



ACORN Canada

Uniting Communities for Justice

Women and Predatory Lending

In Canada, women earn eighty-seven cents for every dollar earned by men. Women are less likely to be employed than men and are overrepresented in precarious jobs.

Twenty-six per cent of female-led lone parent families live in poverty, compared to twelve per cent of those led by men. Given these statistics, it is somewhat unsurprising that payday loan use tends to occur more often in female-headed households¹. Single mothers living in poverty are forced to rely on high-interest loans from alternative lenders to make ends meet.

US-based research pinpoints the following reasons for reliance on fringe lending by women²:

1. Gender wage gap
2. Men obtaining more favourable loan terms than women
3. Lenders misleading women
4. Women less likely to negotiate loan terms than men
5. Perceived risk of lending to single mothers or women without credit histories
6. Women obtaining debt through abusive relationships

A 2016 ACORN survey of 270 ACORN members across Canada found that only 4% of respondents who use high-interest lenders prefer to use these services. The majority were forced to do so out of necessity. The reasons that people turn to alternative lenders include: no overdraft protection with their bank, no access to a credit card, or the location of the alternative lender. The survey also found that 30% of respondents used high-interest alternative lenders, such as payday lenders, to pay for food, 17% for housing, 16% for bills, and 10% for poverty in general. Studies from the US have found that women, particularly mothers tend to take responsibility for household expenses and are therefore more vulnerable to credit card and payday loan debt³ with women making up approximately 60 per cent of payday loan users.⁴ The typical customer of Desjardins' payday loan alternative, *Fédération Fonds d'entraide Desjardin*, has been

¹ www.pub.gov.mb.ca/payday_loan_review2016/cac_7_tab_5_sfs_analysi_w_simpson_and_k_islam.pdf

² scholarship.law.missouri.edu/cgi/viewcontent.cgi?article=1609&context=facpubs

³ nwlc.org/wp-content/uploads/2016/01/FINAL-Set-Up-To-Fail-When-Low-Wage-Work-Jeopardizes-Parents%E2%80%99-and-Children%E2%80%99s-Success.pdf and

www.pewtrusts.org/en/multimedia/data-visualizations/2012/payday-lending-in-america

⁴ papers.ssrn.com/sol3/papers.cfm?abstract_id=223295; Allison S. Woolston, *Neither Borrower Nor Lender Be: The Future of Payday Lending in Arizona*, 52 ARIZ. L. REV. 853, 860-64 and

https://d3n8a8pro7vhmx.cloudfront.net/acceinstitute/pages/100/attachments/original/1466121052/acce_pinklining_VIEW.pdf?1466121052

described as, “between 25 and 54 years of age, often female relying on social assistance and with annual income less than \$10,000.”⁵

The impact of other types of high-interest lending, such as installment loans, rent-to-own products and title loans, on women is relatively unknown, due to a lack of research in this area. However, from ACORN’s anecdotal research gathered during outreach in low-income communities across the country, we suspect that women are increasingly turning to these types of loans. Credit reporting agency Transunion has indicated that installment loan debt is growing faster than any other type of debt in Canada.⁶ Installment loans are typically unsecured loans of up to \$15,000, with set repayments over periods of up to three years. Interest rates can reach 59.9 per cent, just below the legal cap of 60 per cent.

Case Study: Donna Borden - Installment Loan from CitiFinancial (now Fairstone)

ACORN member Donna Borden borrowed \$10,000 from CitiFinancial in 2003. She took out the loan to consolidate some debts, after being denied a consolidation loan by her bank. After 7 years, Donna had paid \$25,000 in interest and still owed \$10,000. She was misled into getting \$2,600 in insurance on a \$10,000 loan. The interest was rolled into the loan, and she then also paid interest on the insurance. The lender also changed Donna’s loan terms several times without telling her and charged her a number of refinancing fees. Donna tried to seek help but found that alternative financial institutions offering installment loans are insufficiently regulated and little information is available to consumers about these types of high-interest loans.

Background: High-Interest Alternative Lenders

Up to 15% of Canadians are underbanked, meaning that they may have access to a bank account but it does not meet their needs. Consumers are financially excluded for a number of reasons, including: high NSF fees (\$48 at most banks); no overdraft protection for emergencies; geographic barriers; and no access to low-interest credit.

Alternative lenders such as payday lenders, installment lenders, rent-to-own companies and car title lenders operate in a consumer protection grey area. Federally, the Criminal Code mandates that loans cannot exceed 60 per cent. However, ACORN has encountered examples of additional fees and insurance costs taking interest rates beyond 60 per cent (see case study).

Payday loans are typically high-cost, unsecured loans of up to \$1,500, usually repaid by the next payday. They are regulated provincially, with a maximum cost of \$15 - \$25 for every \$100 borrowed, depending on the province. This equates to 391% - 652%

⁵ papers.ssrn.com/sol3/papers.cfm?abstract_id=1585804 and communitybasedresearch.ca/resources/Projects/574%20Payday%20Lending/Payday_Lending_-_In_Search_of_a_Local_Alternative_Report.pdf

⁶ cbc.ca/news/business/transunion-mortgages-%20debt-1.4256026

APR. Canada has an estimated 1,500 payday loan outlets, often clustered in low-income neighbourhoods where banks are closing branches at an increasing rate.⁷

Recent ACORN research has found that one quarter of people who are experiencing crisis level debt - to the extent that they must seek professional assistance - have debt with a high-interest, alternative lender. Of the most common high-interest lenders, 37 per cent of individuals experiencing crisis debt have debt with Money Mart, the largest payday lender in Canada. Money Mart also offers installment loans. Over one third have debt with installment lender, Fairstone (previously CitiFinancial).

ACORN Canada's Fair Banking/End Predatory Lending Campaign:

- Mandate the banks to provide access to low interest credit for emergencies;
- Mandate the banks to provide low interest overdraft protection;
- Mandate the banks to provide no holds on cheques;
- Mandate the banks to lower NSF fees from \$45 to \$10;
- Create a fund to support alternatives to predatory lenders;
- Create a federal anti-predatory lending strategy;
- Create a real time national tracking system (or database) to help stop roll over loans;
- Amend the Criminal Code to lower the maximum interest rate from 60% to 30%.

Find out more at acorncanada.org/fair-banking

⁷ acorncanada.org/resource/why-canada-needs-postal-banking