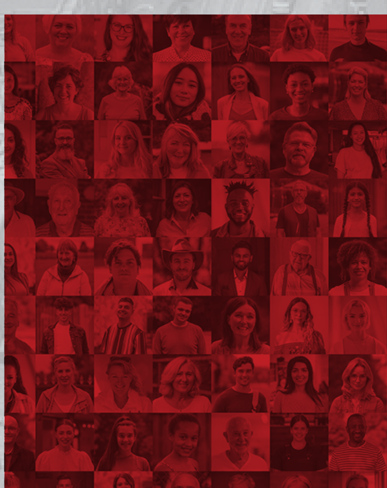
ACORN CANADA

EXECUTIVE SUMMARY

PANDEMIC & HIGH-COST LOANS

IMPACT ON LOW- AND MODERATE- INCOME PEOPLE



Executive Summary

ACORN Canada conducted a study to understand the impact of the pandemic on the financial situation of low- and- moderate income people and the extent to which it led to the usage of high-cost loans. For this study, high-cost loans are defined as loans such as payday loans, installment loans, title loans etc. that fall outside the traditional banking institutions. Typically, these loans have an annual interest rate of more than 30 percent.

The pandemic is not over, and the effects are long-lasting. Several sectors of employment continue to be adversely impacted. Moreover, the government support programs have either ended or have been replaced with those that have much more restricted scope.

ACORN is a membership-based organization of low- and moderate- income people who have championed the campaign on fair banking/end predatory lending. In the past, ACORN Canada has secured stronger payday loan regulations at provincial and municipal level. Recent years have seen a disturbing trend whereby payday lenders are increasingly offering installment loans which are larger loans over a much longer period. Lenders are legally allowed to charge an annual interest rate of 60 percent plus insurance, fees etc. for these loans.

It is in this context that ACORN conducted a survey between November 2021 - January 2022. The online survey, in both official languages, was emailed to ACORN members nationally. A total of 440 people accessed the survey out of which 113 respondents said they had to take a high-cost loan especially due to the pandemic. The findings are thus based on the responses of 113 respondents. In addition to the survey, in-depth conversations were held with a few individuals who expressed willingness to share their experience. These have been captured as testimonials in the detailed report.

The report provides the findings in detail. Here are some of the main takeaways:

1. The report clearly demonstrates the devastating impact of the pandemic on people's financial situation. Not only did the pandemic severely impacted people' financial situation, but many people continue to rely on financial support. Worse still, a lot of people do not see their financial situation getting better. Most people expressed concern with the federal support ended or winding up.

2. Regarding the type of high-cost loan, while payday loans are the predominant type of high-cost loan, installment loans continue to see a rise with almost equal proportion of people reporting taking out an installment loan.

3. Importantly, while almost 40 percent of respondents mentioned taking loans one or two times, a quarter of respondents stated that they took loans 10 or more than ten times. This reveals the exploitative nature of high-cost lenders as the objective is not to help people but ensure that the person who took out a loan gets trapped in a vicious cycle of debt.

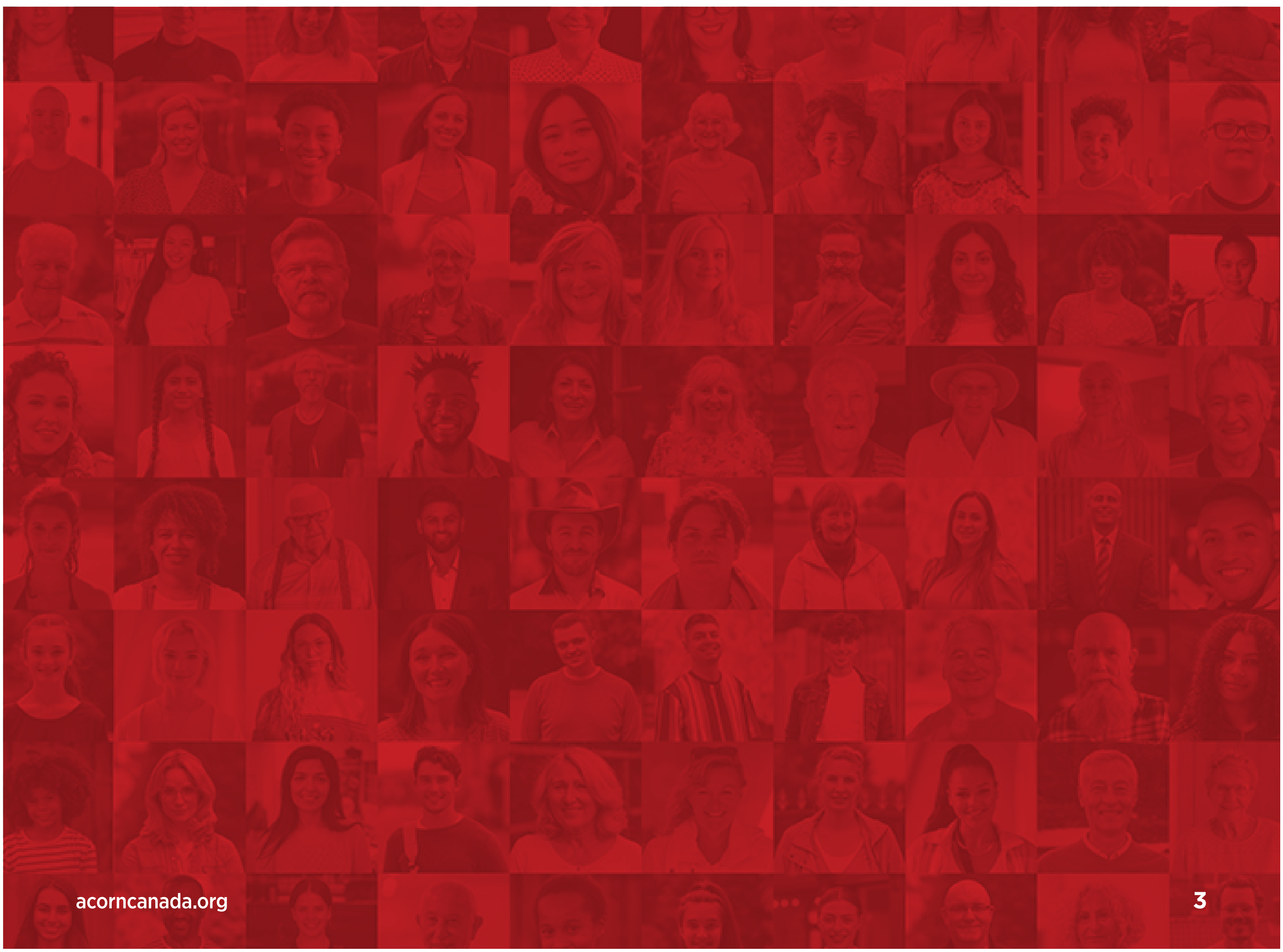
4. The reasons for which people are forced to take these loans are to meet basic expenses such as rent, groceries, car repairs etc.

5. Lenders continue to exploit people's vulnerabilities. Not explaining the cost of borrowing, offering loans on the pretext of improving credit score or attaching insurance to the loan to extract more money - are just a few ways in which these lenders are taking advantage of peoples' situation.

6. It is aptly clear that it's not a preference but lack of choice which is the main driving factor that is pushing low- and-moderate income people to take out high-cost loans. Majority of people first went to the bank or a traditional banking institution before going to a payday lender. Hence, banks are failing to benefit people who need it most. In fact, in case of missed payments due to a tough financial situation, people are being penalized by the exorbitant NSF fee charged by the banks and the fees charged by the high-cost lenders.

SECTION 01

Personal and Demographic Information



Section 01: Personal and Demographic Information

1.	**Annual individual income Range**	The survey respondents represent low- and moderate- income people with most of them (**67%**) reporting their annual income between $15,000-40,000. **A quarter** of the respondents have annual individual income less than $15,000. Very few respondents reported income above $40,000.
2.	**Age**	**Most respondents** (**40%**) fall in the age group of 51-64 years followed by those in the 41-50 years age group (**27%**) and **20 percent** in the 31-40 years age group. Few respondents reported being above 65 years or between 21-30 years.
3.	**Source of income**	Around **40 percent** of respondents reported employment, followed closely by **35 percent** who reported disability assistance as their source of income. Another **12 percent** are on social assistance, **8 percent** are retired and very few on employment insurance.
4.	**Renters or Owners**	Vast majority (**90%**) are renters.
5.	**Racial identity**	**Sixty two percent** of respondents identified themselves as White. Another **22 percent** identified themselves as racialized (Black). **Thirteen percent** identified themselves as indigenous.
6.	**Gender identity**	Most who responded to this question (**63%**) identified themselves as female, while **22 percent** identified as male. Few people identified themselves as non-binary.

SECTION 02

COVID-19 and Financial Situation

Section 02: COVID-19 and Financial Situation

Impact of the pandemic on financial situation

Respondents were asked to rate the impact of the pandemic on their financial situation as severe, moderate or mild. A whopping **70 percent** of respondents rated the impact of the pandemic as "severe", around **20 percent** of people said that the impact has been moderate. Only **10 percent** of respondents rated the impact as "mild".

Impact of the pandemic on employment

Respondents were asked the extent to which the pandemic impacted their employment.

- Almost **20 percent** of the respondents said that they lost their job completely with no idea when they can return to work.
- Another **13 percent** said that their hours got significantly reduced.
- **Eight percent** said that the hours are somewhat less.
- Another **8 percent** people said that their hours of work were affected but they have now resumed work.
- Only **5 percent** of the respondents said that they were able to keep their job fully.

Need for financial support due to the pandemic

- **Half** of the respondents said that their financial situation got impacted due to COVID-19 and they continue to rely on support.
- Only **4 percent** respondents said that their financial situation was not impacted due to COVID-19 at all.
- **Twenty percent** of the respondents said that they would have needed financial support even without the pandemic because of other reasons.
- **Sixteen percent** said that their financial situation got impacted but it's getting better now.

Access to government support

It is alarming to note that **more than half** of the respondents stated that they required or still require financial assistance due to the impact of the pandemic on their situation but **did not qualify**.

Tapering off government support programs

Given that the slew of measures that the government initiated to support individuals and families to weather the pandemic are winding up with some having ended in 2021 or replaced by those with a much more restricted scope, we asked if people were concerned about this.

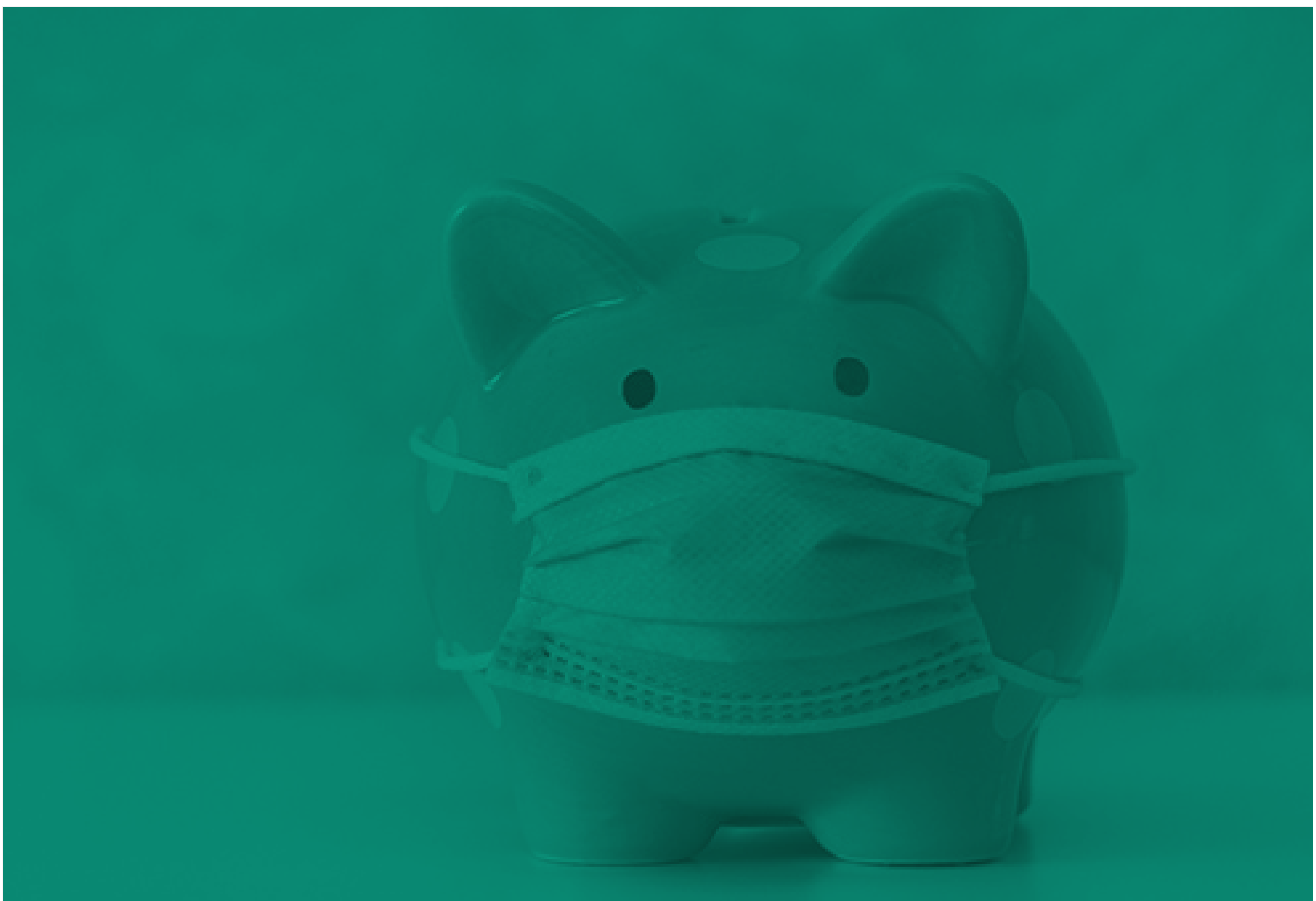
- **60 percent** of the respondents are very concerned about federal support winding up.
- **21 percent** of respondents said that they were somewhat concerned with only **19 percent** saying they were not concerned.

Status of the financial situation at present

- **More than half** of the respondents stated that they do not see their financial situation getting better at all.
- **One third** of the respondents said that their financial situation is mildly better.
- **One in ten** respondents mentioned it getting somewhat better.
- **Few people** mentioned that the financial situation was getting significantly better.

SECTION 03

High-Cost Loans and COVID-19



Section 03: High-Cost Loans and COVID-19

Type of loan taken in the last 12 months or since the start of the pandemic

- **More than half** of the respondents reported taking a payday loan, which is a small-dollar loan usually up to $1,500.
- As high as **46 percent** people reported taking installment loans which are loans exceeding $1,500 that can go up to amounts as high as $50,000.
- A few people reported taking a car title loan.

Top 5 lenders

Most people took the loan(s) from Cash Money, Money Mart, Easy Financial, Fairstone and Cash4You (in that order).

Amount of loan borrowed

- **Over a third** of the respondents took loan(s) between $500-$2,500.
- **A quarter** of them reported taking loan(s) amounting to $2,501-5,000.
- Around **12 percent** said that they took out loan(s) to the tune of $5,001-$8,000.
- **One in five** respondents reported taking loan(s) above $8,000

This again shows that more and more people are taking installment loans. In fact, a negligible percentage of people reported taking loans below $500.

Frequency of borrowing the loan

Respondents were asked as to how many times they took out a high-cost loan in the last 12 months or since the start of the pandemic.

- Almost **40 percent** of respondents mentioned taking loans one or two times.
- Important to note that **a quarter** of respondents stated that they took out a loan 10 or more times. This clearly demonstrates the aggressive and exploitative nature of high-cost lenders.
- Between **11-14 percent** of respondents stated taking loans 4-5 times.

Reasons for borrowing the loan

People were asked to choose the expenses they need the loan(s) to help cover. Respondents could choose more than one option.

- Vast majority of respondents, **83 percent** reported taking the loan(s) to meet everyday living expenses such as rent, hydro, groceries, telephone/cellphone/internet, etc.
- **Twenty percent** of respondents said that they had to meet certain medical expenses such as dental, vision etc.
- Important to note that an equal proportion (**23%**) of people said that they took the loan because they thought it would help improve their credit score. This is because high-cost lenders are telling people to take loans on such false pretext and taking advantage of people in vulnerable situations.
- Having a top-notch credit score is a non-negotiable requirement for most banks today. This means that people who do have "not so great" or no credit at all such as the newcomers are being essentially discriminated against by the financial system.
- **Eighteen percent** of the people took out a loan(s) to take care of their pets.

Loan taken online or storefront

- **More than a third** of respondents took the loan out from the storefront.
- **Twenty-nine percent** of respondents said they took the loan online.
- **Eighteen percent** of respondents took the loan out from the store and online.
- **One in ten** respondents applied online but had to go to the store to sign the documents

Reason (s) for taking online loan(s)

For people who said they took loan(s) online, they were asked the reason for doing so. People could choose more than one option.

- **Twenty eight percent** of respondents said it is more convenient to take the loan online.
- Almost **one third** (**31.9%**) said the process is quick.
- **A quarter** of respondents took the loan online because it was the safest way to borrow due to the pandemic.
- A few respondents said that they saw advertisements and flyers sent to them online/home which caught their eye.

The findings are almost similar to those of a previous survey that ACORN did in 2020 where almost **30 percent** of respondents reported taking loans online. The percentage of respondents taking an online loan has gone up slightly between the two surveys as some people reported taking loans from the store and online in addition to those taking online only. This is a growing concern as high-cost loans in general and high-cost loans taken online in particular do not have very strong protections for consumers (ACORN, 2021).

Information about the lender

In this question, respondents were asked as to how they learned about the lender.

- **Twenty two percent** said that they learned about the lender through an online advertisement.
- **One fifth** said that they have always taken loans from that lender.
- **Sixteen percent** saw the store in their neighbourhood or some other place.
- Around **one in ten** got the advertisement in the mail.
- A few were told about the lender by a friend/acquaintance/neighbour.
- Some also mentioned that the lender approached them, or they heard about the lender from another business.

Cost of borrowing

This is a very important aspect as incorrect or insufficient information about the cost of borrowing can put people in an endless cycle of debt. At the same time, lack of alternative options forces people to take high-cost loans despite the high cost of borrowing. People were asked if the lender explained to them the cost of borrowing when they took out the loan(s).

- **One third** of respondents reported needing the money quickly and thus having no other option but skipping this information and signing the agreement with the lender.
- **Twenty two percent** reported that the lender did not explain the terms and conditions and that they felt rushed to sign the agreement/contract.
- Around **4 percent** applied online but could not find the information about these costs or could not understand the information easily.
- **Twenty percent** said that the lender sat them down and explained all the terms and conditions.

Additional products attached with the loan(s)

In addition to the loan itself, the lenders typically offer optional products such as insurance for which the charges are over and above the annual rate of interest. For example, adding insurance to the loan has become a tactic for lenders to extract more money from borrowers.

- **Fifteen percent** of respondents reported that the lender suggested they take the additional product (insurance) but did not explain anything about it.
- Another **15 percent** said that the lender did not ask, but then they discovered later that it was added to their loan when a large sum got debited from their account for the additional product/insurance.
- Around **5 percent** reported the lender told them it was mandatory to get the loan.
- **Thirteen percent** reported that no insurance or any other product is added to their loan.
- Around **20 percent** reported that they are not aware of any additional products attached to their loan.
- Around **a quarter** reported the lender explained the additional product/ insurance and its importance.

Extent to which respondents have been able to make the loan payments

Given the financial situation and the impact of the pandemic, people were asked if they have been able to make regular loan payments.

- **One fifth** of respondents reported that they've been missing payments due to a tough financial situation.
- **Fourteen percent** of respondents reported they have been making payments up until the time of taking the survey, but that they are not sure of keeping up with them in the future.
- **Five percent** of respondents reported having to file a bankruptcy/consumer proposal because they just couldn't keep up with the payments.
- Around **19 percent** of respondents reported they have been able to make most payments, missed a few payments.
- **Slightly more than a third** of respondents said they have not missed any payments.

If the insurance helped the borrowers when needed

It was important to understand if the insurance that people were offered or mandatorily asked to take along with the loan actually helped them when they needed it.

- **14 percent** of respondents reported having insurance but that it failed to cover any payment.
- A mere **4 percent** reported that insurance completely covered the payments.

Attitude of the lender in case of missed payments

This question was asked to understand how the lender responded if the borrower missed a loan payment and they approached the lender to discuss the issue.

- **Seventeen percent** of respondents reported that they were expected to continue making payments
- Another **17 percent** said that the loan company added extra charges for late payment when they couldn't make the payment in time.
- **Fourteen percent** reported having their payment deferred but with a penalty.
- Only **5 percent** of respondents reported that the loan company deferred their payments for some time without any penalty.
- A few respondents mentioned that the loan company said they could refinance the loan but nothing else.

Fees charged in case of missed loan payments

Respondents were asked if they were charged fees by the lender or the bank or both in case they missed loan payments.

- It is alarming to note that at a time when individuals are in a tough financial situation and have missed a loan payment or payments, **almost half** of respondents said they were charged fees by both the lender and their bank.
- **Eight percent** of respondents reported being charged by only their lender.
- Few respondents reported being charged by only their bank.
- Only **10 percent** of respondents reported not being charged any fees at all.

Overall experience with the loan

- **Almost half** of respondents (**45.1%**) were highly dissatisfied or dissatisfied with the loan.
- Only **one in ten** respondents were highly satisfied or satisfied.
- Around **a quarter** of respondents were somewhat satisfied and **17 percent** of respondents were somewhat dissatisfied.

SECTION 04

Access to Traditional Banking Institutions

Section 04: Access to Traditional Banking Institutions

Banks got $750 billion worth of liquidity support during the pandemic and what they only offered was mortgage payment deferrals - something that impacts people who already have access to big banks! On the contrary, lower-income people were shut from the banks in the middle of a global health and economic crisis. Not only did the big banks raise the minimum amount required to maintain a basic account but they also continued to charge NSF fees ranging between $45-48. Easy Financial (Go Easy) - one of Canada's biggest lenders of high-cost loans boasts in its annual report that **78 percent** of its customers were denied a loan from a bank/credit union; **80 percent** of its customers rely on access to credit when a financial emergency comes up!

As it came out clearly from the survey, people were charged a fee not only from the lenders but also from the banks in case they missed a payment. Hence, the last section of the survey focused on people's access to traditional banking institutions such as banks and credit unions.

The respondents were asked to choose the main reasons for using a high-cost loan and not a traditional banking service such as a bank or a credit union. People could choose more than one option.

- **Over half** of respondents (**54.9%**) said that they applied for a loan first at the bank/credit union/trust company but were denied.
- **Over a third** (**37.2%**) of respondents reported not having overdraft protection.
- Almost **a third** (**32.7%**) reported not having a line of credit.
- Almost **a third** (**31.9%**) of respondents reported having a maxed-out credit card.
- Roughly **30 percent** of respondents said borrowing a high-cost loan was quick and easy.
- About **one fifth (19.5%**) of respondents reported not having a credit card.
- **Fifteen percent** of respondents said they don't have a prepaid credit card.
- Few respondents said that the high-cost lender was closer.
- Less than **one percentage** of people said they preferred using high-cost loans.

This clearly demonstrates the failure of banks to cater to people who need them most. It's the denial from banks or other traditional banking institutions and lack of any alternate fair credit options that's pushing people to rely on fringe lenders.

Ever applied for banking services or products at a bank/credit union/trust company.

Respondents were asked whether they have applied for the following services or products - credit card, chequings/savings account, overdraft protection, line of credit, small loan, a no fee account, removing holds on cheques.

- Vast majority of respondents have applied for a credit card at a bank/credit union/trust company (**81.4%**) or a chequing/savings account (**83.2%**).
- **Over half** of respondents (**66.4%**) have applied for overdraft protection at a bank/credit union/trust company.
- And **over half** of respondents (**61.9%**) have applied for a line of credit at a bank/credit union/trust company.
- Almost **half** of respondents (**46%**) have applied for a bank small loan.
- **42 percent** of respondents have applied for a no fee account.
- Almost **one third** of respondents (**31%**) have applied for removing holds on cheques.
- Only **6.2 percent** have never applied for any of the above products/services.

First course of action if needed a small loan in an emergency but were denied credit by the bank.

- Almost **half** of respondents (**44.2%**) said that they'd go to a high-cost lender as their first course of action. Important to note here is that it is not a preference but a lack of choice which is forcing people to go to a high-cost lender.
- **One fifth** (**20.4%**) said they'd sell or pawn something.
- Few respondents said they'd work overtime, earn extra money.
- **Eighteen percent** of respondents said they'd borrow from a friend or family member.
- Few said they'd make the decision to not take out a loan.

Importance of banks to offer services to low-and-moderate income earners.

People were asked to rank from a scale of 1 to 10 how important they believe it is important for the banks to offer overdraft protection, small loans, no fee accounts, and lines of credit to low-and-moderate income earners. 1 means not very important and 10 means very important.

Majority of respondents (78%) rated the importance at 10, which is the highest level of importance. This means that most respondents feel that it is critical for the banks to offer services to low- and moderate- income earners.

Conclusion & Recommendations

The pandemic laid bare the inequities that exist in our system. While the wealthiest amass billions of dollars, the poor and other vulnerable people are the ones who continue to bear the brunt of the pandemic. The pandemic is a health and an economic crisis. Thousands of lives were lost and many more continue to be impacted because of how the pandemic is affecting people's financial situation, forcing many to rely on fringe lenders. Worse still, most people do not see their financial situation getting better any time soon.

This study aptly illustrates the failure of the banks and lack of government action to mandate the banks to cater to people who need fair banking the most. People are in fact getting crushed between the NSF fees charged by the banks and the fees charged by the high-cost lenders with no end in sight. The testimonies speak volumes about the current issues that are deeply structural and how the pandemic exacerbated them. Having top-notch credit scores are seen as non-negotiable by the banks. As it emerged in the survey, a quarter of people took out high-cost loans because they were promised that their credit rating would improve. The testimonies also bear this out as people who took out high-cost loans were denied fair credit by the banks owing to not-so-great credit scores or they didn't approach the bank at all because they knew they would be denied because of the same reason.

Moreover, with government support ending or getting replaced with measures with a much limited scope, the federal government needs to take urgent actions to ensure that low- and moderate- income people have access to alternatives in a time of financial crisis and that there are stronger regulations on high-cost loans.

ACORN CANADA

ACORN is calling on the federal government to take the following measures:

- **Lower the criminal interest rate from 60 percent to 30 percent for installment loans**. Ensure that the maximum rate includes all associated lending costs: Fines, fees, penalties, insurance, or any related cost.
- The federal government **must mandate banks to provide an affordable loan for low- and moderate-income people back-stopped by the Government of Canada**, so they can avoid predatory lenders in a time of personal financial crisis.
- The federal government **must support other alternatives like postal banking**.
- The banks **must lower the NSF fees from $45 to $10**.