# IT'S EXPENSIVE TO BE POOR:

## HOW CANADIAN BANKS ARE FAILING LOW INCOME COMMUNITIES

**ACORN Canada** **May 2016**

## Introduction:

In 2015 the six largest banks in Canada – TD, BMO, RBC, Scotia, CIBC and National Bank – **generated $35 billion in profits**, up from $29 billion in 2013.

This perception of achievement, however, is misleading. Canadian banks are failing Canada's low and moderate income residents. The banks' focus on profits have led to service cuts, branch closures, and high fees, primarily impacting Canada's low and moderate income earners.

As the mainstream banking sector abandons lower income communities, low and moderate income Canadians become more dependent on fringe financial institutions such as payday lenders, instalment loan operators, rent-to-own, and others lenders that charge predatory rates for their products and services.

As a result, a two tiered banking system is created: individuals who have more money are afforded better access to services and products than those who do not.

"People are being driven to payday lenders and installment loans when banks deny them basic banking services like overdraft protection, lines of credit and hold-free accounts... as a result predatory lenders are the only option for many people living pay-cheque to pay-cheque when their car breaks down or their hours are cut.

- ACORN Canada spokesperson Donna Borden


ACORN Members hit the streets for fair banking — Montreal 2015

## What's Inside:

- Financial Exclusion
- The Rise of the Fringe Financial Sector
- ACORN Canada and Fair Banking
- Next Steps


ACORN Canada members protest BMO's investment in the fringe financial sector — Montreal 2015

# Financial Exclusion: Banks are Failing our Communities

Millions of Canadians are excluded and/or underserved by the banking sector.

3% of all Canadians – close to one million - are unbanked, meaning they have no relationship at all with a mainstream financial institution such as a bank. In addition, 15% - or close to five million Canadians –are underbanked. Underbanked Canadians may have a bank account, but their engagement with the mainstream financial sector remains limited.

The millions of Canadians who are unbanked or underbanked are considered to be financially excluded from the mainstream banking sector.

Financial exclusion is common due to, or based, on particular grounds. These include:

- Being perceived as too risky to access basic credit products like lines of credit, overdraft protection, credit cards, hold-free chequinq accounts;
- Conditions and rules like minimum balances for basic credit products like overdraft protection. NSF fees often exceed over $40 at most major banks;
- targeted marketing and sales that do not seek to gain business from certain subgroups, often called red-lining;
- Geographic exclusion. Between 2001 and 2003, 700 bank branches in Canada were closed. These closures found they were mostly concentrated in lower income neighbourhoods, where upon further analysis showed that payday lenders had moved aggressively to fill the vacuum left by the banks.

Fringe financial institutions have stepped in to provide services to individuals deemed "too risky" for the financial mainstream. As a result of their exclusion from mainstream financial services, low and moderate income Canadians who are unbanked or under-banked must turn to this fringe financial sector to fulfill their banking needs, often with dire financial consequences.

# The Rise of the Fringe Financial Sector: Two - Tiered Banking


The failure of banks to meet the needs of low and moderate income individuals has resulted in the proliferation of fringe financial services. These services typically offer financial products at interest rates that are much higher than those charged by mainstream financial institutions. Payday lenders, instalment and car title loan companies, as well as rent-to-own outlets make up the bulk of the fringe financial sector.

There has been explosive growth of the fringe financial sector in Canada. A 2007 driving audit performed by the United Way in Toronto identified 317 payday lending and cheque cashing stores, mostly concentrated in the city's lowest-income neighbourhoods. This represents an 8 fold increase over 12 years – from 1995 to 2007. The Canadian Payday Loan Association (CPLA) has expressed that the rapid growth of its industry is evidence of growing consumer demand. In 2009, the percentage of people who said they or a family member had used a payday loan service was 1.9%. In 2015, that number had grown to 4.3%. In Canada, there are over 1,400 payday loan outlets, and the industry is worth about $2.5-billion annually.

**In most provinces, payday lenders are legally allowed to charge fees and interest rates ranging from 442% - 600% on loans of up to $1500.**

Increasing predatory lending is reaching moderate income communities with larger products like instalment loans and title loans. As it stands, car title, instalment loan companies and rent-to-own furniture outlets are unregulated under Canadian law. The only law that applies to them is the federal usury law which is set at a 60% maximum interest rate on loans. By coming in at just under 60%, and by tacking on fees and other costs, these companies sometimes provide loans that exceed that 60% rate. According to a report by Equifax, instalment loans were one of the two main drivers of consumer debt growth in the first quarter of 2015. A study conducted by Hoyes, Michalos & Associates in 2015 showed that debtors' use of "fast cash" instalment loans has seen a significant increase in use, from 1% to 5% over the previous 2 years. Antidotal evidence suggests that instalment loan borrowers are paying up to $3,500 in insurance financed into a loan of $10,000 plus 60% interest. In an unregulated web of loan flipping and contract renewals, individuals might end up paying up to $25,000 on a $10,000, loan with the $10,000 balance still owing. As for car title loans, lenders allow borrowers to hand over the title to their cars in order to get a sub-prime loan, also at usurious rates.

**"Individuals end up paying up to $25,000 on a $10,000 loan, with the $10,000 balance still owing."**

The results and business model of these fringe lenders is repeat use. Users often get caught in crippling cycles of debt and are forced to pay many times over the original amount borrowed. Smaller payday loan companies rely on roll over loans, or back to back loans, as the business model. Research has shown that in a single year a typical payday loan borrower takes out multiple loans, finding it difficult to repay, causing them to enter into a cycle of continuous loan borrowing in order to catch up on previous loans.

**In fact, the payday lending industry itself has claimed that the majority of profits are generated by repeat borrowers who are unable to pay off the loan on time and thus incur additional fees and interest charges.**

# ACORN CANADA
# FAIR BANKING CAMPAIGN

In an attempt to end this two tiered banking system, ACORN Canada members have spent over a decade working on campaigns for fair banking, targeting all levels of government and industry players. In 2005, we targeted the federal government to create a community reinvestment act.

In the late 2008 and 2009, ACORN Canada won important provincial victories to bring payday lender regulation to Ontario and British Columbia, respectively. Key provisions of the legislation in both provinces include banning rollover loans, licensing of lenders, and a 48 hour ‘cooling off’ period.


ACORN Members in Burnaby, B.C. fight for municipal zoning by-laws

ACORN members in these provinces have begun campaigns targeting their respective regional governments to tighten up existing payday loan legislation in order to bring stronger protections for borrowers. These changes include lowering fees and interest rates, longer payback periods, and the creation of a database to end rollover loans.

Since 2014, municipal campaigns pushing for zoning bylaws that limit the proliferation of payday lenders outlets have seen success in several cities in which ACORN and others actively campaigns. Minimum Distance Separation (MDS) bylaws and licensing allow cities to use zoning powers to limit clustering of similar businesses in a city.

Municipal campaigns focused on limiting the activities of such businesses have found success in Burnaby, BC; Maple Ridge, BC; Surrey, BC; Hamilton, ON; Winnipeg, MB; Calgary, AB;  and are showing signs of progress in Toronto and Ottawa.

## NEXT STEPS:

Our national campaign for fair banking targets the federal government to legislate the Canadian banking sector to stop pushing low and moderate income families to predatory banking services through exclusionary business practices.

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## In order to better serve all Canadians, ACORN Canada members' objectives are:

- The Reinstatement of a National Postal Bank;
- Amendment of the Criminal Code to lower the maximum interest rate from 60% to 30%;
- Creation of an Anti-Predatory Loan Act and legislate a code of conduct for all lenders;
- Amendment of the Bank Act to include Community Reinvestment that will require banks to devote a portion of their profit to community investments, and disclose information about their practices;
- A crack down on exorbitant and unfair bank fees;
- Establish citizen oversight committees to monitor bank fees and rates;
- The creation of a fund to encourage low interest alternative financial providers;
- Improve transparency;
- Legislated reinvestment targets to ensure Canada's banking sector invests in the Canadian communities where they've made their money.

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At the national level there exists opportunity for ACORN to move its campaign objectives forward with the new federal government. The Liberals' 2016-17 Federal Budget states that:

**"Canadians deserve financial consumer protection that keeps pace in meeting their needs."**

In the budget, the federal government goes on to explain that "amendments to the Bank Act will be proposed to modernize the financial consumer protection framework by clarifying and enhancing consumer protection through a new chapter in the Act."

In the coming months, ACORN Canada will conduct a survey of its membership to gain an updated perspective of the major needs and obstacles that low income members face with respect to financial services in Canada. This survey will round out our membership`s Fair Banking campaign objectives and develop a more informed report moving forward.