

Predatory Lending:

A Survey of High Interest Alternative
Financial Service Users

Joe Fantauzzi





CCPA

CANADIAN CENTRE
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Predatory Lending:

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Executive Summary

This paper analyzes findings from a survey by ACORN Canada of a sampling of its membership to understand why they turn to alternative financial services such as high interest payday loans.

The survey finds that the majority of the 268 respondents turn to high interest financial services such as payday loans as a last resort because they are denied adequate credit services from traditional banks.

According to the respondents, payday loans and cheque cashing services are the most in-demand alternative financial services:

- A little more than half (52.3 per cent) say they have used an alternative financial service to obtain a payday loan;
- Half (50 per cent) of those who used an alternative financial service told ACORN they did so to cash a cheque;
- 20.3 per cent made a rent-to-own purchase;
- 19.5 per cent used it for other purposes;
- 12.5 per cent took out a car title loan;
- and 11.7 per cent took out an installment loan.

Just under half (45.3 per cent) of respondents said they visited a high interest financial service provider because they had no overdraft protection available on their bank accounts.

Access to credit is also a major problem for ACORN's members: 45.3 per cent of respondents reported they did not have a credit card; 43 per cent said

they do not have a line of credit; 19.5 per cent have a credit card but it was maxed out; 17.2 per cent don't have a prepaid credit card; 12.5 per cent say their alternative financial service was nearby and that's why they used it.

Only 4.7 per cent of respondents said they prefer using high interest financial services. Clearly, the vast majority of respondents turn to high interest financial services because it's their only option — their bank is not extending to them credit or overdraft options, so things like payday loans are options of last resort. In fact, a clear majority (64 per cent) of respondents indicate that they believe it is “very important” for banks to offer overdraft protection, small loans, no fee accounts, and lines of credit to low- and moderate-income earners. So most respondents in this survey would prefer to have more financial options with their traditional bank.

What are the respondents drawing on payday loans, cheque cashing, and other high interest financial services to pay for? The ACORN data reveals that an overwhelming majority (about 72 per cent) of those who responded to this question say it was to pay for food (30 per cent), housing (17 per cent), bills (16 per cent), to alleviate poverty (10 per cent). Five per cent of respondents spent high interest loan money to address bank issues, another five per cent spent the loans to pay for medical issues and a further five per cent to get cash liquidity; 12 per cent said they used these services for other reasons, including transportation, education and recreation/luxuries.

Introduction

The proliferation of alternative financial services, such as payday loans, has prompted some provincial governments in Canada to tighten regulations for these service providers.

In Canada, there are an estimated 1,500 payday lending outlets.¹ Ontario is home to more than 800 payday storefronts — more than half of those in the entire country. Many of these outlets charge customers about 500 per cent in annualized interest rates. At such high rates, what drives low-income workers to turn to high interest financial services such as payday loans?

This report examines the findings from a survey of 268 ACORN members. ACORN is a national organization of low- and moderate-income families, consisting of 80,000 members in British Columbia, Alberta, Manitoba, Ontario, Quebec and Nova Scotia.

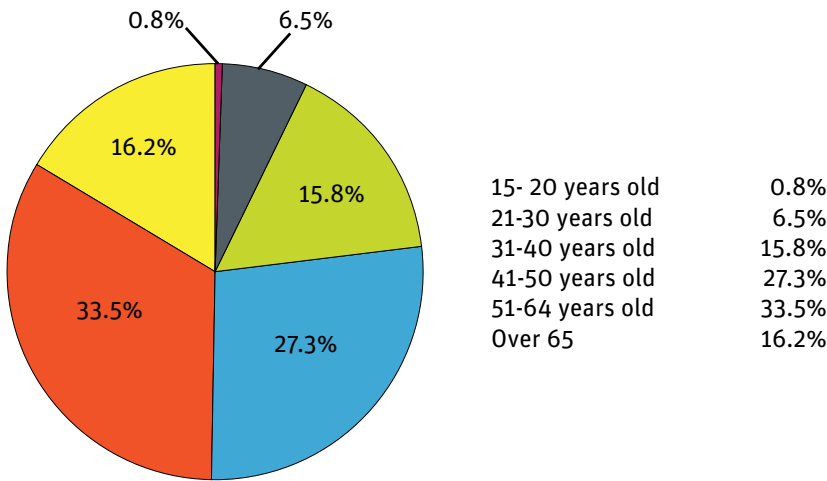
The 268 respondents in ACORN's survey were asked 20 questions about their demographic data and their experience with alternative financial ser-

vices. The online survey was administered between May 6 and July 16, 2016. A list of the questions can be found in Appendix 1.

About the respondents

Of the 268 respondents surveyed by ACORN, 260 (97 per cent of all respondents) reported their age: 129 (49.6 per cent) indicated that they were over the age of 51 while 112 (43.1 per cent) reported that they were between 31 and 50 years old.

FIGURE 1 How old are you?

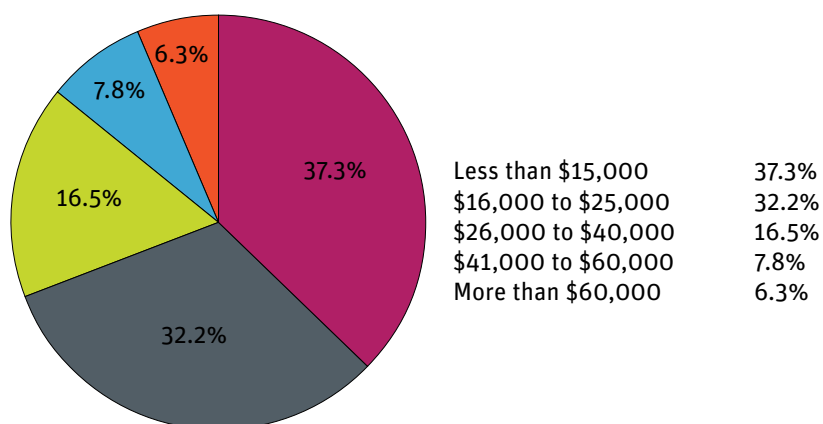


Source ACORN Canada.

Of the 268 total respondents, 255 (approximately 95 per cent) provided information about their annual individual income range: 37.3 per cent earn less than \$15,000 a year, 32.2 per cent earn between \$16,000 and \$25,000, 16.5 per cent earn \$26,000 to \$40,000, 7.8 per cent earn \$41,000 to \$60,000, and 6.3 per cent earn more than \$60,000. In other words, the majority of respondents earn \$40,000 or less, placing them along the lower end of the income spectrum.

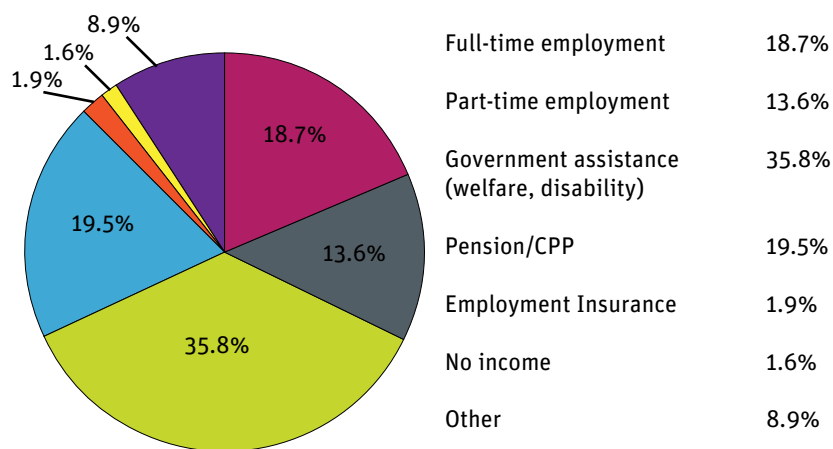
About 96 per cent (257 of the 268 total respondents) reported their primary source of income: 35.8 per cent reported that they live primarily on

FIGURE 2 What is your annual individual income range?



Source ACORN Canada.

FIGURE 3 What is your main source of income?



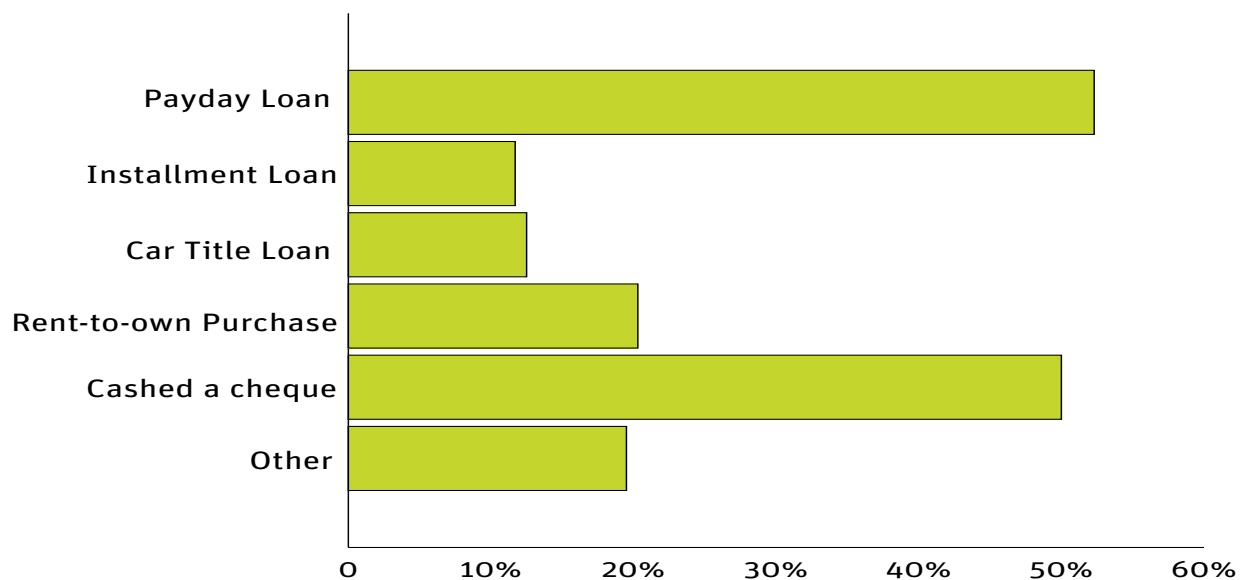
Source ACORN Canada.

government assistance, 19.5 per cent receive CPP or a pension, 18.7 per cent work full time, 13.6 per cent work part time, 1.9 per cent receive Employment Insurance, 1.6 per cent report no income, and 8.9 per cent marked “other” as their main source of income.

Usage of high interest financial services

Payday loans and cheque cashing services were, by far, the most in-demand alternative financial services. A little more than half (52.3 per cent) say they have used an alternative financial service to obtain a payday loan; half (50 per cent) of those who used an alternative financial service told ACORN they did so to cash a cheque; 20.3 per cent made a rent-to-own purchase; 19.5 per cent used it for other purposes; 12.5 per cent took out car title loan; and 11.7 per cent took out an installment loan.

FIGURE 4 If you have ever used an alternative financial service, which of the following service(s) have you used?

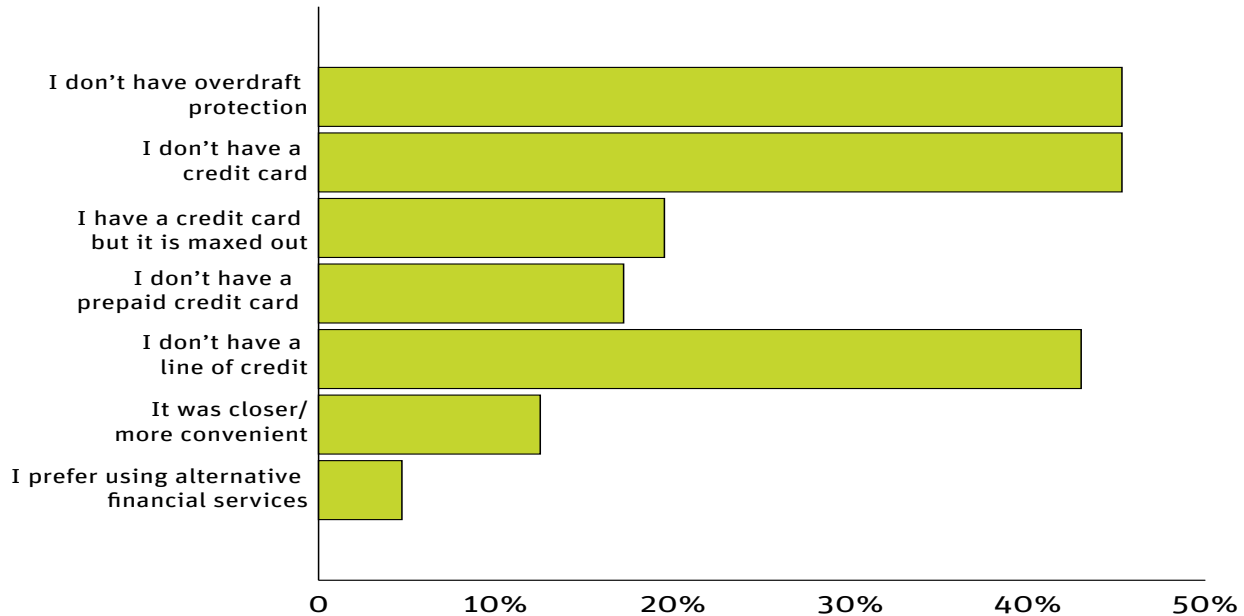


Source ACORN Canada

Given the relatively high — and in some cases, illegal² — rates of interest often associated with such businesses, it may be helpful to know why high interest financial services are doing such a brisk business for so many

low-income individuals. The answer: many of ACORN's members access high interest financial services because they don't have other financial options available to them at traditional banking institutions.

FIGURE 5 What are the main reasons you used an alternative financial service and not a bank? Check all that apply.



Source ACORN Canada

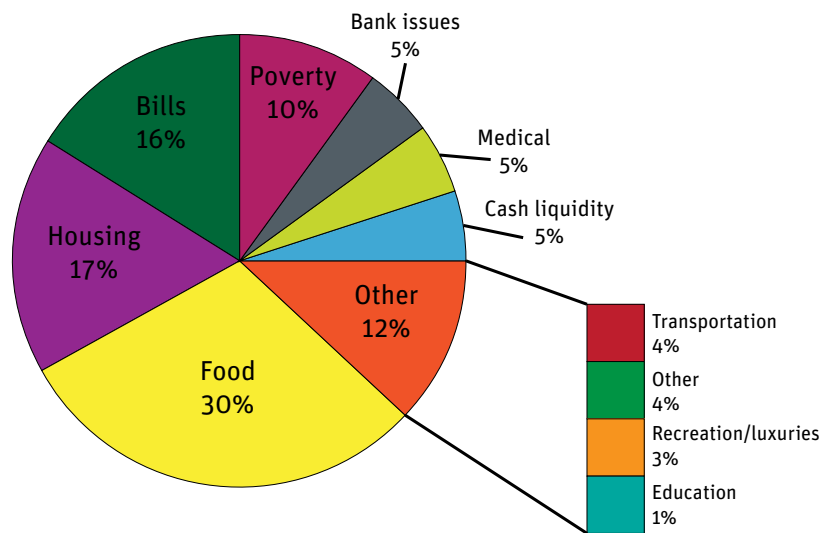
Just under half (45.3 per cent) of respondents said they visited a high interest financial service provider because they had no overdraft protection available on their bank accounts. Overdraft protection permits account holders to temporarily cover payments when they have no funds to do so and repay the account-issuing institution at a later date, with interest. Access to credit is also a major problem for ACORN's members: 45.3 per cent of respondents reported they did not have a credit card; 43 per cent said they do not have a line of credit; 19.5 per cent have a credit card but it was maxed out; 17.2 per cent don't have a prepaid credit card; 12.5 per cent say their alternative financial service was nearby and that's why they used it; but only 4.7 per cent of respondents said they prefer using high interest financial services.

Clearly, the vast majority of respondents turn to high interest financial services because it's their only option — their bank is not extending to them credit or overdraft options, so things like payday loans are options of last re-

sort. In fact, a clear majority (63 per cent) of respondents indicate that they believe it is “very important” for banks to offer overdraft protection, small loans, no fee accounts, and lines of credit to low- and moderate-income earners. So most respondents in this survey would prefer to have more financial options with their traditional bank.

What are the respondents drawing on payday loans, cheque cashing, and other high interest financial services to pay for? The ACORN data reveals that an overwhelming majority (about 72 per cent) of those who responded to this question say it was to pay for food (30 per cent), housing (17 per cent), bills (16 per cent), to alleviate poverty (10 per cent). Five per cent of respondents spent high interest loan money to address bank issues, another five per cent spent the loans to pay for medical issues and a further five per cent to get cash liquidity; 12 per cent said they used these services for other reasons, including transportation, education and recreation/luxuries.

FIGURE 6 What did respondents spend their alternative financial services money on?

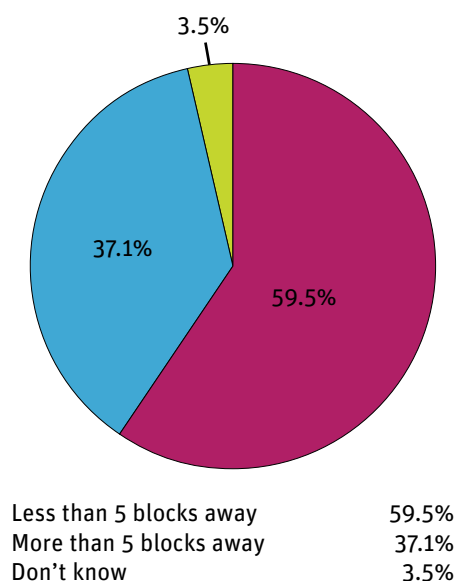


Source ACORN Canada.

Proximity to banking services

ACORN’s survey suggests that it is not for want of proximity to a major bank that respondents are turning to high-interest loans. A majority (59.5 per cent) of those who answered a question about how close they are to a major bank

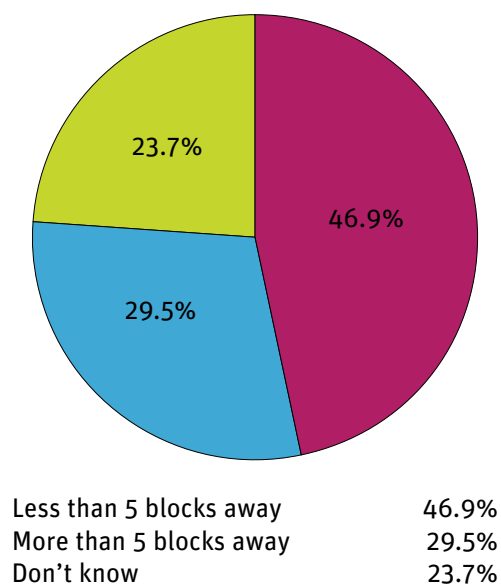
FIGURE 7 How far is the closest major bank to your home?



Source ACORN Canada.

(such as CIBC, TD, Scotia Bank, RBC and BMO) reported a distance of less than five blocks. Only 37.1 per cent reported a distance of more than five blocks.

FIGURE 8 How far is the closest alternative financial services institution to your home?



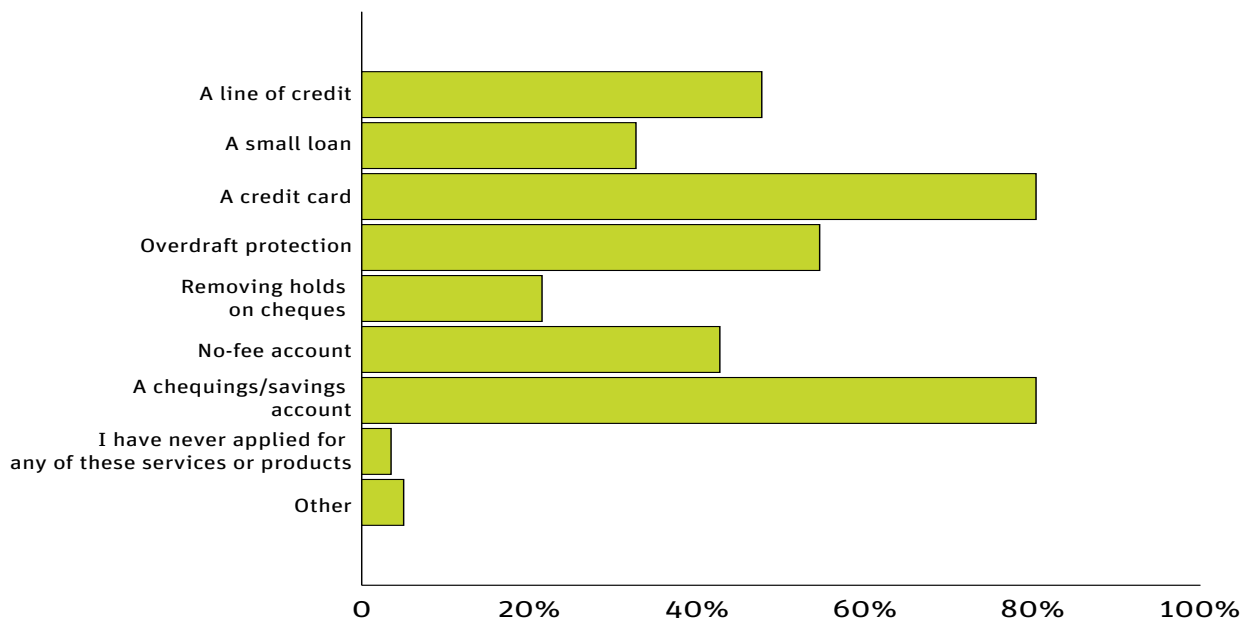
Source ACORN Canada.

That compares similarly to what respondents told ACORN about how close they are to high-interest loan businesses. A strong plurality of those respondents (46.9 per cent) reported being less than five blocks from an alternative financial service institution (such as a payday lender, installment/car title loan operator, rent-to-own store). Fewer than one in three respondents (29.5 per cent) reported being more than five blocks away. Only 3.5 per cent of respondents reported not knowing where the closest major bank is located.

Access to financial products

Survey respondents are also a population in need of financial products. Respondents overwhelmingly reported seeking credit cards (80.4 per cent of those who answered a question about whether they had ever applied for banking services) and chequing/savings accounts (also 80.4 per cent) at major banks. A majority of respondents (54.6 per cent) also told ACORN they have sought overdraft protection to temporarily make purchases without having enough money. Nearly half of the respondents (47.7 per cent) noted they attempted to secure lines of credit and more than 42 percent have tried to get a no-fee account. Some respondents also sought small loans and the

FIGURE 9 Have you ever applied for any of the following banking services or products at a bank? Check all that apply.



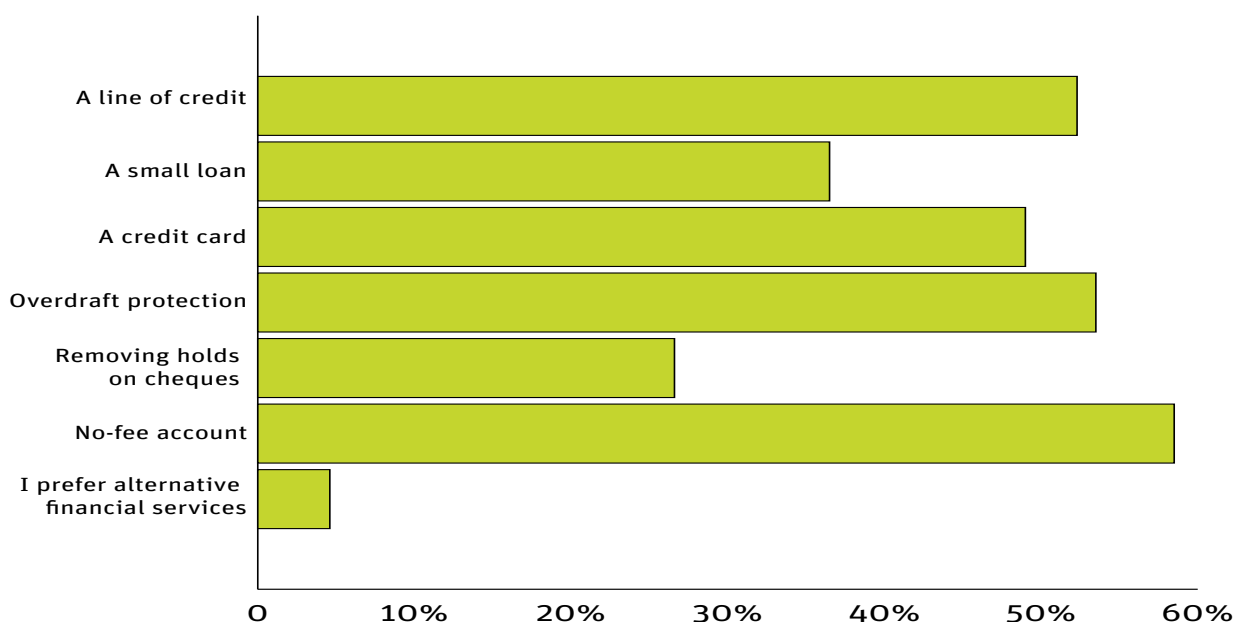
Source ACORN Canada

removal of holds on cheques. Only 3.5 per cent of the people who answered the question told ACORN they had never applied for a financial product at a major bank.

But despite that need, survey respondents told ACORN they often encountered difficulties accessing the financial products they sought. Respondents most often described having trouble accessing credit, for reasons including their prior credit rating and their current level of income. Several were also denied loans, be they small personal advances or student loans. Some respondents reported being denied financial products because they had previous and/or current experience with bankruptcy and/or unemployment, and in a continuing trend seen throughout the results of the survey, many were denied overdraft protection.

With that as a backdrop, survey respondents told ACORN that they have very specific banking products in mind they would prefer to access, rather than a high-interest loan. More than half (58.5 per cent) of those who answered the ACORN's survey told the organization they want a no-fee account. Respondents heavily favoured overdraft protection (53.5 per cent), a line of credit (52.3 per cent) and a credit card (49 per cent). Fewer than five per cent of respondents told ACORN they "prefer alternative financial services."

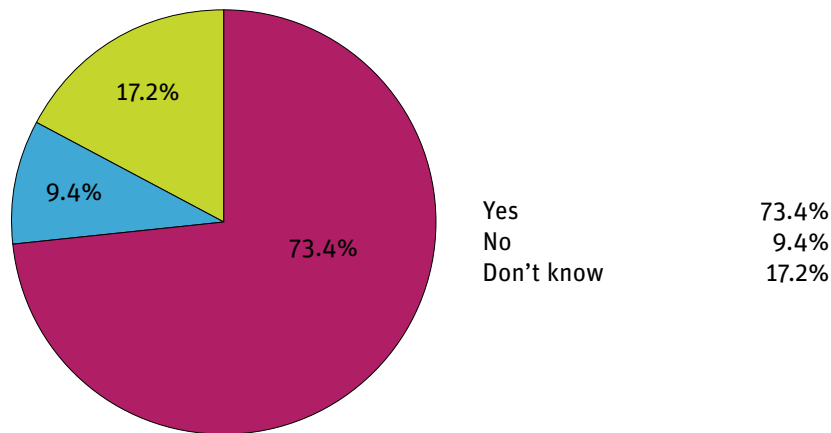
FIGURE 10 Which of the following banking institutions would you prefer to use instead of an alternative financial service?



Source ACORN Canada

Almost two-thirds of respondents told ACORN they believe it is “very important” for banks to offer “overdraft protection, small loans, no fee accounts, and lines of credit to low- and moderate-income earners.” And, if such services were offered by a bank or credit union, close to 75 per cent of survey respondents told ACORN they would switch where they do their banking.

FIGURE 11 If you knew of a bank that offered services to low- and moderate-income earners, would you change banks?



Source ACORN Canada

However, in cases of emergency, when they were denied credit by their own bank survey, respondents would still try to stay closer to home than look externally for help from lenders. Nearly one half of respondents (47 per cent) would ask a family member for financial help. About one in five (21.5 per cent) told ACORN they would not take out a loan. Nearly 16 per cent reported that they would go to an alternative financial institution.

Changes

ACORN’s members typically reported that the banking status quo is not working for them. Given the opportunity to see changes made in the finan-

cial services industry, many survey respondents said they want to see either a reduction or end to service fees associated with traditional bank accounts and easier access to money, be it low-interest loans, overdraft or similar products. Survey respondents generally provided similar responses when asked what banks can do to better assist low- to moderate-income people.

One respondent told ACORN:

By moderating their fees, and providing small loans at regular loan rates, banks would lessen the economic stress on low-income people. It would also lessen their use of costly payday loans that can lead to bankruptcy and further social problems. Banks were originally created to facilitate economic activity, not make it more complex, or unattainable due to rules discriminating against poor people.

Interpreting the results

The ACORN survey is revealing on several fronts. That so many respondents reported seeking money from high interest financial service providers for basic necessities such as food and shelter is alarming, especially given the high rates of interest often associated with such financial products as payday loans (about 500 per cent in annualized interest rates in Ontario).³

That so many respondents who are receiving government assistance (such as, but not limited to, Ontario Works or the Ontario Disability Support Program) as their primary form of income highlights not only the inadequacy of social assistance rates but also the lack of options for social assistance recipients in dire financial need. Payday lenders and other high interest financial service providers may charge a lot more in terms of interest, but it is the option of last resort.

The respondents themselves say that traditional financial institutions are not serving ACORN members in this vulnerable group in a way that meets their needs. But the ACORN data reveal that the second-largest group of people accessing high-interest products is employed — either full time or part time. This finding may indicate two problems: First, that the labour market is unable to adequately compensate a significant proportion of low-income workers so that they can meet their day-to-day needs, and second, that employed ACORN survey respondents report needing quick access to money in a way traditional financial institutions do not offer them. These findings demonstrate that the ACORN data are an important addition to a broader

conversation about income inequality, the depth of poverty, the inadequacy of public programs such as social assistance and Employment Insurance, banking insecurity related to precarious and non-standard employment, and worrisome shortcomings in the traditional banking system in Canada.

Recommendations

The results of this survey show that the banks, through denying low- and moderate-income families access to credit, are driving people to access fringe high-interest products like payday loans, installment loans, and more.

This section briefly outlines regulatory recommendations advanced by ACORN Canada. ACORN's national campaign for fair banking focuses on the federal government, recommending that it legislate the Canadian banking sector to provide access to fair financial services to low-income families, including:

- Access to low-interest credit for emergencies;
- Access to low-interest overdraft protection;
- Access to no-holds on checks;
- Lower the NSF fee from \$45 to \$10.

ACORN also strongly supports other alternatives to predatory lenders, such as postal banking and credit union credit products geared toward low- and moderate-income families.

ACORN would like to see a national anti-predatory lending strategy that seeks to harmonize federal and provincial anti-predatory lending practices and legislation looking at best practices; and dealing with inter-jurisdictional challenges and gaps in regulation on products such as installment loans and title loans.

ACORN would also like to see the creation of a real-time national tracking system or database to help stop rollover loans from company A to pay off company B for payday, installment and title loans.

Finally, ACORN would like to see an amendment of the Criminal Code to lower the maximum interest rate from 60 per cent to 30 per cent.

Appendix 1:

Survey questions

If you have ever used an alternative financial service, which of the following service(s) have you used? Check all that apply. (If you have never used an alternative financial service, please skip to question 4 and proceed from there).

- Payday loan
- Installment loan
- Car title loan
- Rent-to-own purchase
- Cashed a cheque
- Other

What are the main reasons you used an alternative financial service and not a bank? Check all that apply.

- I don't have overdraft protection (allows you to temporarily make purchases without having sufficient funds in your account)
- I don't have a credit card
- I have a credit card but it is maxed out
- I don't have a prepaid credit card
- I don't have a line of credit
- It was closer/more convenient
- I prefer using alternative financial service

What are the main reasons you needed to use an alternative financial service (ex. pay for rent/hydro, groceries, recreation, etc.)?

- Less than 5 blocks away
- More than 5 blocks away

- Don't know

How far is the closest alternative financial service institution to your home (ex. payday lender, installment/car title loan operator, rent-to-own store, etc.)?

- Less than 5 blocks away
- More than 5 blocks away
- Don't know

How far is the closest major bank to your home (ex. CIBC, TD, Scotia Bank, RBC, BMO, etc.)

- Less than 5 blocks away
- More than 5 blocks away
- Don't know

Have you ever applied for any of the following banking services or products at a bank? Check all that apply.

- A credit card, Overdraft Protection (allows you to temporarily make purchases without having sufficient funds in your account), A chequings/savings account
- A credit card, A chequings/savings account
- A line of credit, A credit card, No-fee account, A chequings/savings account
- A line of credit, Overdraft Protection (allows you to temporarily make purchases without having sufficient funds in your account), A chequings/savings account
- A credit card, Overdraft Protection (allows you to temporarily make purchases without having sufficient funds in your account), A chequings/savings account
- A credit card, No-fee account, A chequings/savings account

- A line of credit, A small loan, A credit card, Overdraft Protection (allows you to temporarily make purchases without having sufficient funds in your account), A chequings/savings account
- Removing holds on cheques, A chequings/savings account
- A credit card

If you were denied for any of the above services or products, please state which ones and the reason(s) why.

Which of the following banking services or products would you prefer to use instead of an alternative financial service? Check all that apply.

- A line of credit, Overdraft Protection (allows you to temporarily make purchases without having sufficient funds in your account), No-fee account
- A line of credit, A small loan, A credit card, No-fee account
- A line of credit
- A credit card, No-fee account
- No-fee account
- A credit card, Overdraft Protection (allows you to temporarily make purchases without having sufficient funds in your account), No-fee account
- Removing holds on cheques

If you were in need of a small loan in an emergency and were denied credit by your bank, what would be your first course of action? Choose only the best answer.

- Ask a friend or family member
- Go to a alternative financial service
- Make the decision to not take out a loan
- Ask another bank

- Sell something I own of value

If you knew of a bank or credit union that offered services to low and moderate income earners that include overdraft protection, small loans, no fee accounts, and lines of credit, would you change banks?

- Yes
- No
- Don't know

On a scale of 1 to 10, how important do you believe it is for banks to offer overdraft protection, small loans, no fee accounts, and lines of credit to low and moderate income earners?

What changes would you like to see with your bank and/or with the banking industry, if any?

How do you think banks and/or the banking industry could better serve the needs of low- and moderate-income individuals?

Are there any other comments you would like to make about the banking industry?

How old are you?

What is your annual individual income range?

What is your main source of income?

Which bank do you do the majority of your banking with?

What is your postal code?

What city do you live in?

Appendix 2:

Methodological considerations

There are limitations to the data gathered in this survey. For example, the survey data is not weighted to be a representative sample of the Canadian population. Of the 268 respondents who participated in the survey, 256 identified a province in which they resided. Nearly all of those 256 resided in Ontario and British Columbia (93 per cent).⁴ Statistics Canada data show that about 51 per cent of Canadians reside in those two provinces. In future surveys, ACORN may also consider expanding its demographic categories when collecting data. Information about the gender and race of those who seek alternative financial services may reveal significant information about if and how the issue is stratified along social categories — and the degree to which such stratification intersects. This information could reveal more about who is accessing such products in Canada and why.

Notes

- 1** Robinson, Chris. March 24, 2016. An economic analysis of the payday loan industry and recommendations for regulation in Manitoba: A report to the Manitoba Public Utilities Board. http://www.pub.gov.mb.ca/payday_loan_review2016/cac_5_tab_3_economic_analysis_c_robinson.pdf
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