

# **Survey of Payday Loan Users in Toronto and Vancouver**

**November 11, 2005**

**Report for  
The Association of Community Organizations for  
Reform Now (ACORN)**

**STRATCOM**  
STRATEGIC COMMUNICATIONS

## Acknowledgements

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## For Strategic Communications, Inc

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## 1.0 Summary

- Payday loan consumers are largely working-age and employed, more likely than not male, and born in Canada. As a group, payday loan users have a distinctly lower income than the general population. Almost half of the most-frequent users of payday loans (>10 times in the past 12 months) have annual household incomes that are \$30,000 or less.
- Vancouver users tend to have lower levels of education, on average, than their Toronto counterparts, and to be older.
  - More than a third (37%) of respondents in this survey have taken out a payday loan six times or more in the past year, and of those, about half have done so more than ten times. In Toronto, the reported frequency of use is very high, with 44% saying they have taken out a payday loan 6 times or more in the past 12 months.
  - Many users of payday loans are people with poor credit records that they believe bar them from getting adequate services at banks and credit unions, and/or who feel a need for quick cash to cover outstanding bills or debts. They use these services to create the liquidity for daily living that many Canadians take for granted, so they can manage bill payments and debts. Undoubtedly some other users fit the image of the happy-go-lucky young person on his way out to an evening of fun (shown in industry advertisements) but this is a minority.
  - Consumers with the lowest household incomes (<\$30,000/year) and the heaviest users (>10 times in the past 12 months) are more likely than other payday loan users to cite bad credit and/or outstanding debt as the reason to use payday lending.
  - Two-out-of-three payday borrowers say they would prefer to use a bank or credit union if they could get a payday loan there. More than a quarter (27%) agree with the statement *"In the past I have felt uncomfortable or intimidated by the collection practices used by payday lending companies like [name location]."*

- Four-in-ten (41%) users of payday loans do not know what interest rate they are paying for their latest loan. A large majority (74%) are unaware that all charges and fees for payday loans count as interest, according to the law.
- By a wide margin, most payday loan borrowers believe it is very (61%) or somewhat (23%) important to regulate payday loan services.

## 2.0 Introduction

In the late spring of 2005, the Association of Community Organizations for Reform Now (ACORN) asked Strategic Communications, Inc. to design and field a survey of Canadians who use the services of so-called ‘payday lenders’. The practice of offering short-term payday loans against an individual’s paycheque (and/or other regular source of income such as pension cheques) has grown dramatically in the past few years and the industry is now estimated to be worth \$2 billion a year in Canada in terms of loan volume. By comparison, a recent report about the industry in the United States, where payday lending originated, stated that the industry is worth US\$44 billion annually in that country.

ACORN and other organizations have raised concerns about the phenomenon of payday lending, citing extremely high rates of interest and lack of consumer awareness about the dangers of extended use of payday loans. The industry remains unregulated, and ACORN has called for legislative action to be taken.

With this background, we designed this research to investigate:

- The demographic profile of payday loan consumers in Toronto and Vancouver
- Patterns of use by consumers, such as frequency of use, generally, and back-to-back loans specifically
- Reasons for taking out a payday loan, and reasons for using this kind of service as opposed to a bank or credit union
- Consumers’ awareness, knowledge, and perceptions about interest rates, lending/collection practices and documentation provided for their payday loan(s).

A detailed overview of the methods used to conduct this research can be found in Section 4 of this report. In brief, we recruited 419 individuals for face-to-face interviews, each of whom had recently taken out or paid back a payday loan from a commercial service. We conducted the survey in both Toronto and Vancouver, with roughly equal samples in each (Toronto = 204 respondents, Vancouver = 215 respondents).

To recruit this many payday loan users required that we screened a total of 1,079 people, most of whom were using other services of these commercial establishments. Thus our target population of payday loan users represents 39% of the total population of clients for the businesses at which we conducted the surveying.

A survey running approximately 12 minutes in length was administered to respondents by professional interviewers from Strategic Communications. All interviews were conducted in the four months between early July and late October, 2005.

This report highlights the main findings of the survey.

### 3.0 Main Findings

#### Who uses payday loans?

We found that payday loan users in Toronto and Vancouver are mainly men (just over 60%), with a minority being women. They are from all age ranges, but in Toronto they tend to be younger than the general population. As a group, they are more likely to have a high school diploma or college degree than the general population, but less likely to have a university undergraduate or graduate degree.

Users of payday loans are also more likely to be born in Canada than the general population of these two highly diverse cities. In Vancouver in particular, this difference is very noticeable with 79.1% of respondents born in Canada compared to 52% for the population at large.

Since payday loans require that the borrower have a paycheque or other regular source of income, it is no surprise that the majority of clients we interviewed are employed full-time (72.8%). In Toronto this figure is even higher at 80.9% and in Vancouver it is lower at 64.7%. (This may amount to having more than one part-time job, and does not necessarily mean these respondents are employed at a single job.)

On income, the pattern is marked and distinctive: payday loan users have lower incomes, on average, than other residents of the cities in which they live. In Vancouver, 46% report that they live on a household income at, or below, \$30,000 each year, while the comparable figure for the whole population of Vancouver according to the 2001 census is 36%.

In Toronto, the number of payday loan users living on \$30,000 annual household income or less is approximately equal to the general population (around 30%). However, viewed from the perspective of the median household income for the general population in Toronto, which is just over \$54,000 annually, about 7-in-10 payday loan

users in that city have a household income below the median. In Vancouver, about two-thirds of payday loan users have a household income below that city's median (which is \$42,000).

And, taken as a group, the most-frequent users of payday loans (>10 times in the past 12 months) are similarly disadvantaged -- 46% have household incomes that are \$30,000 or less.

These findings are particularly notable considering that the majority of this user-group are working full-time.

As for levels of education, we found that payday loan users are more likely to have a high school diploma and/or college degree or trade certificate in comparison to the general population in their city. But they are also less likely to have a university degree. And again, there is a distinctive characteristic of lower levels of education in Vancouver and somewhat higher in Toronto.

See further details in accompanying charts and tables.

### Frequency and Patterns of Use

About one-quarter (25%) of respondents (in the two cities combined) have taken out a payday loan only once or twice in the past 12 months. However, more than a third (37%) have taken out a payday loan six times or more in the past year, and of those fully half have done so more than ten times. In Toronto, the reported frequency of use is very high, with 44% saying they have taken out a payday loan 6 times or more in the past 12 months.

Just over 18% of respondents chose not to answer this question, so the figures above are undoubtedly, in fact, underestimates.

Asked whether they have taken out a payday loan in the past 12 months 'right after' paying off a previous payday loan, more than half (52%) responded that they have done so. More troubling is the fact that one-in-five (20%) have done this 6 or more times in the past 12 months.

### Factors Influencing Consumer Choice

Although three-in-ten respondents (30%) reported that they use payday loans because they are fast and convenient, it is clear that a far larger number use them to cover financial ‘emergencies’ such as overdue bills and debts coming due. Almost one-in-four (25%) said they use this product because they have a bad credit record and/or outstanding debts to cover, and a further 23% cited the need for last-minute cash to cover bills coming due and other daily needs. Fourteen percent (14%) said that they feel they cannot rely on banks or credit unions to help them solve their needs for cash on a short-term basis.

Citing bad credit and/or outstanding debts as the reason to use payday lending is highest among customers with lowest household incomes (<\$30,000/year) and the heaviest users (>10 times in the past 12 months).

And it is revealing that nearly two out of three payday loan users (64%) would switch to a bank or credit union if they could access a similar small loan product there. The reasons given for this preference are dominated by the perception that the interest rates charged by banks and credit unions are lower (55%), that mainstream banking institutions provide the convenience of one-stop shopping and/or ‘better services’ (22%), and that they are more safe, legitimate, and honest (16%).

(Both of the questions reported above were open –ended and allowed for multiple responses, so respondents had the chance to offer more than one reason.)

We further investigated the element of safety and security. Respondents were asked if they agree that *“In the past I have felt uncomfortable or intimidated by the collection practices used by payday lending companies.”* In both cities a significant minority agreed -- 23% in Toronto, and 31% in Vancouver.

Payday borrowers are not marginal users of financial services: 88% have a debit card and 85% report having a chequing account at a bank or credit union. Consistent with their reasons for using payday loans, though, far fewer have a major credit card (42%), overdraft protection (33%), or a home mortgage (7%).

## Awareness and Knowledge of Interest Charges

One of the most notable findings of this research relates to how aware or knowledgeable payday loan users are about the interest charges they are paying for the service.

Asked what level of annual interest they paid on the payday loans they have taken out, many respondents consider it to be relatively low: more than a quarter (27%) believe it to be 20% or less, and a further 14% believe it to be between 21 and 30% annually. However, a very large number of payday loan users (40%) simply said they do not know what level of annual interest they are paying.

A large majority (74%) of payday loan users said they are unaware that all charges and fees for payday loans count as interest according to the law. Perhaps not surprisingly, two-thirds (67%) are unaware that it is unlawful to charge more than 60% annual interest for a loan.

## Regulating Payday Lending

What do payday borrowers have to tell us about the public policy debate that surrounds this issue?

Two-out-of-three payday loan borrowers (67%) are not aware that this industry is the only major financial service that is unregulated in Canada. However, most believe it is very (61%) or somewhat (23%) important to regulate payday loan services.

To further test this attitude, we offered respondents more background information: “*According to the way the Canadian Government calculates interest rates, virtually all payday lenders charge between 300% and 2,500% annual rates of interest, which is illegal.*” And we then posed a clear choice between two points of view:

*“This is a good reason to regulate the payday loan industry so that rates will be reduced.”*

*“The rates [charged] are justified because of the cost of making small loans, and the industry will serve its customers better if it is not regulated by government.”*

Put in this context, 69% of respondents said that regulation of the payday loan industry is closer to their own view, while 18% said that leaving the industry unregulated more accurately reflects their own view.

## 4.0 Methods and Sampling

These results are compiled from face-to-face interviews with 1,079 clients of commercial payday loan providers, conducted between July 4<sup>th</sup> and October 30<sup>th</sup> 2005 by professionally-trained staff interviewers of Strategic Communications, Inc. Of these, 204 were conducted in Toronto and 215 were conducted in Vancouver.

Neither ACORN as the research sponsor, nor Strategic Communications as the research provider, had access to lists of payday loan users. As a result, an innovative sampling strategy was adopted.

Respondents were approached by Strategic Communications' staff interviewers upon exiting payday loan establishments, and screened to discover if a) they had previously been interviewed in this survey, and b) if they had "ever used a store like this one to take out a payday loan." As a result, the target subsample that is the topic of this report is the 419 respondents who reported that they had taken out at least one payday loan. Users of other services offered by these businesses were screened out.

To date there has been very little research about the characteristics of payday loan users. Previous research commissioned by the payday loan lobby organization appears to have been focused on the experience of clients in 'mainstream' payday loan establishments (defined as members of the industry lobby group – the **Canadian Payday Loan Association** or CPLA).

ACORN, in contrast, was interested in the experience of payday loan users with the smaller, stand-alone businesses in this field. In their view, legislation and regulation covering this commercial activity should be designed to assist ALL consumers, not just those who are clients of the largest, wealthiest, most organized players in the industry. This research was designed to shed light on that segment of the industry that has been least discussed in the public debate so far.

To this end, the locations for surveying were selected to ensure representation from clients of the large number of payday loan providers who are not members of the CPLA.

This sampling technique yields what researchers term a 'sample of convenience', which is typical for innovative research in new fields. There is no comprehensive and reliable background dataset (e.g. official Census) on the target population of this study, we

cannot use techniques such as weighting to ‘match’ the demographic representation within our sample to the actual population in the real world.

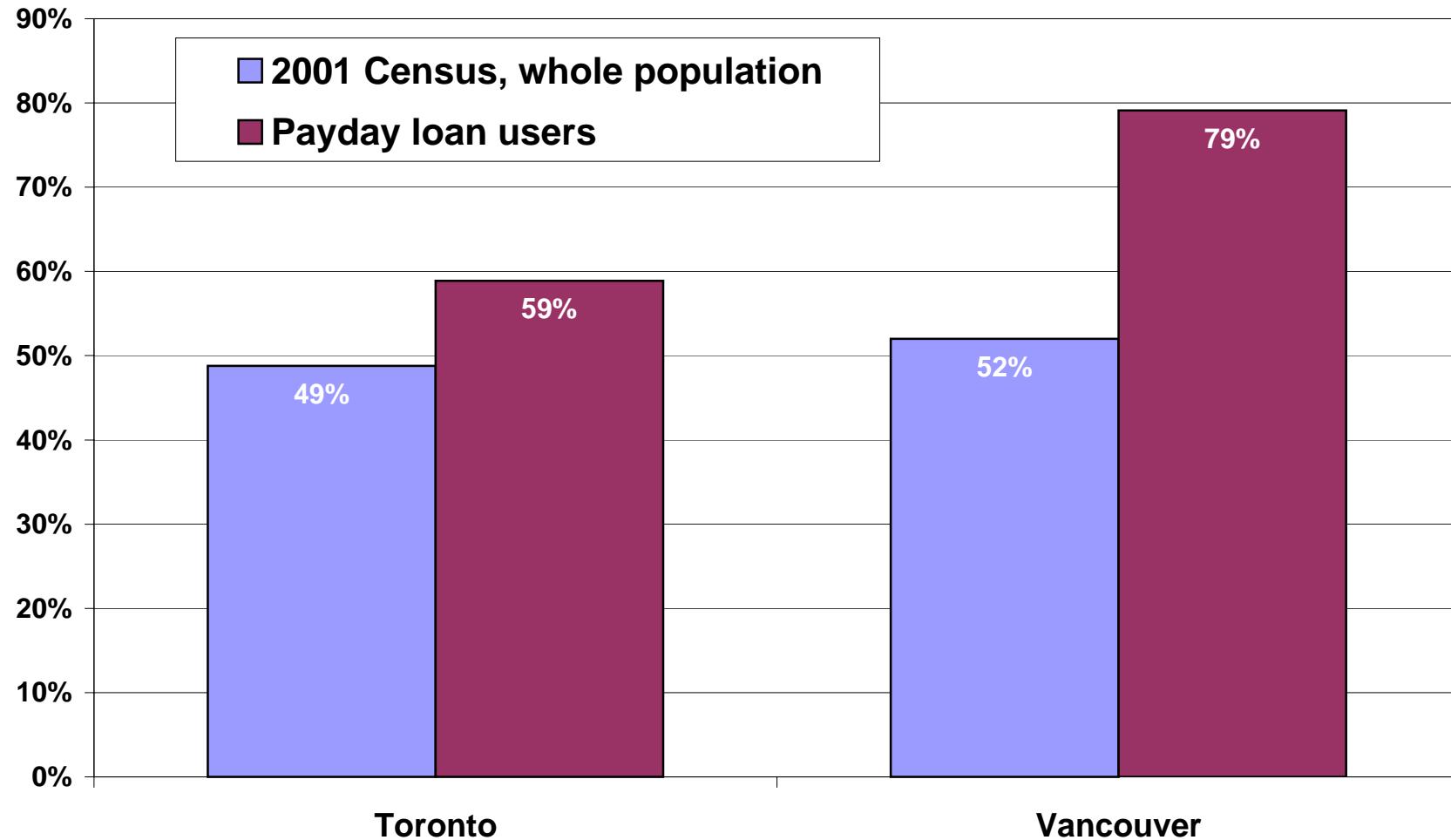
The findings of this research accurately represent what these respondents told us. With more than 400 interviews conducted face-to-face on the doorsteps of a broad range of payday lending institutions, we believe this research to be the most comprehensive profile of these consumers yet produced.

## 5.0 About Strategic Communications

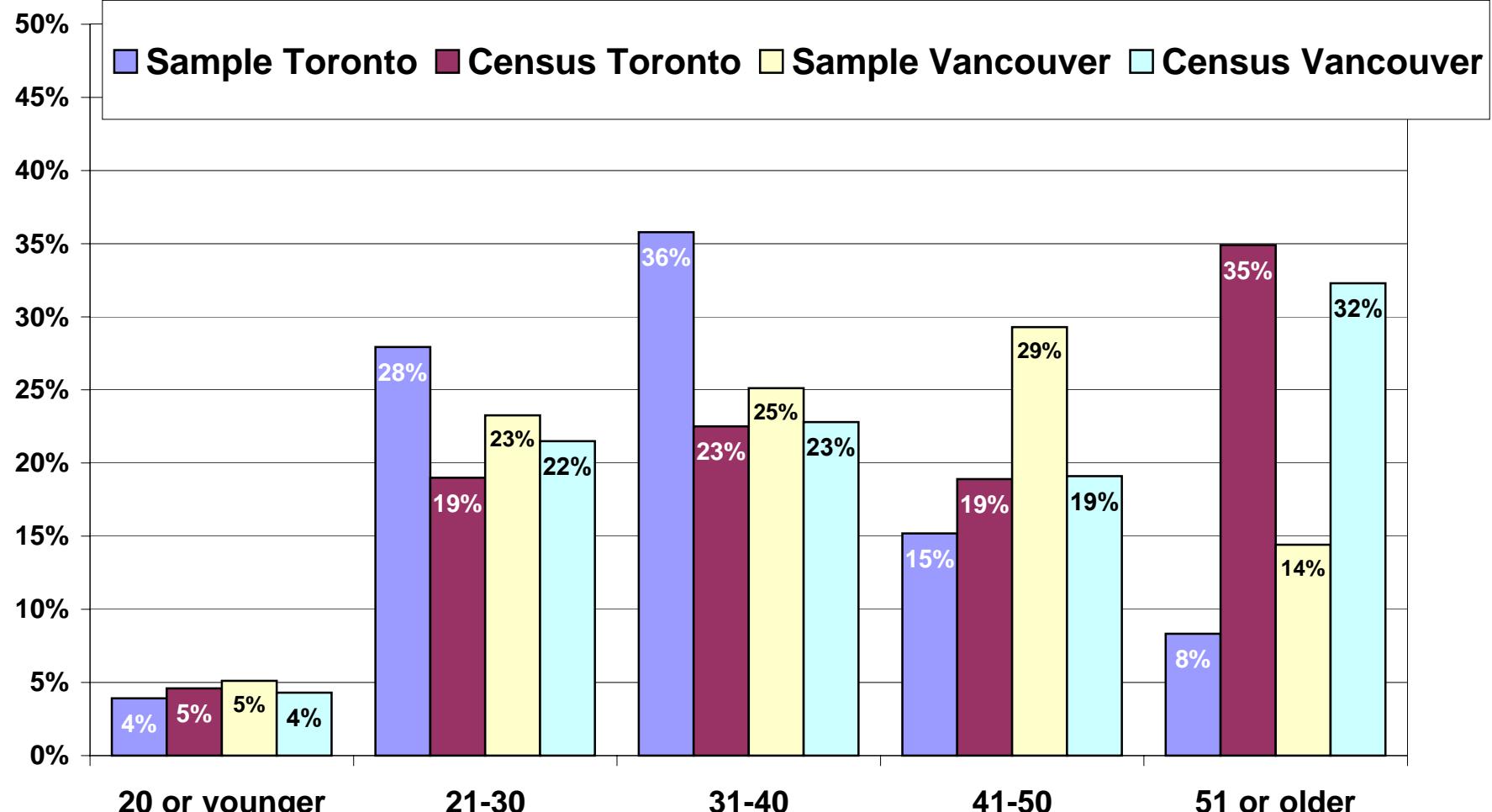
Strategic Communications, Inc. (Stratcom) is an innovative Canadian consulting firm founded in 1991 by Robert Penner. Stratcom specializes in services to enhance the effectiveness of Canada’s non-profit community, offering services in the fields of opinion research, communications, and campaign strategy. The company has two full-service offices in Toronto and Vancouver.

Stratcom has conducted public opinion and specialized research for clients such as the **Law Society of Upper Canada**, **Amnesty International**, and the **United Nations High Commission for Refugees (UNHCR)**. The company’s research has been noted in The Toronto Star, Vancouver Sun, Globe & Mail as well as in numerous online publications. Stratcom will soon start publication of an in-depth newsletter focusing on exclusive data from the company’s ten years of public affairs research on behalf of Canadian civil society.

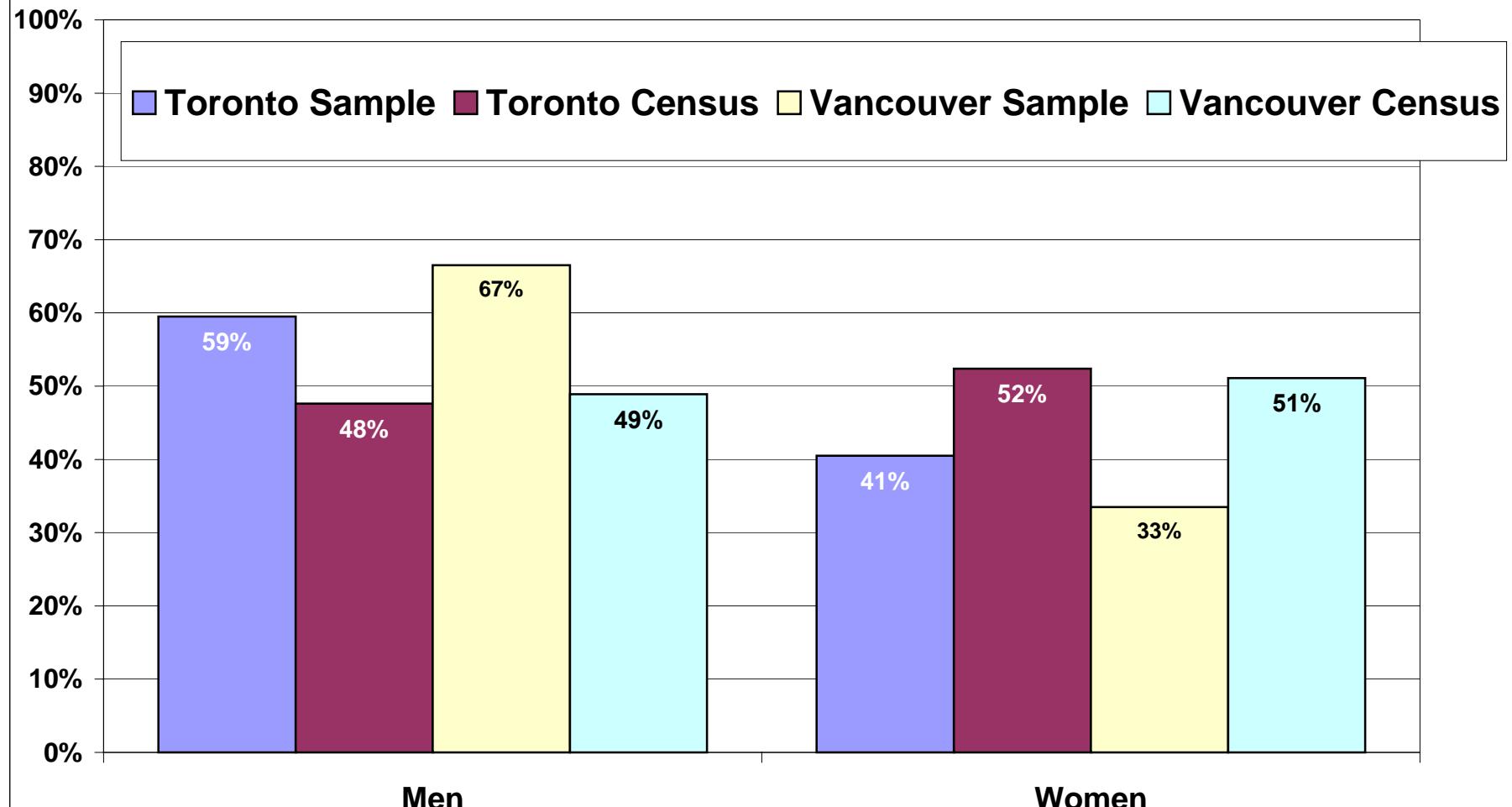
# Born in Canada

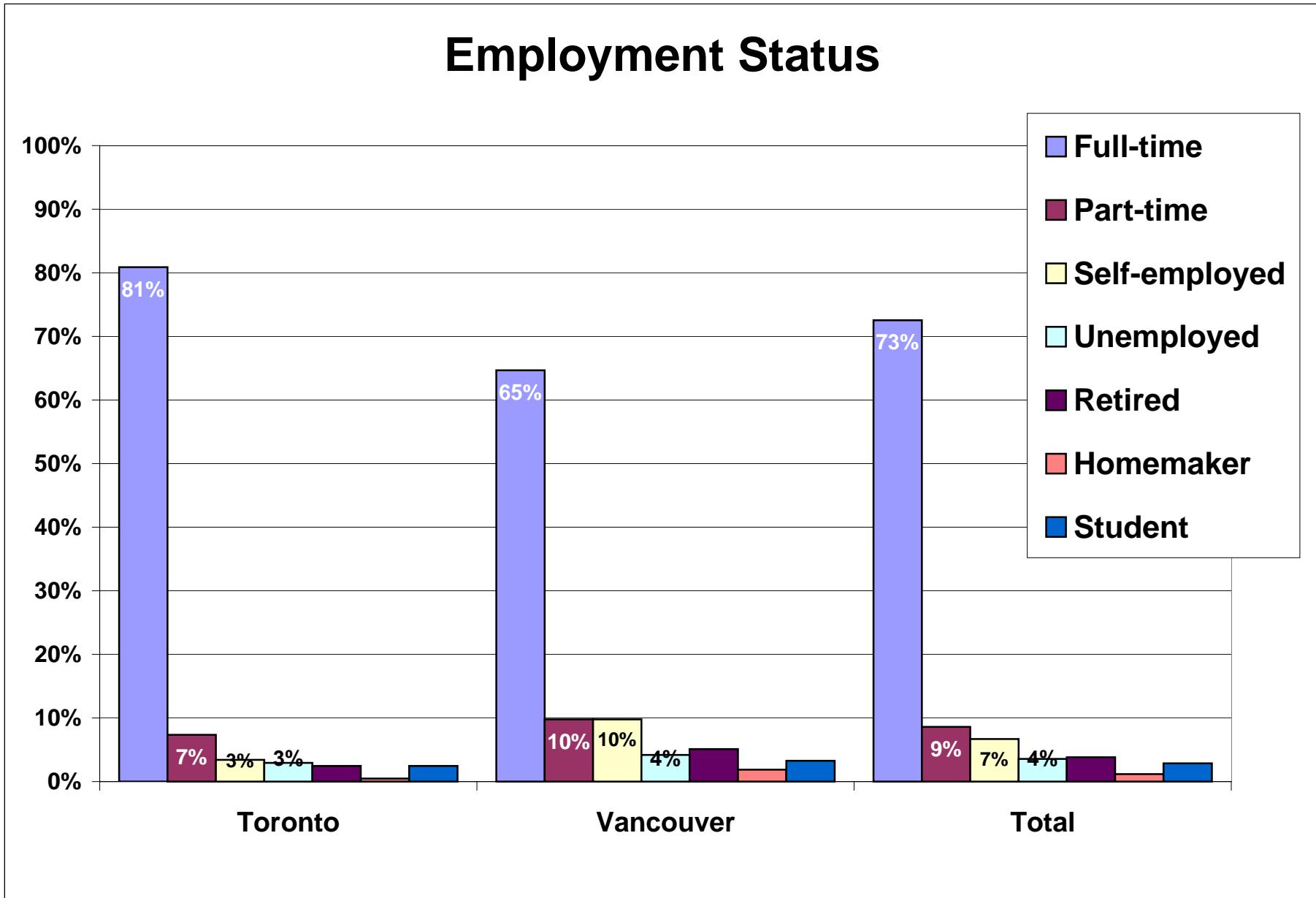


# Age



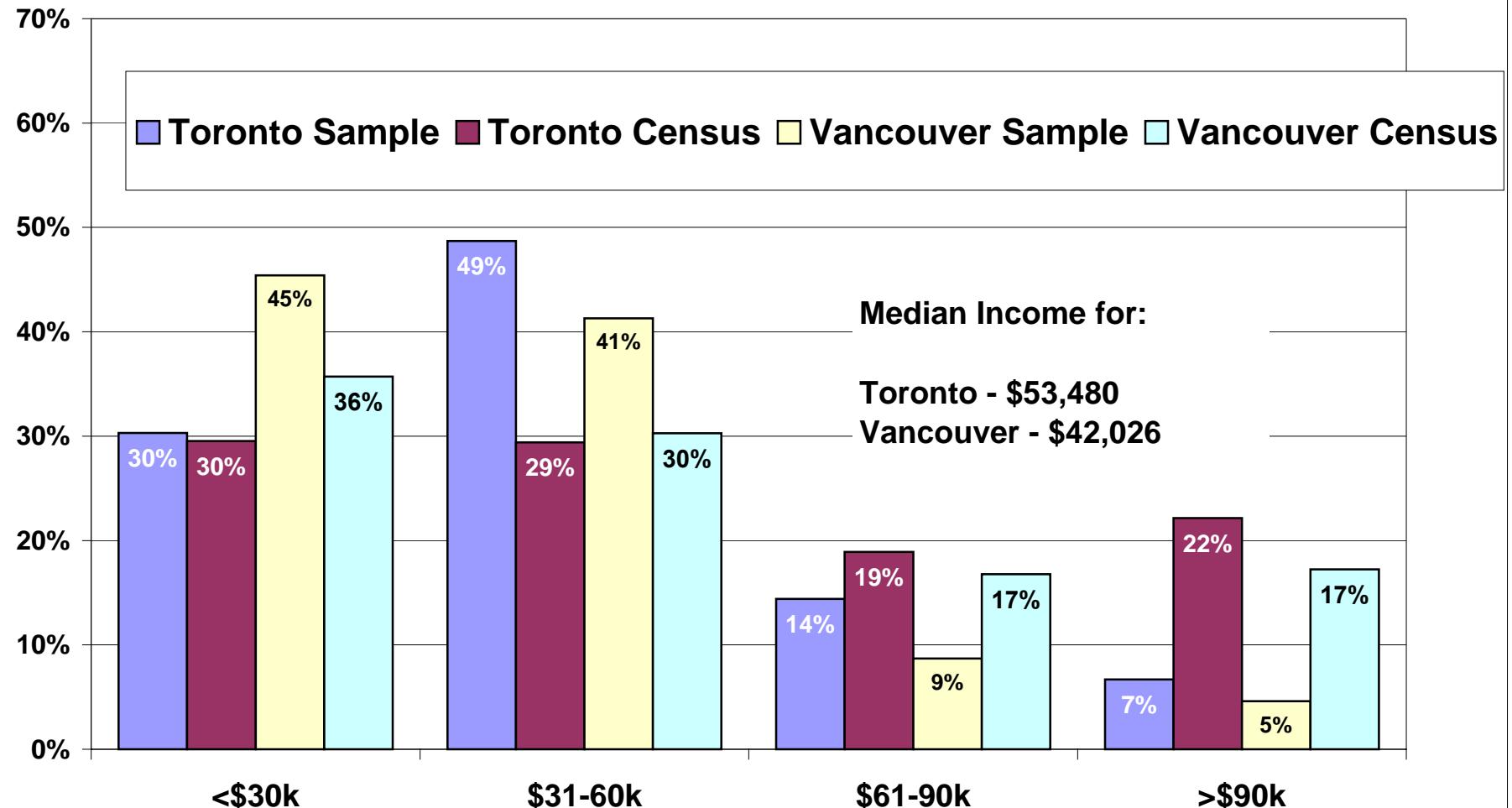
## Gender



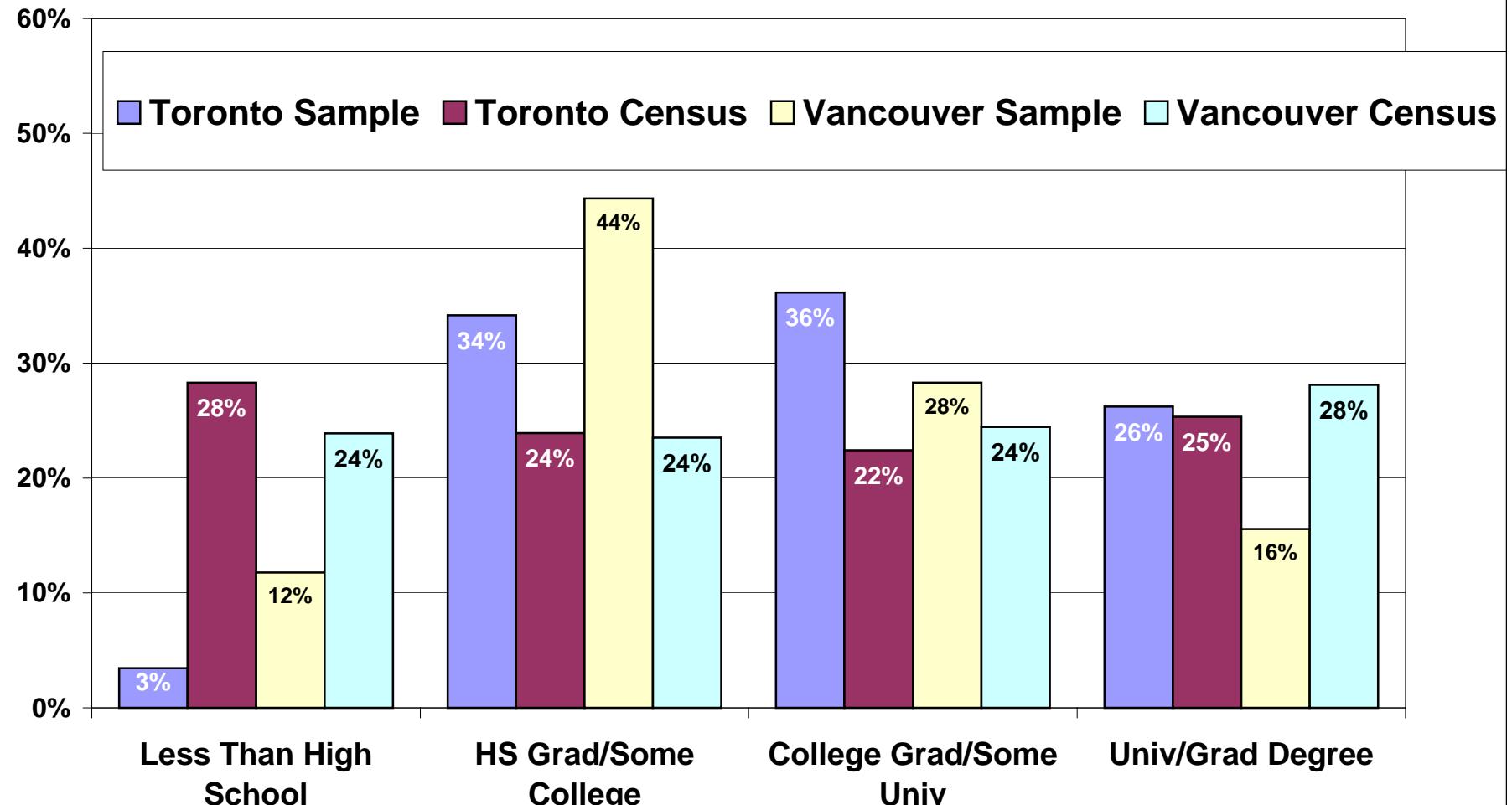


## Household Income

Total, before-tax

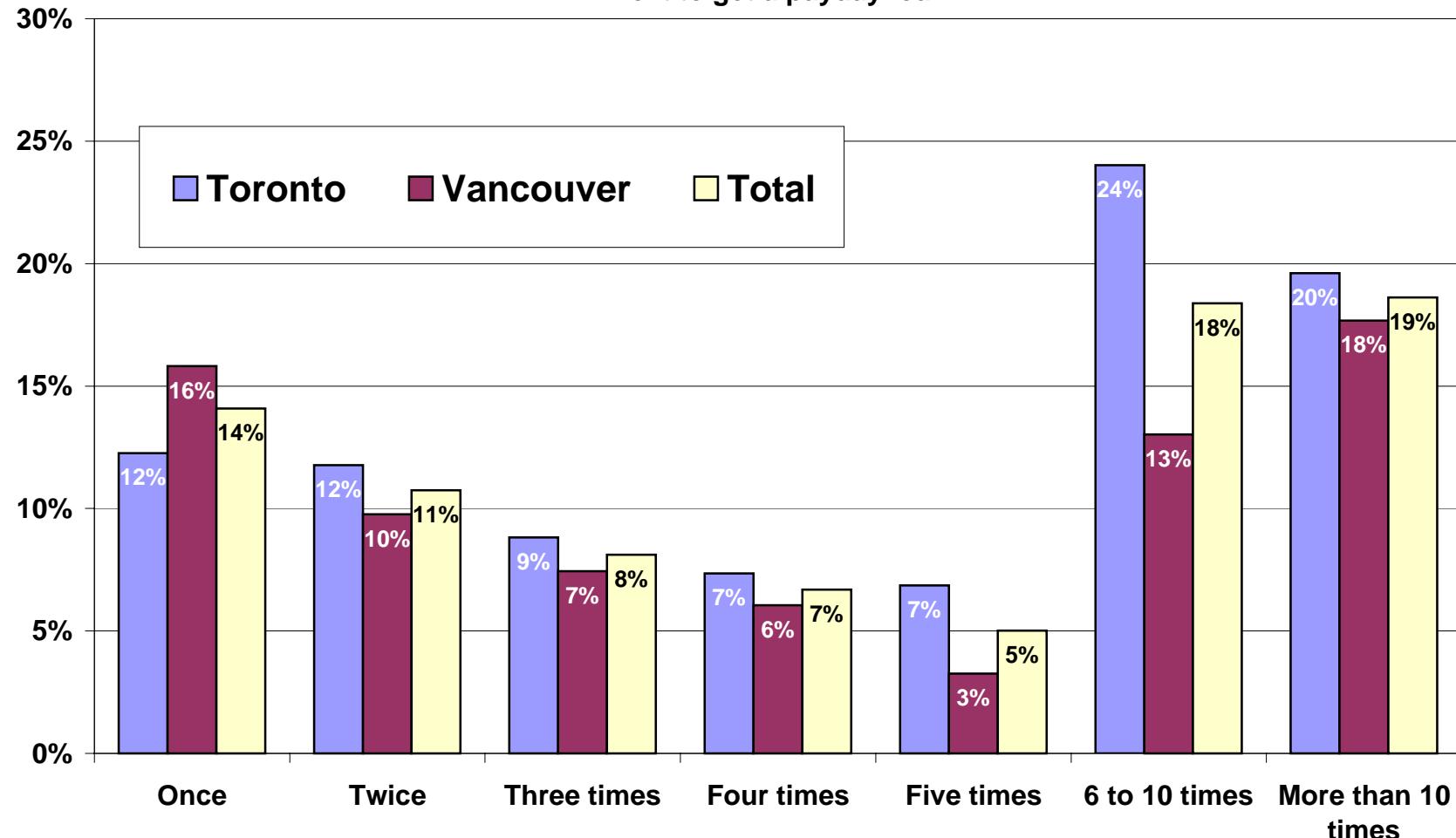


## Education



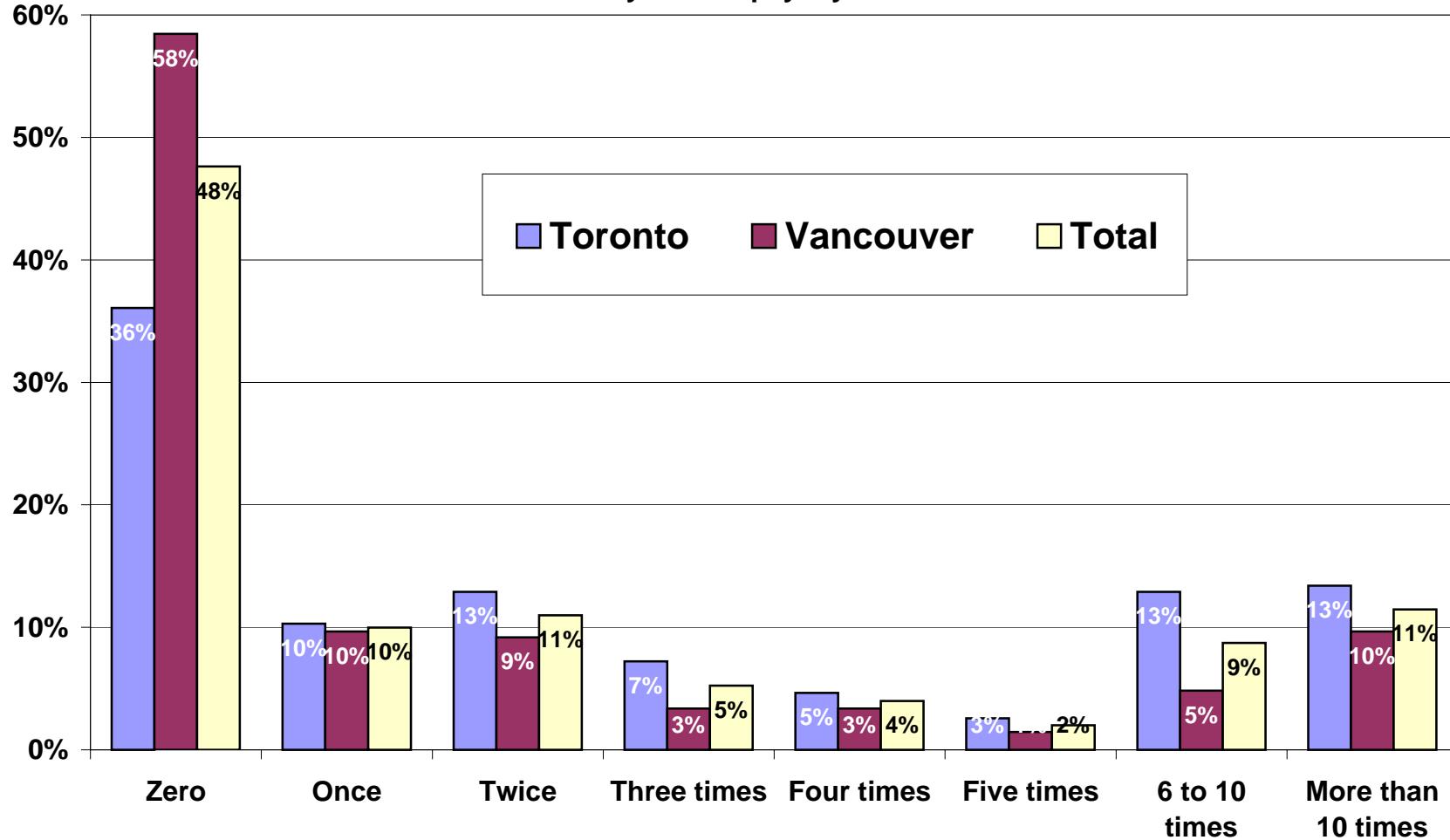
## Frequency of Use

In the past 12 months, about how many times have you used [store name] or other stores like it to get a payday loan?



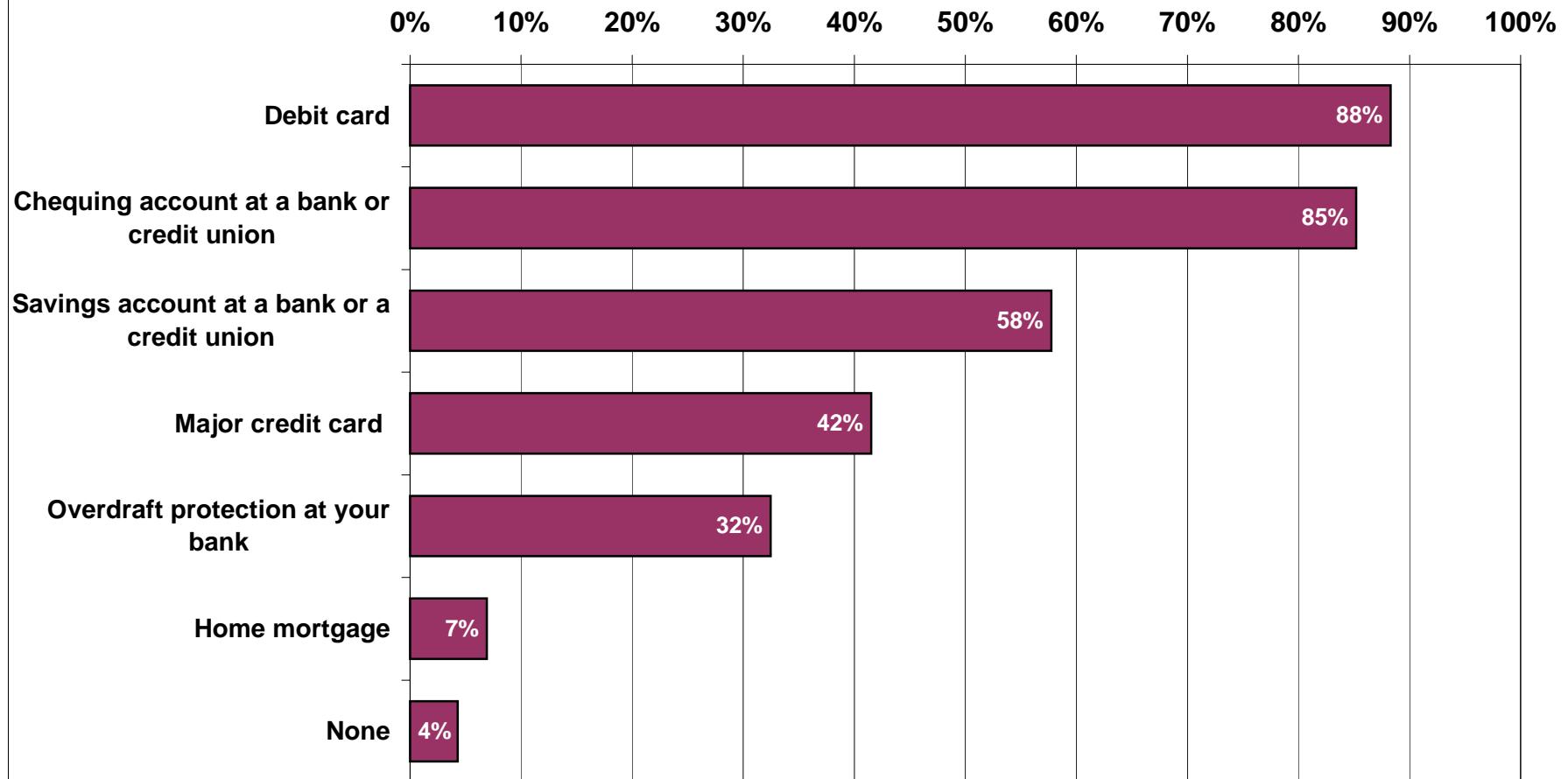
## Rapid Turnover Borrowing

How many times in the last 12 months have you taken out a payday loan right after paying off your last payday loan?



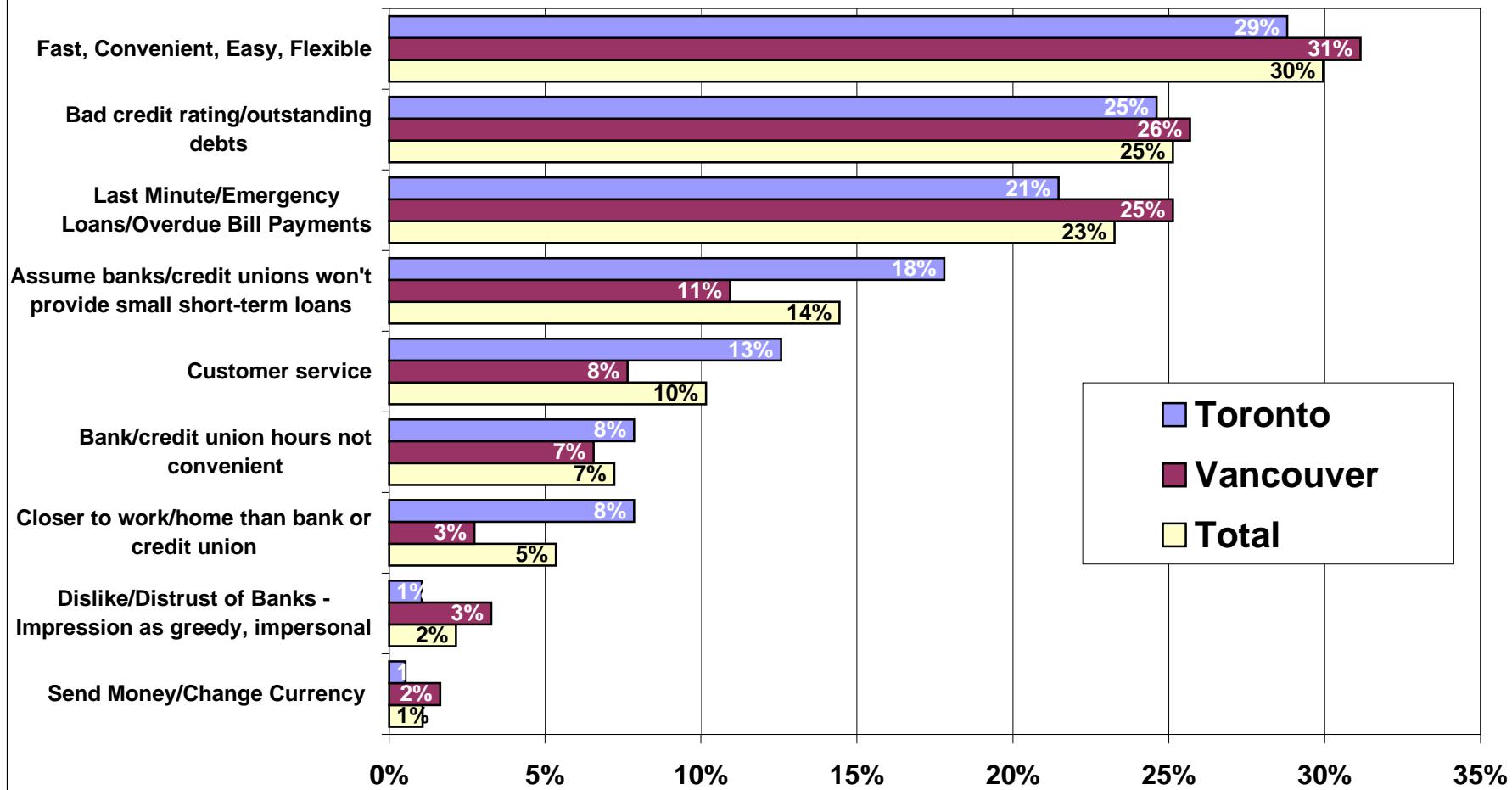
## Other Financial Services

Which of the following financial products or services do you currently have?



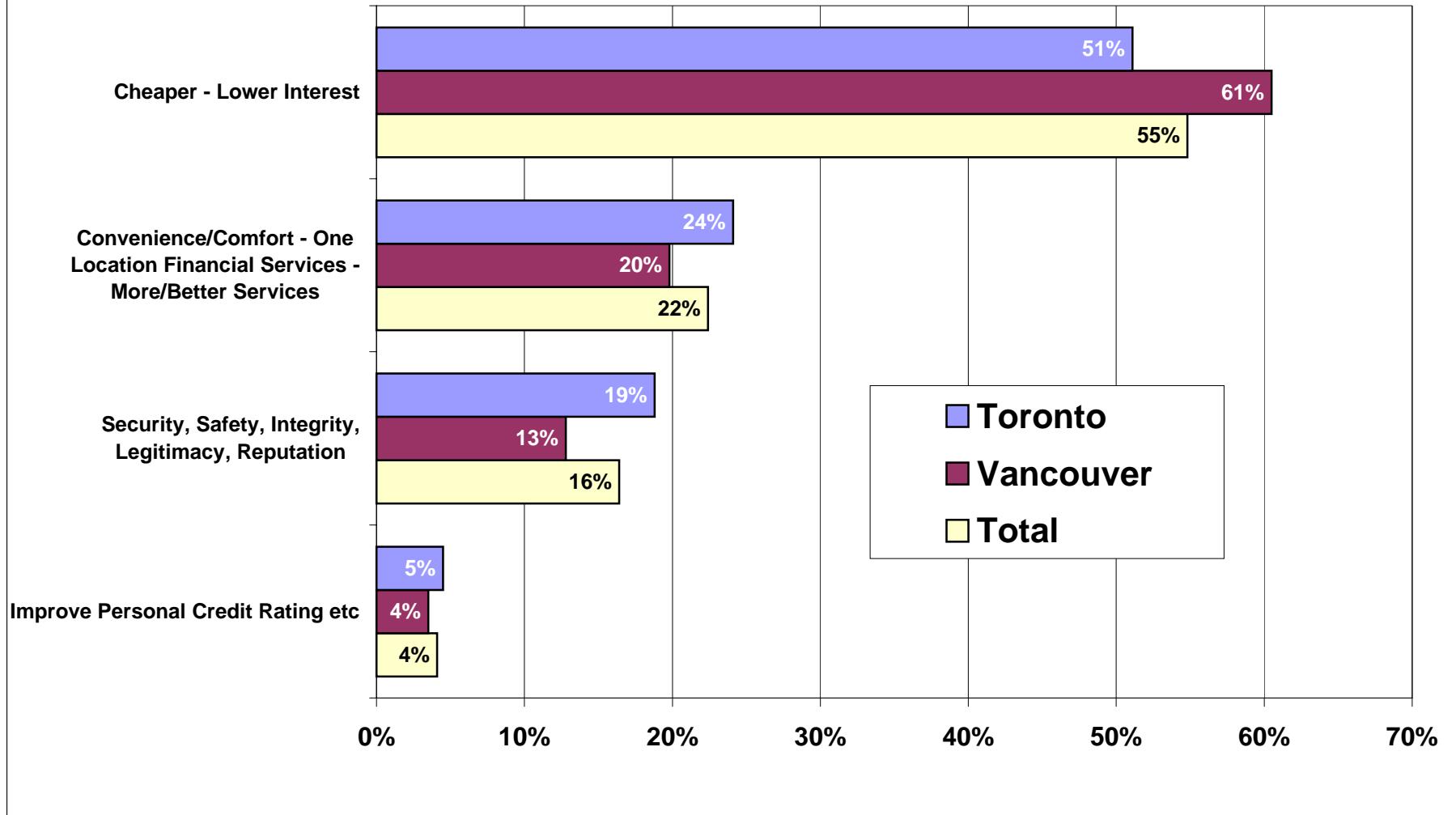
## Reasons for Using Payday Loans

In your case, what are the main reasons why you use payday services like [name of store] instead of a bank or credit union?



# Reasons to Prefer a Bank or Credit Union

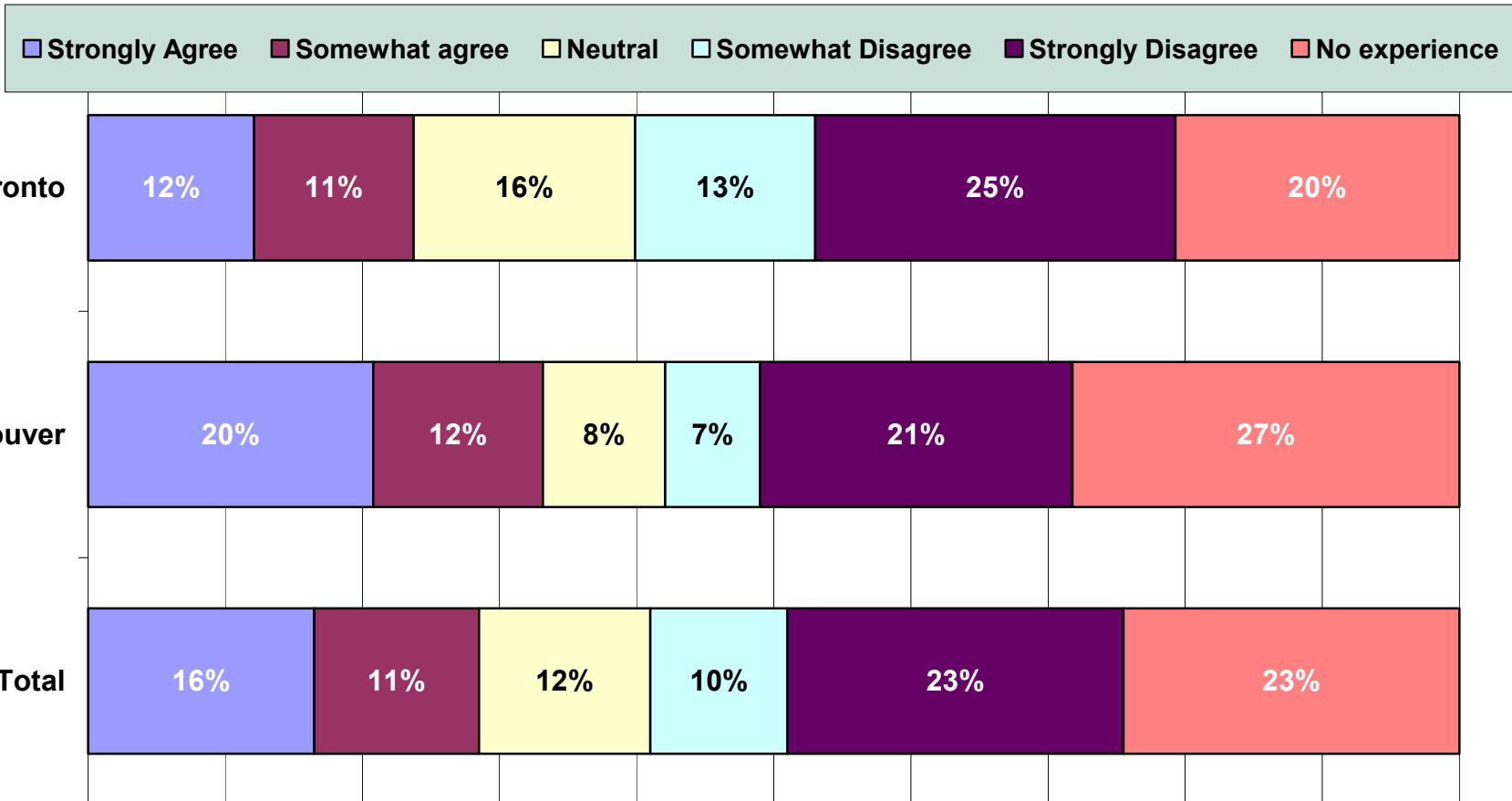
Why would you prefer to use a bank or credit union? (n=219)



# Intimidation Factor?

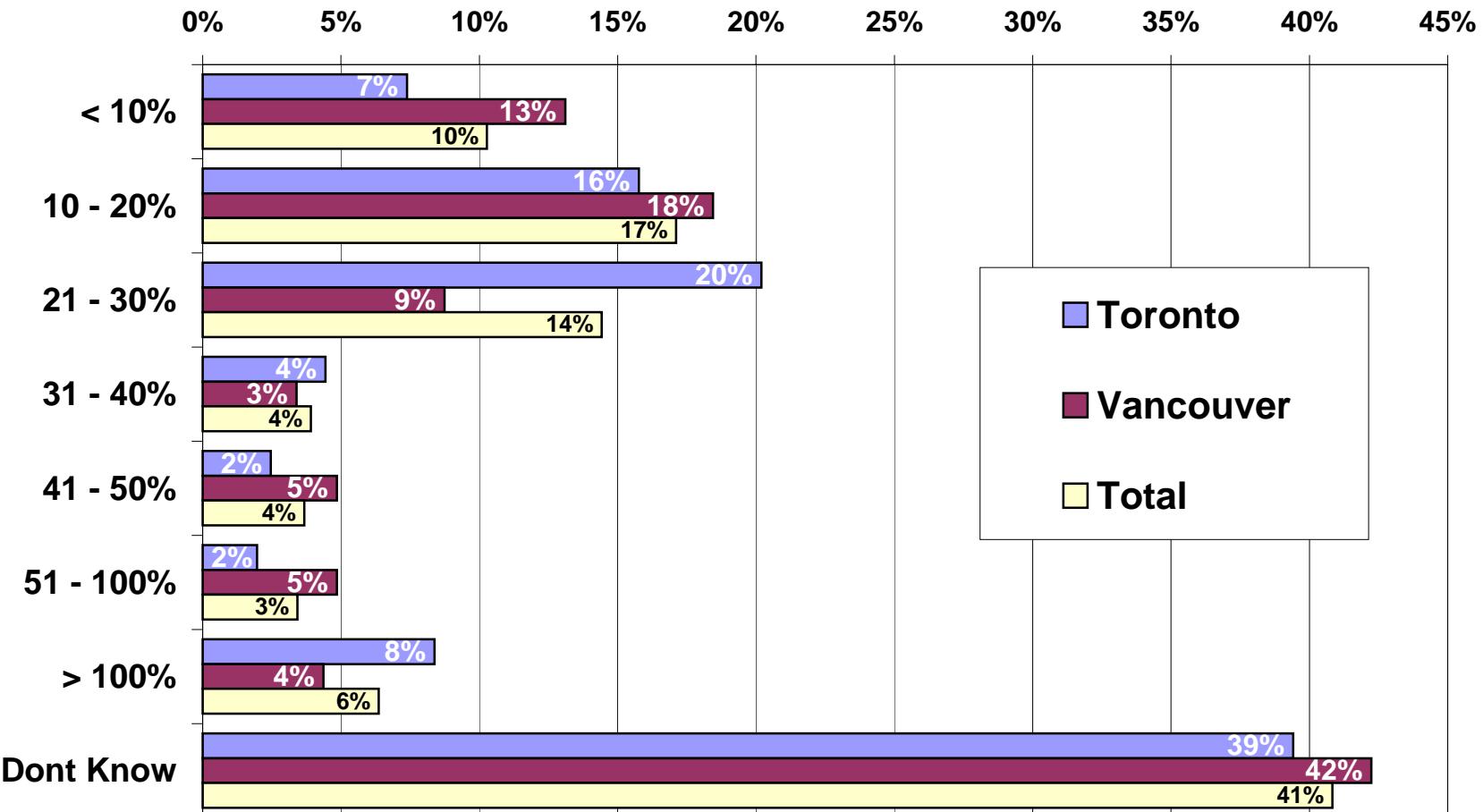
In the past I have felt uncomfortable or intimidated by the collection practices used by payday lending companies like [name location].

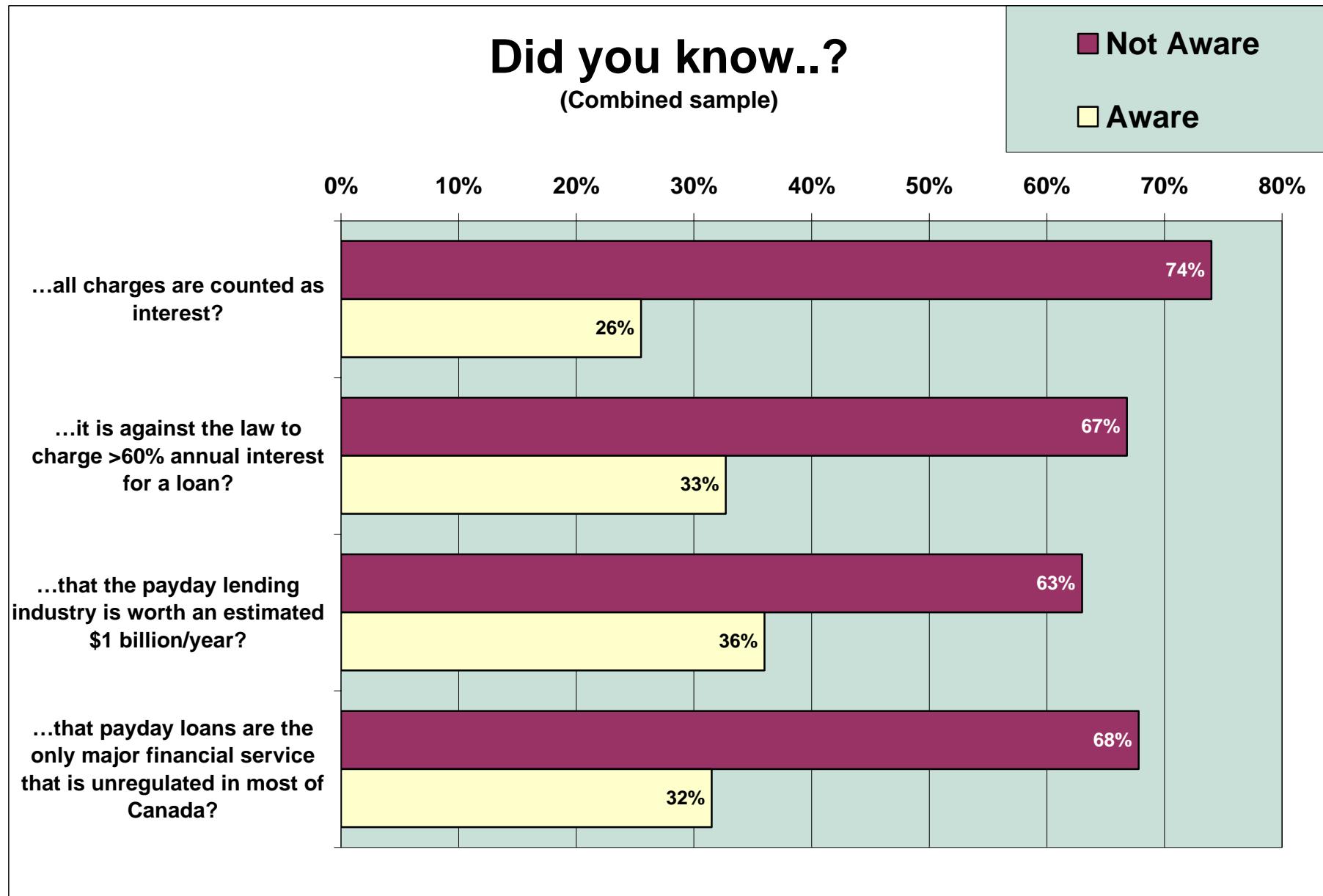
pct Agree/Disagree



## Perceived Annual Interest Rates

What percent annual interest do you estimate you are paying on the payday loans you receive here?





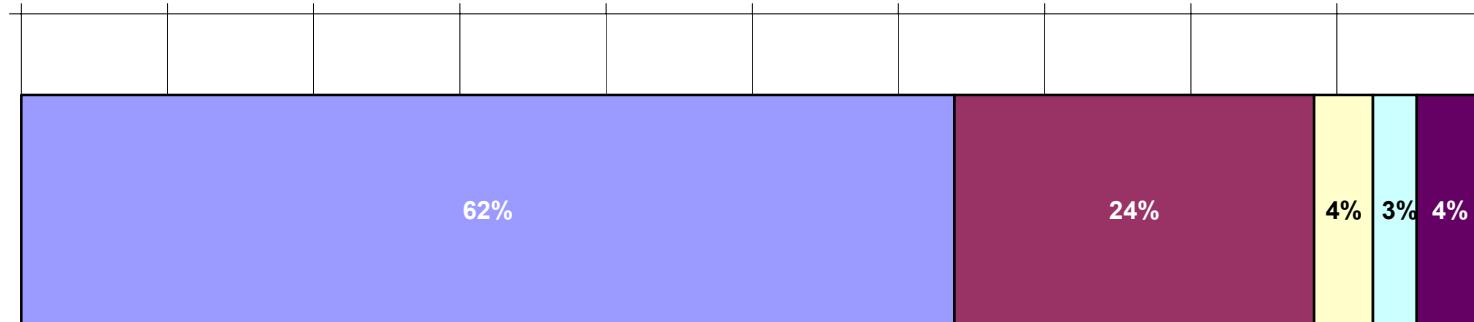
# Is Regulation Important?

Very Important       Somewhat Important       Neutral       Somewhat Unimportant       Very Unimportant

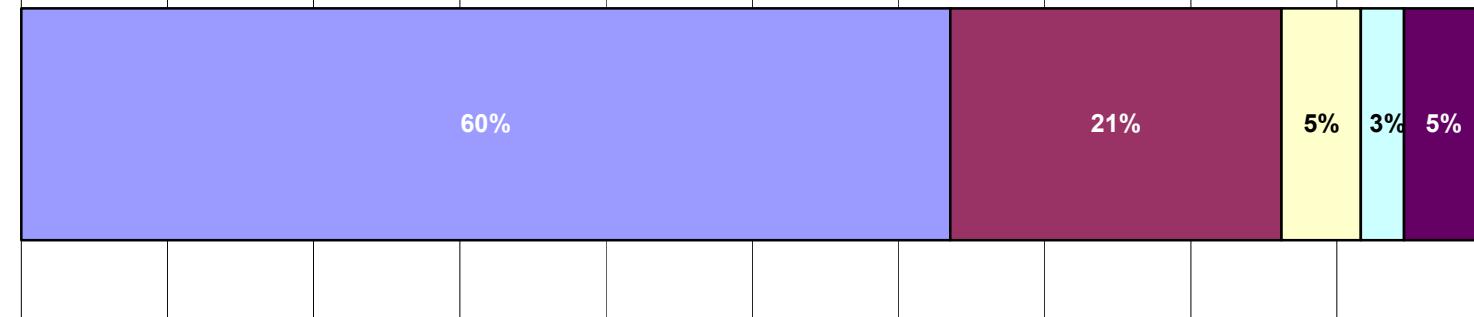
pct Agree/Disagree

0%    10%    20%    30%    40%    50%    60%    70%    80%    90%    100%

Toronto

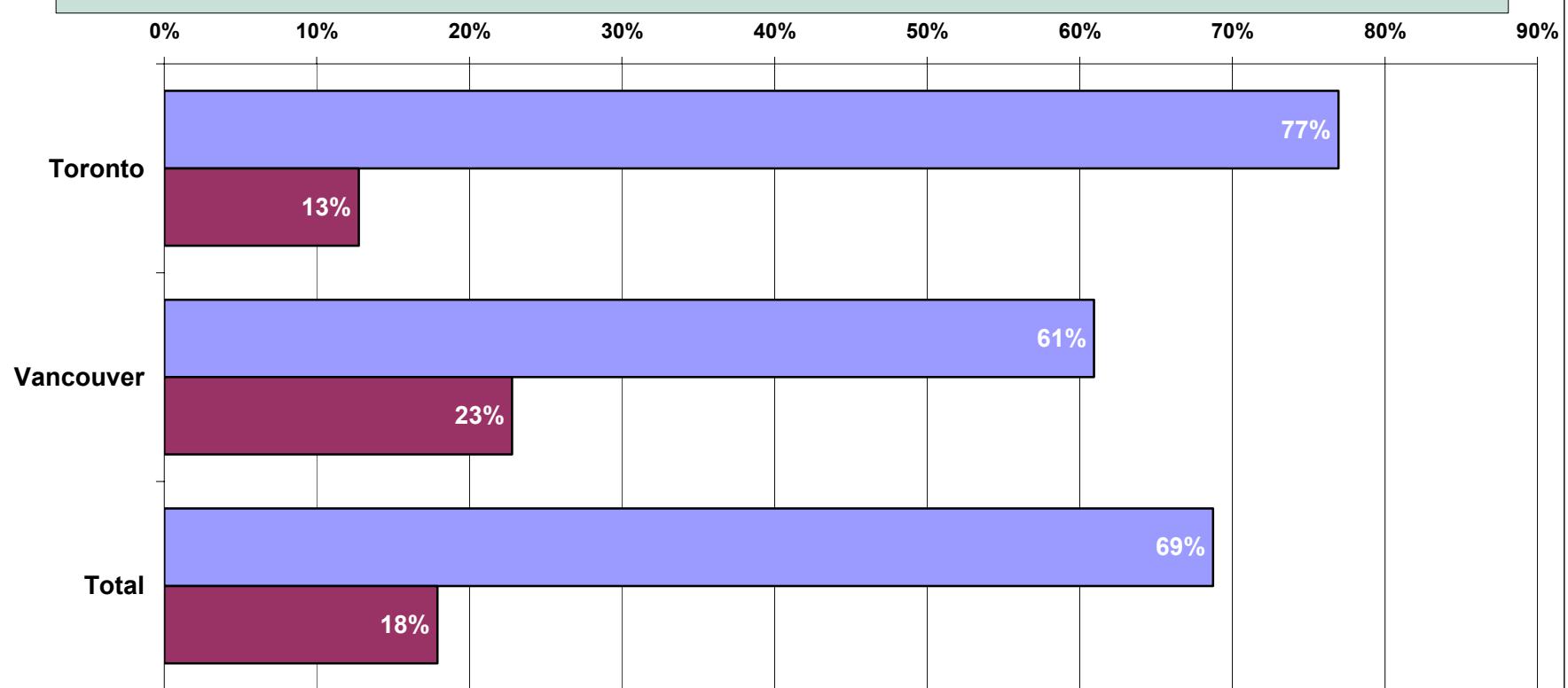


Vancouver



## To Regulate or Not to Regulate?

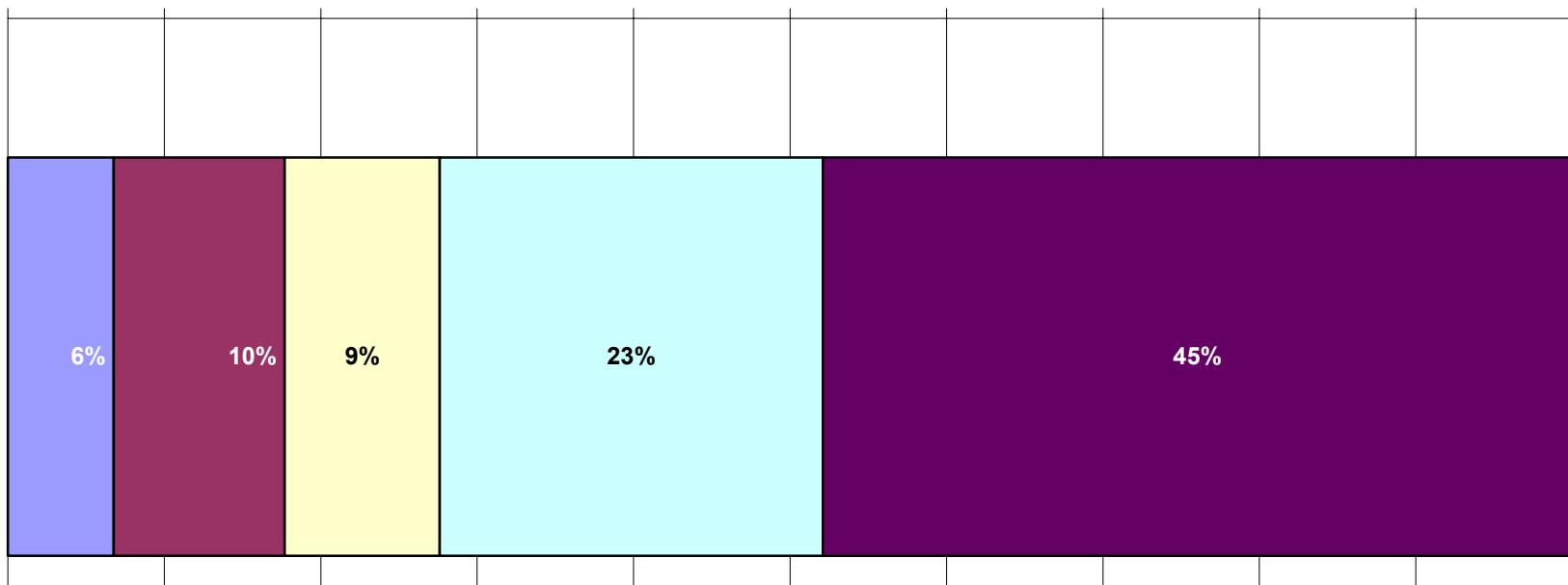
- Regulate the payday loan industry to reduce rates
- Interest rates and fees are justified and the industry should not be regulated by government.



# Ontario Government Inaction on Payday Lending (n=204)

Strongly approve   Somewhat approve   Neutral   Somewhat disapprove   Strongly disapprove

0%   10%   20%   30%   40%   50%   60%   70%   80%   90%   100%



[Toronto Sample Only] This past spring the Ontario legislature considered legislation to regulate the payday lending industry, but the Liberal government decided to withdraw its support for the bill, which means the industry will remain unregulated for the foreseeable future. Based on what you know right now, do you approve or disapprove of the Liberal government's actions?