—. *Input-Output Multipliers*, *2010*. Ottawa: Statistics Canada, Industry Accounts Division, 2010.

—. *Low Income Cut-Offs*. www.statcan.gc.ca/pub/75f0002m/2012002/lico-sfr-eng.htm (accessed August 10, 2016).

—. *North American Industry Classification System (NAICS) Canada 2012*. www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=118464&CVD=118468&CPV=52239&CST=01012012&CLV=4&MLV=5 (accessed November 10, 2016).

Talai, Aiden. *A Behavioural Economic Analysis of Payday Lending Regulation in Canada*. Toronto: University of Toronto Faculty of Law, 2014.

Tal, Benjamin. *Higher Levels of Profit Margins Are Here to Stay*. Toronto: Canadian Imperial Bank of Commerce (CIBC), March 31, 2015. http://research.cibcwm.com/economic_public/download/if_2015-0331.pdf (accessed August 22, 2016).

The Economist. "Peer to Peer Lending: Banking without Banks." www.economist.com/news/finance-and-economics/21597932-offering-both-borrowers-and-lenders-better-deal-websites-put-two (accessed July 26, 2016).

The Pew Charitable Trusts. *Fraud and Abuse Online: Harmful Practices in Internet Payday Lending*. www.pewtrusts.org/en/research-and-analysis/reports/2014/10/fraud-and-abuse-online-harmful-practices-in-internet-payday-lending (accessed August 16, 2016).

—. *State Payday Loan Regulation and Usage Rates*. www.pewtrusts.org/en/multimedia/data-visualizations/2014/state-payday-loan-regulation-and-usage-rates (accessed August 16, 2016).

Thinkwell Research. *Payday Loan Customers Study*. Hamilton: Canadian Payday Loan Association, December 2014.

United States Securities and Exchange Commission. *DFC Global Corp., Form 10-K, 2013*. www.sec.gov/Archives/edgar/data/1271625/000119312513352311/d590562d10k.htm (accessed August 8, 2016).

United Way. *ALICE®: Asset Limited, Income Constrained, Employed*." www.unitedwayalice.org/ (accessed August 8, 2016).

Wilson, Bart J., David W. Findlay, James W. Meehan Jr., Charissa P. Wellford, and Karl Schurter. *An Experimental Analysis of the Demand for Payday Loans*. Working Paper, Orange, California: Chapman University, The Dale E. Fowler School of Law, 2010. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1083796 (accessed August 16, 2016).

Zibel, Alan. "CFPB Sets Sights on Payday Loans." *Wall Street Journal*, January 4, 2015. www.wsj.com/articles/cfpb-sets-sights-on-payday-loans-1420410479 (accessed August 16, 2016).

Zinman, Jonathan. *Restricting Consumer Credit Access: Household Survey Evidence on Effects Around the Oregon Rate Cap*. Working Paper, Hanover, New Hampshire: Dartmouth College, March 2009.

About The Conference Board of Canada

We are:

- The foremost independent, not-for-profit, applied research organization in Canada.
- Objective and non-partisan. We do not lobby for specific interests.
- Funded exclusively through the fees we charge for services to the private and public sectors.
- Experts in running conferences but also at conducting, publishing, and disseminating research; helping people network; developing individual leadership skills; and building organizational capacity.
- Specialists in economic trends, as well as organizational performance and public policy issues.
- Not a government department or agency, although we are often hired to provide services for all levels of government.
- Independent from, but affiliated with, The Conference Board, Inc. of New York, which serves nearly 2,000 companies in 60 nations and has offices in Brussels and Hong Kong.

Insights. Understanding. Impact.

The Conference Board of Canada

255 Smyth Road, Ottawa ON
K1H 8M7 Canada
Tel. 613-526-3280
Fax 613-526-4857
Inquiries 1-866-711-2262
conferenceboard.ca

PUBLICATION 8369
PRICE: Complimentary