

ACORN CANADA

STUDY ON

HIGH INTEREST

LOANS

Report Summary

ACORN Canada, the Association of Community Organizations for Reform Now, was founded in 2004. We are a grassroots organization that has rapidly grown into one of the country's most effective voices for low-to-moderate income Canadians. With over 140,000 members in 22 neighbourhood chapters across the country, our central purpose is to effectively represent and champion the interests of Canada's low-to-moderate income citizens on critical issues of social and economic justice.

ACORN members have been fighting to ensure that low income and other vulnerable people have access to fair banking. Given the shift towards online loans, it is critical that there is strong evidence to understand what is happening on the ground as well as to develop recommendations to strengthen the existing policy and regulatory framework that best protects the rights of consumers, who are most often low-income people. Hence, ACORN Canada undertook a study focusing on high interest loans, especially those taken online.



LEGISLATIVE SCAN & WEBSCAN



For the purpose of the study, high interest loans were defined as loans such as payday loans, installment loans, title loans etc. that are taken from companies/institutions that are not regular banks or credit unions. The study consisted of a literature review and webscan conducted by Prosper Canada; a legislative scan to understand the regulatory framework; and a national survey to capture the experiences of people who have taken high interest loans, especially loans taken online.

Literature review and webscan

The review of literature shows that online high-cost credit is both similar to and different from high-cost credit available via a storefront. Online high-cost credit poses some of the same risks to consumers as store-front credit does, but could possibly be exposing them to additional risks as many online high-cost credit providers are not licensed or regulated. As of yet, very little research has been done on this issue and thus it needs to be studied as it evolves. Further, a webscan was conducted to explore what consumers encounter when they visit a lender online. Five online lending services were selected for a more detailed website scan set to 5 provinces (Alberta, British Columbia, Manitoba, Ontario, and Quebec).

- Easy Financial was the only website that appeared in all five provincial searches. The two Quebec-based companies (Pretargentrapide.ca and Pretexpress.ca) only appeared in the Quebec searches.

- The top amount available for lending varied greatly, ranging from the lowest amount of \$750 up to a \$35,000 installment loan.

- Only some of the information needed for potential customers to compare rates, products and companies was available and/or easy to find.

- Mogo.ca and icash.ca provided a dollar figure of the fee for a \$100 loan.

- All of the sites had descriptions of non-payment implications.

- In relation to support during COVID-19, Mogo.ca and Easyfinancial.com mentioned that customers could contact them to discuss their loan. The Quebec-based sites provided minimal information.

Legislative scan

- It was found that 9 provinces (none of the territories) have regulations on payday loans. Quebec is unique in that while it doesn't have a specific payday loan regulation, such loans are almost banned in the province as the interest rate that can be charged for any loan cannot exceed 35%.
- Fewer provinces have specific regulations with respect to installment loans.
- Regarding online loans, 9 provinces (none of the territories) make an explicit mention of loans taken online. Again, these pertain to payday loans only.

Many provinces have made amendments to mention protections people have while taking loans on the internet. Following are some notable features of the provisions:

- By and large, the rules apply mostly to payday loans as very few provinces have regulations relating to other high interest loans such as installment loans.

- There are some provinces which state that the rules that apply to loans taken out from a store also apply to loans taken out online.

- Some provinces detail specific rules that lenders providing credit products online must follow.

- While most provinces use the term "internet", PEI and Ontario are the only provinces that use the term "remote agreement".

- Most provinces have specifically outlined the information that lenders must provide on their website as well as how that information needs to appear so that the borrowers are able to read it and make an informed decision.

Manitoba stands out as the province's Consumer Protection Act mentions regulations that apply to internet payday loans as well as high cost credit products taken online. Moreover, the High Cost Credit Legislation of the province also has a lengthy section laying out the specific rules that apply to internet high cost credit products.

SURVEY FINDINGS

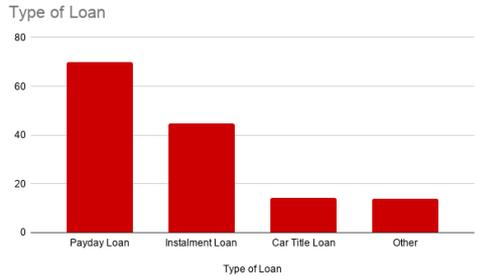


As part of the study, ACORN conducted a survey to capture experiences of people who had taken high interest loans, especially online loans. A total of 376 survey responses were collected.

Income: More than half of the respondents have their annual individual income range \$below \$20,000. One-third of respondents reported income between \$20,000 to \$40,000 and very few respondents reported an income above \$40,000.

High interest loan: A vast majority i.e. 70% of respondents reported having taken a high interest loan.

Type of loan: People were asked about the type of high interest loan they had taken. They could choose more than one option. A large majority i.e. 70% of respondents reported taking payday loans. The proportion of people taking installment loans is also quite high at 45%. This is very high compared to a previous survey that ACORN did in 2016 when the proportion of people who reported taking out installment loans was 11%. Around 15% of survey respondents reported taking car title loans.

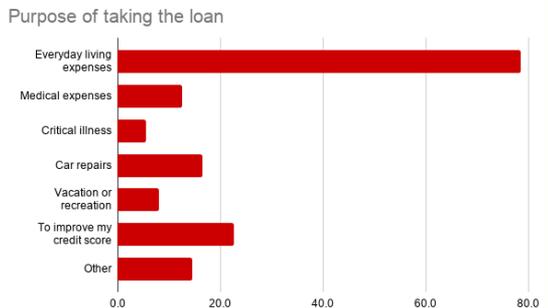


Frequency of taking the loan: With respect to the frequency of loans taken in the last 12 months, while 30% of respondents reported taking these loans only once, the second highest number was almost 13% who took these loans more than 10 times in a year. This reinforces the business model of these fringe lenders that relies on repeated usage of such loans by people who then get caught in a debt trap.

Companies from which the loan is taken: The top three companies from which people took out the loans include Money Mart, Cash Money and Easy Financial, followed by others such as ICash, Refresh Financial, Mogo and a couple of others.

Reason for selecting a lender: Most people took a loan from a specific lender after seeing the store in their neighbourhood or learning about it through an online advertisement.

Purpose of taking the loan: A vast majority i.e. 80% of respondents said that they took out a loan to meet everyday living expenses such as rent, groceries, hydro etc. Some people took it for a range of reasons such as to meet medical expenses, critical illness and car repair expenses. Notably, 22% respondents mentioned that they took it out to improve their credit rating as they were promised taking out a high interest loan would help them do so.



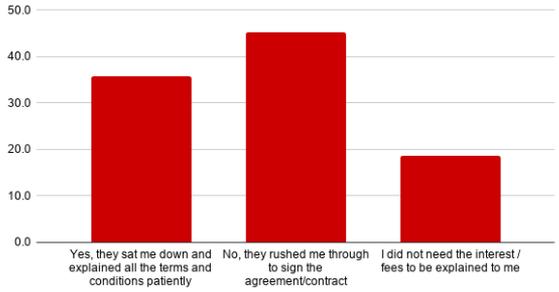
Repaying the debt all at once

15% of respondents who were told that they could make the pending payment only in a certain way. This means that lenders make it difficult or nearly impossible for people to repay their loans at any given point if they wish to do so. This makes the situation far worse for people who are already strapped for funds and on top of that paying exorbitant interest rates for these loans.

Cost of borrowing:

- 45% of the respondents mentioned that they were not given an explanation of the cost of borrowing. In fact, they were rushed to sign the loan agreement with the lender.
- 36% of the respondents said that the lender sat them down patiently and explained the terms and conditions.

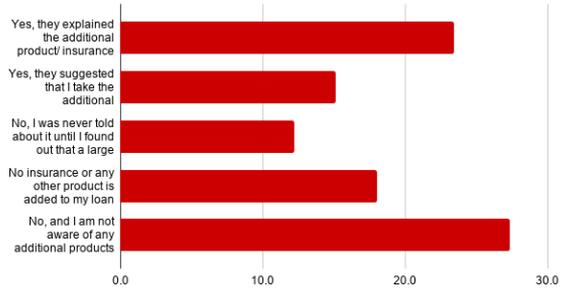
Did the lender explain the cost of borrowing?



Optional products attached with the loan:

- While almost a quarter of respondents said they were provided details about the optional product, 12% of respondents were never informed about these products until they found out at the time when a large sum was debited from their account.
- Around 22% said that they are not aware of any such product attached to their loan.
- 15% of respondents said they were asked to take these products but they chose not to.
- Another 18% of respondents said that they were certain that no such product was attached to their loan.

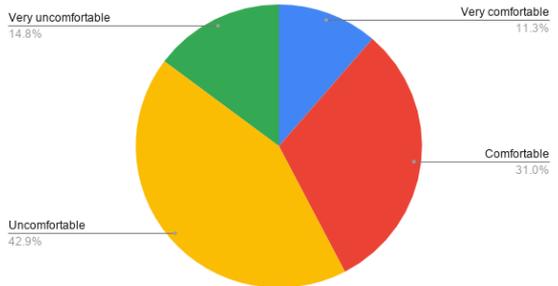
Optional products



Experience in negotiating the loan agreement:

Almost 60% of the respondents rated their experience in negotiating the loan agreement with the lender very uncomfortable or uncomfortable.

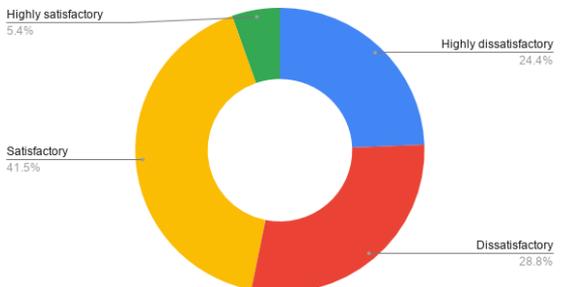
Overall experience in negotiating the loan



Overall experience with the loan:

Slightly more than half of the respondents rated their overall experience with a high interest loan as either highly unsatisfactory or unsatisfactory. Only 5% of people said that they had a highly satisfactory experience.

Overall experience with the loan



ONLINE LOANS: WHAT DID WE FIND IN THE SURVEY?



Loans taken online: Out of the total respondents, almost 30% stated having taken an online loan.

People who take online loans are younger: Data shows that more young people tend to take loans online. For example, 7% of people above the age of 65 years stated taking an online loan compared to 12% of people who took the loan from the store in the same age group.

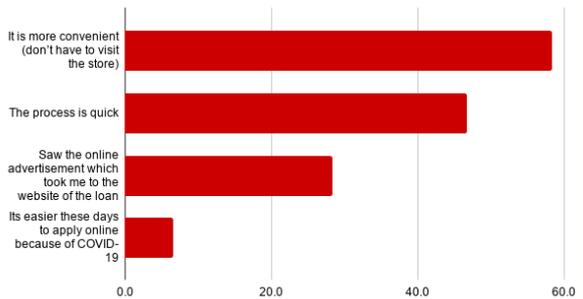
People who take online loans are slightly higher income: While 7% of people with income more than 50,000 dollars took out a loan from the store, the proportion went up to 23% in respect of online loans for the same income bracket.

Most common companies from which online loans were taken: The most common companies people took the online loan from include Easy Financial, Cash Money, I Cash and Mogo. People also listed several others including Moneytree, Spring Financial, CashCo, Pay2Loan etc.

Process of taking an online loan: People were asked if the entire process right from negotiating the loan to signing the agreement and receiving the money was all online. For most of the respondents, the entire process happened online. Still a small proportion of people, around 12%, stated that they had to go into the store to sign their loan agreement.

Reasons for choosing online loans: When asked about the reason why they chose to take the loan online over going to the store, 60% of the respondents said that it was more convenient to take the loan online. Further, almost half of the respondents also said that they found the process of taking the loan online quicker as compared to going into the store. Close to a third of the respondents saw the online advertisement which automatically took them to the company's website. A few also stated that it was easier to apply online during the pandemic.

Reasons for taking the loan online



Ease with which people can contact someone in person: Close to one-third of the respondents said that they found it either very difficult, difficult or not so easy to contact someone in person.

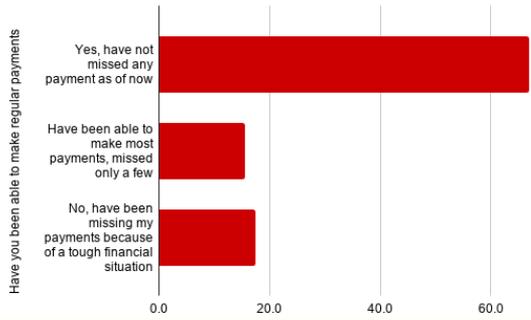


Impact due to COVID

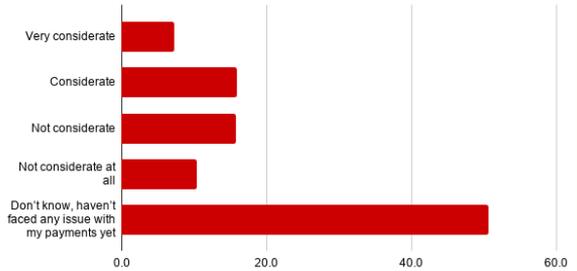
As this survey was rolled in the midst of the pandemic, respondents were asked if they had to turn to high-interest loans (online or from the store) due to COVID.

- 13% of respondents said that they had to take out high interest loans due to COVID-19.
- Almost 18% of people stated that they have found it very tough to make payments regularly to pay off their loans as their financial situation has been impacted. Another 16% said they have missed paying a few instalments.
- When asked to what extent were the lenders being considerate if they missed or had an issue making a payment, slightly more than a quarter of the respondents stated that the lenders have been either inconsiderate or extremely inconsiderate during the pandemic. Only 7% found the lenders extremely considerate.

Have you been able to make regular payments



Has the lender been considerate if you missed your payment or had issue making payment during COVID?

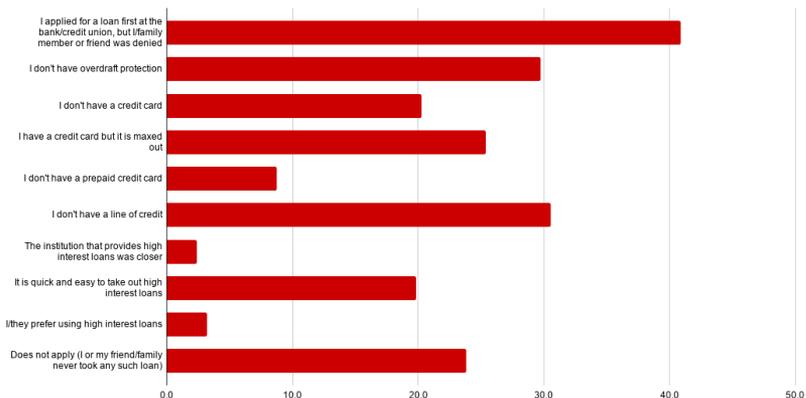


Access to mainstream financial institutions

People were asked if they had applied to former banking institutions and products before taking any high interest loan.

- Importantly, 40% of respondents approached banks or credit union before they took out a high interest loan but they or their family/friend were denied. In fact, only 3% said that they prefer a high interest loan.
- 30% said they don't have overdraft protection or a line of credit.
- 20% have a credit card but 25% said that it has maxed out.
- 20% of respondents stated that its quick and easy to take out a high interest loan.

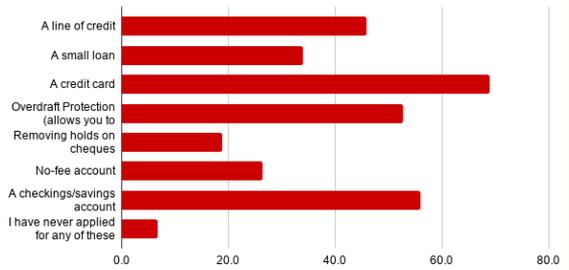
Main reasons you or any of your family member/friend used a high interest loan and not a bank or a credit union



If respondents had ever applied for the mainstream financial products, this was the response:

- 70% of respondents mentioned that they had applied for a credit card.
- 56% had applied for a savings/chequings account
- 52% had applied for overdraft protection.
- 46% said that they had previously applied for a line of credit.
- 34% said that they had applied for a small loan
- 26% applied for a no-fee account
- 20% had approached a bank to remove holds on cheques.

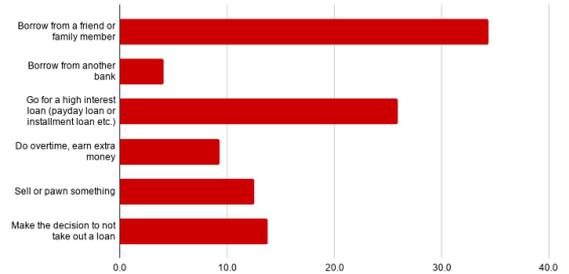
Have you ever applied for any of these banking services/products at a bank/ credit union?



Lastly, people were asked who would they approach first for a small loan if they were faced with an emergency situation.

- 35% said they would reach out to a family/friend.
- 26% said they will have to go for a high interest loan
- 13% said they would have to sell or pawn something
- 14% said they would not go ahead with taking a loan at that point in time.
- 10% said they would work extra to make money.

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?



RECOMMENDATIONS

Recommendations in relation to High Interest Loans

It is amply clear that people do not go for high interest loans by choice but because of a lack of it. These loans are nothing but predatory. In fact, in the absence of alternative products, the trend is towards more people taking instalment loans which means higher debt. Banks need to play a much more proactive role in ensuring that everyone has access to fair banking. Moreover, the ongoing pandemic has demonstrated the significance of special efforts that governments need to undertake so that rights of people at the margins are protected.

i. ACORN recommends that the federal government must mandate banks to do the following:

- Provide access to low interest credit for emergencies:

Providing low interest access to credit would ensure that low and moderate income earners have options if they run into unexpected financial issues, so they are not forced to rely on fringe lenders charging excessive rates and fees.

- Provide low interest overdraft protection. Low interest overdraft protection would allow low-to-moderate income earners to avoid missing payments or bouncing cheques. The overdraft will temporarily cover payments when there are not enough funds available, to be repaid with interest.

- Provide no holds on checks. By placing holds on cheques, banks push low-to-moderate income earners to find access to credit elsewhere. Rather than wait for the cheque hold period to end, people who need access to the funds immediately will pay excessive rates and fees to cash the cheque at a cheque cashing outlet or take a payday loan.

- Lower NSF fees from \$45 to \$10. The current rate of \$45 is excessive and causes many people to rely on predatory loans. It is cheaper to pay interest of up to \$25 (depending on the province) on a \$100 payday loan than bounce a \$100 cheque and pay a \$45 NSF fee.

ii. The federal government must amend the Criminal Code to lower the maximum interest rate from 60% to 30%:

As this study shows, more and more people are moving towards instalment loans. Hence, it is critical that the maximum interest rate is lowered to make lending more affordable for low and moderate income borrowers.

iii. Create stronger regulations to prevent people from getting pushed to taking optional products such as insurance:

Lenders are pushing people to take optional products such as insurance. Some people reported that they weren't even aware of them until an extra amount was debited from their account. Hence, there needs to be stronger regulations so that companies face penalties if they push people to take such products or take advantage of them without even making them aware of any such product being attached to their loans.

iv. Create a national multi-jurisdictional anti-predatory lending strategy: Tackling predatory lending at a national level will provide the opportunity to address gaps in regulation and will allow the sharing of best practice across the country.

v. The federal government must create a fund to support alternatives to predatory lenders, such as postal banking and credit union credit products geared toward low and moderate income families. By encouraging the creation of other products, the gap in financial services for low and moderate income people will be filled, saving many low and moderate income people from relying on predatory lending.

vi. Create a real time national tracking system (or database) to help stop rollover loans: A real-time database which keeps a record of payday, installment and title loans would ensure that borrowers are not taking out multiple loans with different lenders. This would help prevent rollover loans, where customers borrow from one lender to pay an existing lender, preventing customers from spiralling into debt traps.

Recommendations specific to Online Loans

- All consumer protections applied to store front operating must apply to online loans.
- The legislative scan shows that while many provinces make reference to loans taken on the internet or remote loans, these regulations primarily pertain to payday loans. Except for Manitoba and BC (where regulations have still to be enforced), not many provinces have regulations with respect to instalment loans taken online. Given the increasing trend towards instalment loans, it is critical that provinces make specific regulations relating to instalment loans taken online.
- Another factor that makes online loans more susceptible for misuse is the extent to which lenders provide information on their website. Many people who end up taking high interest loans are not fully aware or lack access to the complicated information that must be verified before taking a loan. Hence, it's extremely important for provinces to pass stringent regulations so that lenders share information transparently on their website, specifically about their license, location, cost of borrowing, cancellation of loans, optional products etc.
- If at all there are any optional products attached to the loan, the regulation must enable earlier disclosure of the presence and the cost of optional charges — i.e. not at the point of signing. Especially when an individual is taking an online loan, the regulations must ensure that there is someone available in person (and not just online) or there's easy accessibility to answer any questions or doubts that the individual may have during or after taking the loan.
- There needs to be much more consumer education regarding illegal online loans.



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