

ALTERNATIVES TO HIGH-INTEREST LENDING



ACORN Canada
POSTAL
BANKING
THE BETTER
ALTERNATIVE

Can't
get
\$
from the
Bank

INCREASE
STANCE

LACK OF OPTIONS

PREPARED BY
ACORN CANADA

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Alternatives to High-interest Lending Canada

Approximately 2 million Canadians use payday loans every year. These unsecured, small value loans of up to \$1,500 are usually repaid by the next payday. Depending on the province, interest rates range from 391% - 652% Annual Percentage Rate (APR), making them an extremely expensive form of borrowing. Payday loans are primarily used by low and moderate income Canadians, often as result of financial exclusion by mainstream banking. For example, most banks charge NSF fees of \$48, banks often do not extend credit to low-income customers, or branches may not be located in a geographically convenient location. Other types of high-interest lenders are emerging as provinces tighten regulations on payday lenders and banks fail to meet the needs of low and moderate income earners, including installment loans, car title loans and rent to own lenders.

A number of alternatives to high-interest lenders have been identified. This initial scan of the alternatives revealed that while some promising initiatives do exist, the limited scope of these programs means that they do not meet the scale required to address the problem of predatory lending. Banks should do more to support low and moderate income borrowers, by providing access to low-interest credit for emergencies; low-interest overdraft protection; no holds on cheques; and lower NSF fees from \$45 to \$10. Decision makers should support postal banking and credit union credit products geared toward low and moderate income earners in order to provide a genuine alternative to predatory lending on the necessary scale. Finally, ACORN members support a national anti-predatory lending strategy; a real time national tracking system (or database) to help stop roll over loans; and an amendment of the Criminal Code to lower the maximum interest rate from 60% to 30%.

Canadian Alternatives

Causeway - Community Finance Fund (Ottawa, Ontario)

Short-term, low-interest loans and financial literacy resources.

Loans of \$500-\$1,500 for up to 3 years.

Rate: Prime plus 2-6%

Vancity - Fair & Fast Loan (British Columbia)

Fast, short-term, low-interest loans online.

Loans of \$100-\$2,500

Rate: 19% APR

Fast Forward Small Loan - Servus Credit Union (Alberta)

Fast loans of \$200-\$2,500, repaid over a period of 3 months to 2 years. Applicants can begin the application online.

Rate: 19% APR

CUA - Personal Microloan (Nova Scotia)

Loans of \$500-\$5,000 with flexible repayment terms of 12-36 months.

Rate: 14.5-18.5%

SmarterCash - WFCU Credit Union (Windsor-Essex, Ontario)

Loans of \$500 (or less) - \$2,000. Funds are advanced by cash on the spot with instant approval, or by pre-authorized credit to an account at a designated financial institution.

Rate: 37% APR

Desjardins - Mutual Assistance Fund (Mainly Quebec)

Average loan of \$500 paid off over of 24 months.

First Calgary Financial - Cash Crunch Loan (Calgary and Okotoks, Alberta)

Loans of \$500 - \$2,500 repaid monthly over 6-18 months.

Rate: 19% APR

Affinity Credit Union - Restart Loan (Saskatchewan)

Loans of \$200 - \$2,000 with repayment terms of 2 - 24 months. Applications are completed at an Affinity branch.

Rate: 17.99%

Rent Banks

For example:

Toronto Rent Bank (Toronto, Ontario)

One-time interest-free loans for overdue rent for eligible low-income household for rental arrears or first/last month's deposit.

Sources Rent Bank (Surrey, White Rock or Delta, British Columbia)

One-time crisis loans of up to \$1,600 for eligible low-income households.

New Westminster Rent Bank (New Westminster, British Columbia)

Low-fee, short term loan to low-income households at risk of eviction or essential utility disconnection.

Housing Stability Bank (London, Ontario)

Interest free loans of up to 2 month's rent to help with rent arrears, first/last month's deposit, for households below the low-income measure.

Examples from Other Jurisdictions

United Kingdom

UK Government - Budgeting Loan

Interest free loans of £100-£800 for eligible benefit recipients, repaid within two years.

Pollok Credit Union - Wee Glasgow Loan

Developed in partnership with Glasgow City Council. Loans of £100 to £600, with repayment periods of 1 to 6 months.

Rate: 42.6%

United States

North Side Credit Union - Payday Alternative Loan

Loans of \$500 with a 6-month repayment period.

Rate: 18% APR

Veridian Credit Union - Payday Alternative Loan

Loans of up to \$1000 with a 6-month repayment period.

Rate: 19 - 21% APR

StretchPay: A Credit Union Salary Advance Alternative - Various credit unions

Loans of up to \$500, usually repaid in the next pay period.

Rate: 18% APR

What is ACORN Canada?

ACORN Canada (Association of Community Organizations for Reform Now, Canada) is an independent national organization of low- and moderate-income families. Founded in 2004, we have rapidly grown into one of the country's most effective voices for low and moderate income Canadians, with over 113,000 members in Canada. Our central purpose is to effectively represent and champion the interests of Canada's low and moderate income urban citizens on the critical issues of social and economic justice.

For more information, visit acorncanada.org or email research@acorncanada.org