

# What do you need to know about Payday & Instalment loans?



# Avoid these loans at all costs because they often lead to financial ruin due to the high interest rate.

- Payday Loans/ Instalment loans are predatory – Interest rates range anywhere between **45% to 450%** or more while the interest rate charged on a credit card is close to **20%** and **3-5%** for a line of credit!
- Talk to your bank first to see if there's anything they will do to help you. Talk to other banks too!
- If you need to take any such loan, this is what you must know because **EASY/QUICK LOANS = EASY/QUICK DEBT**



# Presentation Outline

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- What are predatory loans?
- What are the different types of predatory loans?
- Can you get new loans before the previous one is paid off?
- What do you need to know about the cost of borrowing?
- What should you check before taking out a payday/installment loan?
- What are “optional services”?
- What about online loans?
- What happens if I am unable to repay these loans on time?
- Can I cancel my loan?
- What if I am unable to pay off my loan/ feel cheated or you’re being harassed?



# What Are Predatory Loans?

Generally, loans with an interest rate of more than **35%** are considered high interest or predatory. The fact that the interest rate is so high, you end up paying back a lot more than you originally took out from the lender. **These loans are non-bank loans**, i.e. mostly offered from non-bank institutions or private companies such as Money Mart, Cash Money, Fairstone, Easy Financial and many others.

They are offered in the store as well as online.



# What Are The Different Kinds of Predatory Loans?

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## Payday Loans

- A payday loan is a short-term loan.
- You can borrow up to \$1,500 which must be paid back from your next paycheque.
- In Ontario, Payday lenders cannot give you more than 50% of your net monthly pay per loan.
- You have to agree to repay the loan in a short period of time, usually 14-28 days.
- The longest time you can get a payday loan for, is 62 days, which is about 2 months.
- Payday loans are meant to cover a cash shortfall until your next pay or for a short period.



## Instalment Loans

- Instalment loans, or personal loans, are typically loans of money between \$1,500 and \$50,000. They can be secured (ie. tied to an asset you own, like a car or a house), or unsecured (not tied to an asset).

# Can you get new loans before the previous one is paid off?

- In case of payday loans, You cannot get a new loan until your first one is paid off. However, this does not happen in practice. If a borrower wants to take another payday loan at the same time, they can go to another store just across the street and get the loan even before the first one is paid off!
- Usually payday loans have to be paid back all at once, at the end of the term of the loan.
- But if the loan you're applying for is your third one or more within a 63-day period from the same company, the lender must offer you an extended payment plan.

## In such cases (**EXTENDED PAYDAY LOANS**):

- Instalment payments must be spread equally over a minimum number of the borrower's pay periods
- If a borrower makes a prepayment, you must:
  - adjust all future scheduled instalments and spread them equally over the remaining term of the agreement
  - give the borrower an updated agreement in writing
- The cost of borrowing, when converted to an annual percentage rate, **must be less than the criminal rate of interest as defined in the Criminal Code of Canada (60%)**, which is calculated differently than the annual percentage rate.
- This practice effectively means converting a payday loan to an instalment loan.



# What do I need to know about the cost of borrowing?

- *Cost of Borrowing* is the combined dollar amount of all fees, interest charges, costs, commissions, etc.
- It does not include the principal of the loans or fees charged because of non-sufficient funds or other loan default charges.
- It also does not include “optional products” you voluntarily sign up for, such as insurance or credit monitoring.

**DO NOT RUSH TO SIGN THE AGREEMENT -  
TAKE A FEW MINUTES TO UNDERSTAND THE  
COST OF BORROWING**



# Cost of Borrowing: Payday Loans

- In Ontario, payday loans are governed by the **Payday Loans Act, 2008**. The **General Regulation and Administrative Penalties** Regulation contain additional rules.
- Lenders in Ontario cannot charge more than **\$15 per \$100 borrowed**, flat interest including all fees and charges directly or indirectly connected to the payday loan agreement.
- **REMEMBER: BECAUSE** Payday loans usually must be repaid within 14-28 days, or at most, in 62 days, it means the equivalent annual interest rate is much higher than 15%.





# APR VS. EAR

## Annual Percentage Rate

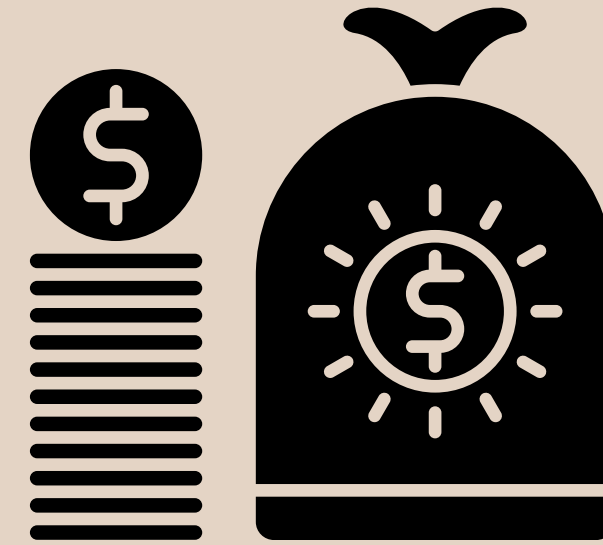
- **Annual Percentage Rate or APR**, or the “nominal interest rate” is the rate of interest that applies to a loan before compounding.
- APR for a payday loan which is charged at a rate of \$15 per 100 and is paid back in 14 days will have an APR of 391.07%.
- This means that a 14-day loan with a single repayment on the 14th day of the term that charges the maximum cost of borrowing will have an APR of 391.07%.

## Effective Annual Rate

- Effective Annual Rate or EAR takes into account the impact of compounding to the interest rate given by the lender. Compounding is the practice of adding “interest on interest”.
- It works by calculating interest on the initial amount you borrow plus all of the accumulated interest from previous periods on the loan.
- How often the lender charges this “interest on interest” is called the compounding frequency. **The result is that EAR more accurately reflects what you will have to pay.**

# Cost of Borrowing: Instalment Loans

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- Instalment loans are regulated by the Criminal Code of Canada's interest rate of 60% EAR. This means that lenders can legally charge 60% interest on these loans. Instalment lenders often advertise rates between 19.9% to 47% APR.
- Instalment loans most often have continuous compounding, meaning interest is added to your loan every day, even if you make scheduled payments weekly, biweekly, or monthly.
- The EAR takes into account the **impact of compounding to the interest rate given by the lender.**
- The result is an interest rate that more accurately reflects what you will have to pay. **That 47% interest rate quoted to you by the instalment lender is actually 59.99% EAR – just 0.01% shy of being considered CRIMINAL.**
- Pricing instalment loan interest rates “just below the line” is the most common practice we see from our members' agreements.

# MUST DOs BEFORE YOU TAKE OUT THESE LOANS



Ask the lender about the total cost of borrowing when you first apply for the loan. **Be sure to find out:**

- all the fees, charges, optional products and interest.
- the date the loan is due.
- if there is a maximum cost you can be charged



Ask about fees applied if you're unable to pay back your loan on time.



# MUST DOs BEFORE YOU TAKE OUT THESE LOANS



Understand that:

- a fee is often charged if your cheque or pre-authorized debit is returned due to non-sufficient funds. These fees can range from \$20 to \$50.
- many provinces have rules about maximum fees for non-sufficient funds.
- the amount can be much higher in provinces and territories where the fee is unregulated.

# **MUST DOs BEFORE YOU TAKE OUT THESE LOANS**



Be sure to read the agreement and that you understand it before signing. Be skeptical and don't assume the lender is acting in your best interests. It is common for many costs to be built-in to the loan without proper explanation. If you have any questions, be sure to ask them and remind the lender that you cannot feel pressured into obtaining a loan.

# MUST DOs BEFORE YOU TAKE OUT THESE LOANS



Ask for a copy of the loan agreement. Don't sign the loan if the lender won't give you a copy of the agreement



Ask if there is a "cooling off" period. This is a period, often a day or two, during which you can cancel the loan with no explanation and without paying any fees. Make sure to get the "cooling off" period information in writing from the payday lender.



# **MUST DOs BEFORE YOU TAKE OUT THESE LOANS**



Most provinces require a lender to have a license. Contact your provincial or territorial consumer affairs office to verify that a lender holds a license.



In several provinces, a payday lender can't extend or roll over your payday loan.



The lender must accept payment from you, whether a full payment or partial payment at any time, if you are making payment by one of the methods allowed in the agreement and without prepayment charge or penalty.

# Lender Obligations in case of Instalment Loans

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In Ontario, this lenders must provide you with a disclosure statement that is **“clear, comprehensible and prominent”** and sets out at the very least:

- 1 the amount of money you’re borrowing (called the “principal”);
2. how long the agreement is for (called the “term”);
3. the APR, and how frequently it is compounded;
4. the total interest, fees, and expenses associated with the loan (called the “cost of borrowing”);
5. a description of how each payment is applied to the cost of borrowing and principal;
6. the charge for each optional service that you accept with the loan, and a description of how to terminate it; and,
7. charges for bounced payments, collecting payments, or collecting on their security (called “default charges”).

# What the lenders MUST NOT do?



The lender cannot:

- make a statement that is false, misleading or deceptive; pressure you into accept a service you don't want or need;
- require you to pay a fee before getting the loan; impose a penalty for paying off the loan early;
- claim to improve your credit; or,
- require you to obtain insurance from a specific insurer.

There are several other pieces of information the instalment lender may have to disclose, depending on your situation.



# Optional services

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- Lenders push additional products like home, auto, credit protection and credit improvement policies that are not required to get a loan. These are called **“optional services”**.
- Some of these products are added to the principal amount of your loan with the cost spread out over the whole term. In that case, you pay interest on the cost of those optional services as well.
- Some lenders try to hide the cost of these products by wrapping them directly into each payment you will make on your loan.
- Read the agreement in full – and especially the disclosure statement – to see what you will be paying for!
- If at all you want to get insurance, you are allowed to get insurance from any insurer of your choosing.



**According to the Payday Loans Act, the lender cannot offer or provide (including on behalf of someone else) any additional goods or services in connection with the payday loan agreement, such as insurance.**

# What about **ONLINE LOANS?**



- You should only use licensed online lenders. If you wish to your contact provincial or territorial consumer affairs office to verify if the lender holds a license or not, please click here: <https://www.ic.gc.ca/eic/site/Oca-bc.nsf/eng/ca02982.html>
- Beware of online lenders located outside Canada. If you have problems with them, it may be difficult to resolve. Also, be careful with online sites that say they offer payday/instalment loans.
- Some will only collect your information and give it to an actual payday/instalment lender.
- While taking the loan online, check all other details including the total cost of borrowing, repayment conditions etc. as you would do if you were taking the loan from the store.
- Make sure that you have access to the agreement online and are able to retain and print it, before entering into the agreement.

# What happens if I'm unable to repay the loan on time?

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- Your lender will usually charge you a non-sufficient funds (NSF) fee if you don't have enough money in your account to cover a payment that is supposed to be paid with a pre-authorized debit.
- Your financial institution may also charge you a fee if there isn't enough money in your account.
- The total amount that you owe, including the fees, will continue to increase
- Add late fees and other charges to your loan. They can also charge interest for the time after your payment was due. This can be up to 60% as an annual rate.
- Send your file to a collection agency, which means that the collection agency will try to get repayment from you.
- Take you to Small Claims Court. If the lender wins in court, the court might allow them to take some of your money or property. The lender could go to the courts to take money from your paycheques (also called garnishing your wages)
- You could end up in a debt trap!



# Can I cancel the loan?

## Payday loans:

- You may be able to cancel your payday loan agreement, depending on when you signed the agreement and if the lender followed the rules.
- You can cancel a payday loan agreement at any time for 2 business days after you signed it.
- You have till the end of the second day to do this. If the payday lender is closed on the second day, you have until the end of the next day they are open after that.
- But if you took out the loan on Saturday and they are closed Sunday, you still only have until Monday to cancel.
- This 2-day period is called the **cooling-off period**. You always have a cooling-off period, even if your loan agreement doesn't say so.
- You don't have to give a reason for cancelling.

## Payday loans:

- You have to return the money you borrowed, but you don't have to pay any fees or interest.
- The payday lender must give you a receipt and return any postdated cheques or debit forms you gave them.
- After the 2-day cooling-off period, you can only cancel the loan agreement if the payday lender didn't follow the rules. For example, if they:
  - didn't give you a copy of the agreement as soon as you signed it.
  - didn't give you the money as soon as you signed the agreement, if you made the agreement in a store.
  - didn't give you the money within 1 hour, if you made the agreement online or over the phone
- You can also cancel your loan agreement if it doesn't have all the information it's supposed to have. If the payday lender followed all the rules, you can't cancel the loan agreement.
- You have to repay the amount you promised to pay under the agreement.

## **Instalment loans:**

- Any cancellation rights will be spelled out in your contract with the lender. Be sure you read and understand what, if any, rights you have to cancel the instalment loan.

# WHAT CAN I DO IF I AM UNABLE TO PAY/FEELING CHEATED OR BEING HARASSED?

1

## Contact the Ministry

Make a complaint to the Ministry of Government and Consumer Services.

Phone: 416-326-8800

Toll-free: 1-800-889-9768

TTY: 416-229-6086

Toll-free TTY: 1-877-666-6545

Or visit this link:

<https://www.ontario.ca/page/filing-consumer-complaint#section-1>

2

## Collection agency harassing you?

- You have the right to ask the collection agency to only contact you in writing. Send a registered letter asking them to do so.
- The Collection and Debt Settlement Services Act contains rules that collection agencies must abide by.
- You can file a complaint with the Ministry of Government and Consumer Services, Ontario. Send a letter to the company before you can register your complaint with the Ministry.
- To know more, click here:  
<https://www.ontario.ca/page/stop-collection-agency-calls#section-7>

# 3

## Having difficulty paying?

Call your lender (creditor) as soon as possible and let them know that you are having difficulties paying.

You can try to negotiate, for example, lower payments or ask them to put a hold on the interest. If you have been contacted by a debt collection agency, contact them directly.

- Reach out to a non profit credit counsellor if you are unable to pay off the loan. They can help you manage your debt.
  - Credit Counselling Canada has an online tool to help you search for certified credit counsellors and agencies by postal code.
  - Ontario Association of Credit Counselling Services (OACCS): The association has a list of qualified credit counsellors and agencies from across Ontario.
  - Pro Bono Ontario:
    - Free legal advice hotline 1-855-255-7256 The hotline can give you 30 minutes of free legal help and advice over the telephone



# 4

## WANT TO FIGHT BACK?



Join ACORN to organize and fight back! Contact us if you would like to organize and fight back.

We are an independent community organization of low and moderate income people who have been fighting to end predatory lending for years now.

Contact your local office if you would like to learn more about us. We have chapters in Hamilton, Ottawa, Toronto and are also starting in other places including London.

While financially supported by the Law foundation of Ontario, ACORN Canada is solely responsible for all content.

