REPORT

FAIR BANKING

Enhancing access to low-cost/short-term credit options among low- and moderate-income consumers.

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EXECUTIVE SUMMARY

ACORN Canada undertook a national study to generate evidence on the availability of and awareness about short-term, low-cost credit options among financial consumers who face specific vulnerabilities in accessing fair credit alternatives. The study also produces more information about the low-cost credit options that people can access when they are facing a financial emergency.

ACORN has conducted several studies in the past which show that lack of financial inclusion is forcing many low- and moderate-income people to borrow money from fringe lenders at exorbitant interest rates. However, there is insufficient evidence with respect to the kind of low-cost credit options available to consumers, if low-to-moderate income and financially vulnerable people are aware of those options and the barriers people face in accessing them.

Given that there is no official definition of low-to-medium credit options, for the purpose of this research, the following categories were adopted to define the different types of credit (specifically Annual Percentage Rate or APR).

- Low: 0-9%
- Moderate: 10 -20%
- Medium: 21 - 30%
- High: 31-45%
- Extremely high: More than 45%

Overall, the study concludes that there is a very limited number of low cost or fair credit options for low- and moderate-income people, and of those that do exist, the scale of who can access them is very limited. This is based on a review of the literature as well as the results of a survey that ACORN conducted with its members.

The report covers three specific aspects:

- Scan of the nature and extent of the household high-cost debt in Canada.
- Scan of low-to-medium cost credit options in Canada and certain other jurisdictions.
- Findings of the national online survey administered to ACORN members nationally

Findings from the scan of the nature and extent of household debt in Canada.

- The household debt among Canadians is rising especially with changes in the larger economic scenario, including the continued effects of the pandemic and the current record inflation. For example, FCAC surveys show that many more people are borrowing money, including from high-cost lenders.
- Low- and moderate-income people largely carry unsecured forms of debt which are usually installment loans, payday loans etc. and not mortgage debt.
- Lack of and inadequate access to traditional banking institutions and/or products is forcing many low- and moderate-income consumers to rely on fringe (often called alternative financial services) lenders that charge exorbitant interest rates.

Findings from the scan of low-cost credit options

A scan of existing low-cost credit options was conducted. At the national level, the two products include the My Money product that was launched by Canada Post and TD bank and Desjardins Accord D financing which is offered by Desjardins. While the Canada Post product stands discontinued, Desjardins product has a limited reach as it requires the individual to have a chequing account and a credit card from Desjardins. Further, most other locally available products marketed as payday loan alternatives are offered by credit unions which are available in a limited geographical area. Some provinces or cities have rent banks that help lower income tenants who have fallen behind on rent. But as Spotton Visano (2018) argues, the financial alternatives that exist today are a patchwork of solutions and will have limited impact because of being ad hoc.

Key findings of the ACORN survey on fair credit alternatives

A national online survey was conducted to ACORN members[1] who are low- and moderate-income consumers and face significant barriers in accessing fair credit. The survey was sent to all the contacts that exist in ACORN database nationally in both official languages. A total of 623 responses were received. Key findings of the ACORN survey on fair credit alternatives include the following:

Many low-to-moderate income consumers are financially on the edge.

- More than half of the respondents cannot cover one month's worth of expenses.
- Around 40% of respondents would fall into debt in case they had to make an unexpected expenditure today of $500.
- 70% of respondents are currently in debt.
- 40% of respondents experienced severe financial hardship because of the pandemic and/or inflation.
- More than half of the respondents had to borrow money in the past 12 months.
- Out of those who said they had to borrow money, the largest proportion of people used their credit card (36%), followed by family member/friend (18%) or the bank (17%). Almost 22% had to go to a payday or an installment lender.
- 30% of respondents needed to borrow money very often or monthly. Only 16% of respondents mentioned that they never needed to borrow money.

Very few medium-low-cost credit options exist.

- When asked <u>what you do first</u> during a tough financial situation, only 7% of respondents go to the bank. Around 31% of them use a credit card closely followed by 29% who approach their family/friend. One in ten respondents said they either go to a payday or an installment lender.
- A vast majority i.e. 87% of respondents said that they were not aware of any medium or low interest credit options (annual interest less than 30%) or other sources of emergency funds for people with a low or moderate income who <u>can't</u> access credit from the major banks (it <u>excludes</u> credit cards and lines of credit from mainstream banks/credit unions).

[1]ACORN has 24 neighbourhood chapters in 10 cities across the country. The provinces where ACORN has established chapters include Alberta, BC, Nova Scotia, New Brunswick and Ontario. Hence, the responses are mostly from these provinces, the highest from Ontario given ACORN's history of work in the province since 2004.

- The two medium-to-low-cost credit options available nationally that people seem to be somewhat aware of/have used in the past include the Canada Post-TD My Money product (the product has now been discontinued) and Desjardins. The only other local credit product that a few people had used/were aware about included the Vancity Fair and Fast Loan offered by a Credit Union in BC.
- 22% of respondents were able to access rent bank/rent grant/other rent support programs and out of these, 41% of them were able to benefit from them.

Low-to-moderate income consumers are forced to borrow credit from predatory lenders.

- Around 20% of respondents had to take out a high-cost loan such as a payday loan/ installment loan or other high-cost loan with annual interest rate over 30% in the last 12 months.
- Almost one-third of respondents had to take out a high-cost loan very often i.e. every month in the last year, another 18% said that they had to take out such a loan often in the past 12 months.
- The top reason for taking out a high-cost loan was to meet everyday living expenses such as rent, groceries etc. Other reasons but far less common ones included car repairs (20%), medical expenses (19%), pet expenses (11%) and to improve credit score (10%).
- A third of the respondents said that their loans got refinanced multiple times while 20% of them mentioned it being refinanced at least once. Refinancing is a common tactic employed by predatory lenders to ensure people are in the debt trap forever.
- Impacts people reported as a result of them <u>making all or most loan payments on time</u> included not being able to buy basic necessities (66%), followed by inability to pay a different bill (48%), reduced amount of savings for retirement (40%), skipping a needed medical appointment (29%) and incurring overdraft fees (26%).
- Consequences reported by the respondents if they <u>could NOT make all or most of the loan payments on time</u> included stress, anxiety and depression (80%), closely followed by getting in to even more debt (72%), adverse effect on the credit score (67%) and having to file a consumer proposal/ bankruptcy (11%).
- Around 60% of respondents were highly unsatisfied with the high-cost loan. Very few people rated their experience as satisfactory or highly satisfactory.

Limited access to traditional banking institutions/products

- Around 40% of respondents said that banks/credit union products were "not helpful at all" in times of financial hardship.
- Around 19% of respondents were members of a credit union. A quarter of the respondents who are a member of a credit union used a low-cost credit option from them.
- With respect to banking products such as line of credit, small loan, credit card, overdraft protection, removing holds on cheques, no fee accounts, and whether they received them, the number of people who received any of these banking products was found to be invariably lower than those who applied for it. The difference was especially pronounced in case of small loans, overdraft protection and credit card - all of which can be extremely helpful in case of a financial crisis.

- Main reasons for not using regular banking/financial services were a previous rejection from the bank (46%), feeling judged when going to the bank (30%), lack of trust in the banks or because banks have withdrawn from the account without their knowledge (24%); and the fact that banks are unfriendly and make respondents nervous (22%).

Policy recommendations

Based on the findings of this study, the following are policy measures that the federal government could consider for enhancing the access to fair credit.

1. *Support fair lending alternatives:*

- The federal government should support postal banking and other low-cost alternatives. Canada Post's infrastructure can be leveraged to ensure that low-income people have access to low-cost loans in case of financial emergencies.
- The federal government should support postal banking. Canada Post's infrastructure can be leveraged to ensure that low-income people have access to low-cost loans in case of financial emergencies.

2. *Enhance financial inclusion*:

One of the key reasons why so many people have to rely on predatory lenders is that they are underbanked. ACORN continues to advocate for fair and affordable banking options from Canada's mainstream banks.

- ACORN repeats its call for the federal government to lower the NSF fee from $48 to $10.
- The federal government should eliminate overdraft fees and the banks should provide overdraft protection to all customers.

3. Lower the criminal rate of interest of predatory loans.

- As promised in the Federal Budget 2023, the federal government must immediately lower the criminal interest rate of installment loans from 47% APR (60% Effective Annual Rate, EAR) to 35% APR (42% EAR). This interest cap should include all associated fees and costs such as insurance.
- Further lower the interest for installment loans to 30% or 20% plus Bank of Canada Rate, whichever is lower and include all associated costs.
- Moreover, the federal government needs to enforce the regulations and make contesting violations accessible to borrowers. Currently, it is nearly impossible for any borrower to challenge a predatory lender or take them to court if they are being ripped off.

Chapter 1

INTRODUCTION

ACORN Canada, the Association of Community Organizations for Reform Now, founded in 2004, is a grassroots organization that has rapidly grown into one of the country's most effective voices for low-to-moderate income Canadians. ACORN has over 168,000 low-to-moderate-income individual members in 24 neighbourhood chapters in 10 cities across the country. ACORN members who are low-and-moderate income consumers, women, fixed-income seniors, people with disabilities, racialized people and newcomers - face significant barriers in accessing fair banking/credit options.

ACORN members have a long history of campaigning to ensure that low- income and other people who are financially on the edge have access to fair banking. ACORN has been able to secure important policy gains particularly in the arena of payday loans at the provincial and municipal level. Lately, ACORN and allies secured an important policy win when the federal government committed to lowering the criminal interest rate for installment loans from 47% to 35% Annual Percentage Rate or APR (60% EAR to 42% EAR) in Budget 2023.

For many Canadians, loan rates remain well below the lower usury maximum set by the Criminal Code. Typically, higher income Canadians have access to credit options such as a line of credit that have an annual interest rate of 3-4%. Hence, for these borrowers, the lowered cap will leave their borrowing costs unaffected. For low- to moderate income Canadians forced to borrow from high-cost lenders, on the other hand, the new legislative changes will help them save billions of dollars in interest costs.

Previous ACORN studies have shown that limited or, in some cases, no access to mainstream banking options is what drives people to these high-cost lenders.

ACORN's research on low-cost, short-term credit options

It is in this context that ACORN Canada undertook a national study to generate evidence on the availability of and awareness about short-term, low-cost credit options among financial consumers who face specific barriers in accessing fair credit alternatives. The study also produces more information about the range of low-cost credit options that people can access when they are facing a financial emergency.

Some specific research questions included the following:

- What is the nature and extent of debt among low- and moderate-income consumers?
- What are the different kinds of low-to-medium credit options available for low- and moderate-income consumers?
- To what extent are the consumers aware of such options?
- What are specific barriers that people face in accessing such options?

Methodology

The study comprised a mix of primary and secondary data collection. The initial phase comprised of a scan of existing literature to understand the nature and extent of debt among Canadian households as well as low-to-medium credit options available by banks/other institutions. The second phase included two national focus groups and a national online survey to ACORN members nationally. An online survey was sent to all contacts that exist in the ACORN database nationally between February and March 2023. It was sent in both the official languages - French and English. A total of 623 responses were received.

ACORN has 24 neighbourhood chapters in 10 cities across the country. The provinces where ACORN has established chapters include Alberta, BC, Nova Scotia, New Brunswick and Ontario. Hence, the responses that were received are mostly from these provinces, the highest from Ontario, given ACORN's history of work in the province since 2004.

Operational Definition of the low-to-medium credit options

Given that there is no official definition of low-to-medium credit options, for the purpose of this research, the following categories were

- Low: 0-9%
- Moderate: 10 -20%
- Medium: 21 - 30%
- High: 31-45%
- Extremely high: More than 45%

What does this Report Cover?

In order to generate evidence on the availability and accessibility of fair credit options, the report covers the following aspects:

- Scan of existing data to understand the extent of high-cost debt among low-to-moderate income people.
- Scan of low-to-medium cost credit options that exist across different provinces in Canada and in certain other jurisdictions.
- Findings from ACORN's national online survey on availability of and access to fair credit among low-to-moderate income consumers.

Chapter 2

SCAN OF THE NATURE AND EXTENT OF DEBT

Canadian household debt is high and rising. The FCAC Financial Capability Survey (2019) reports that 73% of Canadians "have some type of outstanding debt or used a payday loan at some point over the past 12 months." This chapter covers a scan of existing literature on the nature of debt among low- and moderate-income Canadians, the changing debt as a result of winding up of pandemic supports and inflation, the specific communities impacted by the rising debt and factors forcing people to rely on high-cost lenders.

Nature of debt among low- and moderate-income Canadians is unsecured, not backed by assets. Overall, 65% of Canadians have non-mortgage debt according to a report by the Credit Counselling Society (2022). As Mulholland, Bucik and Odu (2020) report, fewer low-income households hold debt backed by assets than their higher-income counterparts. Only 20% of indebted low-income households and 39% of indebted moderate-income households carry mortgage debt, compared to 55 to 71% of indebted households at higher income levels. Among indebted low- and moderate- income households, over 90% carry consumer debt, but most do not hold a mortgage. Hence, more low- and moderate- income households carry unsecured forms of debt, like installment loans, payday loans etc. Fifty-nine per cent of indebted low-income households and 56% of indebted moderate-income households carry some amount of credit card and/or installment loan debt. The number goes down to 45% for households in the highest income quintile.

Debt is getting worse with the wrapping up of pandemic supports and inflation.
More people are falling behind on their bills and other financial commitments. Not only does the Canadian household debt remain high but it is only worsening in the current economic scenario.

The FCAC has been conducting a monthly survey which is a nationally representative hybrid online-phone survey, with approximately 1,000 respondents per month. The latest report presents how Canadians are managing their finances and coping with the personal and economic upheaval caused by the pandemic, including inflation. This COVID-19 Financial Well-being Survey has been collecting information on Canadians' day-to-day financial management and financial well-being since August 2020 and the latest report captures the status until September 2022.

The recent FCAC report shows that many more people are borrowing money, including from high-cost lenders. The percentage of Canadians who used an online lender or a payday loan company to manage their daily expenses has tripled from 1.42% (2020) to 4.52% (September 2022). Further, online or payday loan borrowers who used a short-term payday loan or cash advance was 48% and those online or payday loan borrowers who used an installment loan was 30%. The report highlights that there are certain specific groups who are overrepresented including indigenous peoples, recent immigrants, Canadians with low income and women.

The Equifax report indicates that increases in new lending and higher spending linked to inflation have pushed non-mortgage debt to $591.4 billion, up 5.2% from Q2 2021.

[2]*Unfortunately, the dataset combines credit card debt and installment loans and therefore does not differentiate between households that hold one, the other, or both these forms of debt.*

Average non-mortgage debt per consumer is now $21,128, an increase of 2.4% compared to Q2 2021. Moreover, the pandemic continues to impact people. As the Department of Finance (2021) puts it, the worst economic impacts of the pandemic have been suffered by those who could least afford it.

A report by the Financial Resilience Institute (2023) underscores that while inequities have grown through the pandemic, the latest June 2022 Financial Resilience Index shows continued (and in some instances growing) inequities and increased financial vulnerability for those who were already more vulnerable mainly due to the cost-of-living crisis, record inflation, rising interest rates, housing affordability crisis, housing and food insecurity and other challenges. Further, financial vulnerable households that were previously cushioned by COVID-19 government financial relief are also no longer receiving this relief, with this issue combined with job insecurity and financial inclusion challenges taking a toll, particularly for more financially vulnerable households.

Hoyes and Michalos bankruptcy study (2021) shows that the average insolvent debtor in 2021 owed $50,484 in unsecured debt. Studies by insolvency trustees indicate that with winding up of pandemic relief measures, financial insolvency reached a 5-year high (MNP, 2021). As per the latest MNP Consumer Debt Index released in July 2022, more than a quarter of Canadians are making the difficult decision to cut back on essentials such as food, utilities, and housing due to rising interest rates and inflation.

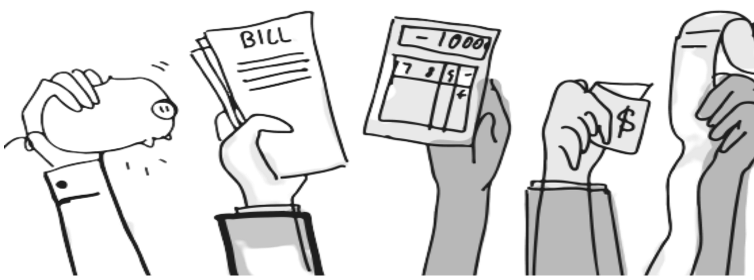
The Hoyes and Michalos annual bankruptcy study (2022) shows that 38% debtors had at least one payday loan, unchanged from prior years. Easy Financial - Canada's biggest installment loan lender - in its annual report boasts that 78 percent of its customers are denied a loan from a bank/credit union; and 80% of its customers rely on access to credit when a financial emergency comes up (GoEasy, 2020). In fact, Easy Financial made 2 billion dollars during the pandemic.

ACORN conducted a survey to understand the impact of the pandemic and uptake of high-cost loans. Following are the key findings of the survey (ACORN Canada, 2022):

- 26% of people who filled out the survey said that they had taken a high-cost loan because of the pandemic.
- 70% of people rated the impact of the pandemic on their financial situation "severe".
- Worse still, 60% of people said that they don't see their financial situation getting better.

A vast majority of people turned to high-cost loans to meet basic expenses such as rent, groceries, internet etc.

Some communities are more financially vulnerable than others.
A new study conducted by the Financial Resilience Institute (2022) shows that 49% of Canadian households overall are 'extremely vulnerable' or 'financially vulnerable' but this proportion is 73% for households with lower incomes (up from 65% just one year prior). Based on Seymour Financial Resilience Index, the study shows that while 78% of households in Canada are not financially resilient (defined as the ability to get through financial hardship, stressors, and shocks as a result of unplanned life events), this proportion rises to 91% for households with incomes between $25,000 and $50,000 and 95% for households with incomes under $25,000 (up from 85% and 91% respectively in June 2021).



Another study by the same institute published in 2023 focuses on the financial vulnerability of some of Canada's most vulnerable populations. It finds that more financially vulnerable populations are much more likely to experience significant financial hardship or to be 'Extremely Vulnerable'. 'Extremely Vulnerable' households, those with a self-reported fair or poor credit score, and Canadians with a disability are the most financially vulnerable. Canadians with unmanageable debt levels, single parents and low-income Canadians are also financially vulnerable. Between June 2021 and June 2022, Indigenous Canadians, single parents and those experiencing significant income volatility have seen the greatest decreases in their financial resilience based on changes to their financial resilience scores over the past year.

With respect to lending, the report finds that 13% of Indigenous Canadians have taken out a payday loan and 27% an installment loan in the last 12 months as of June 2022, with challenges evident across many debt and financial stress indicators.

Lack of financial inclusion makes it worse, pushing people to predatory lenders.
A critical factor that exacerbates the issue for the most lower income people is the complete lack of or inadequate access to mainstream banking institution services (banks and credit unions). By the common definition of financial inclusion, which means citizens having a checking account at a mainstream financial institution, Canadians are highly banked, the estimates varying between 96-99% (Spotton Visano, 2018).

The estimates on financial exclusion vary. For example, as cited in Buckland and Dong (2008), the percentage of people who did not, at the time of their study, had access to financial institutions varied between 3% (18 years and above) to 15% (15 years and above). But as the authors argue, the 3% is a gross underestimate given that the survey was conducted over the phone and many poor or low-income people might not have a telephone. They suggest that in Canada, the extent of financial exclusion is closer to the United Kingdom where it varies between 6-9%. Further, it is interesting to note that problems related to financial exclusion are not limited to the number of people who are unbanked i.e. those who don't have an account, but also includes those who are underbanked, i.e., those who have a bank account but rarely use it or use it for only for limited purposes. Estimates of the proportion of underbanked add an additional 20% to these figures. Needless to say, a vast majority of these financially excluded people are poor.

As Spotton Visano (2018) argues, the availability of a bank account does not ensure effective access to safe, sound and affordable basic payments, savings, and consumer lending services. In its earlier study on check cashing services in 2008, the Law Commission of Ontario summarized the key barriers that low-income Ontarians face which force people to use fringe lenders. These include attitudinal barriers and identification requirements, check holding policies, garnishment and setoff, hours of operation and location of the banking institution and a lack of appropriate products and accurate financial advice for low-income people. Despite some changes in public policy, it is still very costly to maintain a basic account with a bank. With any of the big banks in Canada, an individual is required to maintain a minimum balance of $4,000-$5,000 to avoid a monthly fee. Moreover, the Non- Sufficient Fund (NSF) fees at $45-48 and a lack of overdraft protection forces many low-income Canadians to payday lenders.

Multiple more recent surveys of high-cost credit users have found lack of access to more traditional forms of credit to be a reason why users access alternative high-cost financial services including high-cost loans (FCAC, 2016). Quantitative data as well as testimonies of ACORN members who are low- and moderate-income consumers have also clearly demonstrated the lack of access to fair credit (CCPA & ACORN Canada, 2016; ACORN Canada 2021a, 2022). It is this lack of or inadequate access to fair credit that is pushing millions of low- and moderate-income Canadians to predatory lending. And while the pandemic has thrown a unique set of challenges resulting in people in desperate need of support, it has turned out to be extremely profitable for the predatory lending industry.

Recently, the Canadian Lenders Association released an article in which it states that there are eight million Canadians considered to be non-prime borrowers because they have low credit scores. Many are viewed as 'higher-risk borrowers,' and have difficulty getting credit from traditional financial institutions such as banks (Schwartz, 2022).

ACORN Canada survey (2022) found that over half of respondents (54.9%) applied for a loan first at the bank/credit union/trust company but were denied. Further, the study finds that 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.

Predatory lending has devastating impacts on people. ACORN members have constantly spoken about their experiences with predatory lenders. ACORN Canada put out a set of testimonials which speak volumes about the issues people face with predatory lenders and how it impacts their lives (ACORN Canada, 2021b).

ACORN's most recent survey which focused on the usage of high-cost loans during the pandemic also collected a set of testimonials from people who were forced to take predatory loans especially due to the pandemic (ACORN Canada, 2022).

Hence, it becomes extremely critical that low-cost, short-term loans are available for people who need them most. It is also crucial to make available information on what kinds of options exist and if there are any barriers people face in accessing them.

Chapter 3

SCAN OF LOW-COST, CREDIT OPTIONS AND FAIR BANKING INITIATIVES

This chapter covers a scan of short-term, low-cost credit options available in Canada and certain other jurisdictions.

3.1 Low-cost credit options in Canada

This section focuses on a scan of short-term, low-cost credit options available to Canadians. This scan is primarily informed by a Google search, ACORN's previous work on this issue, ACORN focus groups, Brenda Spotton Visano's 2018 paper and recent developments that have taken place.

Overall, the alternatives can be categorized into the following:

1. Those offered by banks and credit unions.
2. Assistance by Rent Banks.

Table: Low-cost small dollar loan options

Name	**Location it serves and Institution Type**	**Information**
National		
Canada Post - My Money https://www.canadapost-postescanada.ca/cpc/en/personal/mymoney/loan.page The product has been discontinued. It began as a pilot project in the fall of 2022 before expanding nationally but was discontinued following January 2023 when TD's security protocols identified early warning signs of irregular activities. The MyLoan applications stand paused indefinitely.	National – Bank	Choice of fixed or variable rates. Variable interest rates between 9.78% and 19.28% APR. (TD Prime Rate + 4.33% to TD Prime Rate + 13.83%). Fixed interest rates from 9.48% to 18.98% Annual Percentage Rate (APR). Loans from $1,000 to $30,000 with flexible repayments can spread over 1 to 7 years.

Desjardins - Personal Loan and Accord D financing https://www.desjardins.com/ca/rates-returns/financing/personal-loans/index.jsp	National - Credit Union	Offers a minimum loan amount of $500 and up to $25,000 if applying online and more than $50,000 if applying in the branch. Repayment term varies between 6 months and 10 years. The APR depends on a range of factors including history with Desjardins as a member, credit history, amount of loan, time period of making payments etc. A non-member can also apply provided they have a Desjardins chequing account and credit card.
Credit unions		
Vancity - Fair & Fast Loan (Vancity Savings Credit Union) https://www.vancity.com/Loans/TypesOfLoans/FairAndFastLoan/ https://support.vancity.com/fair-fast-loan-apply/	BC - Credit Union	Qualification for the loan based on income. No credit check required. Loans starting $100 to $2,500; 19% fixed APR. Pay back in 2 weeks or maximum of 2 years.
Fast Forward Small Loan - Servus Credit Union https://www.servus.ca/life/personal-loans/fast-forward-small-	Alberta - Credit Union	Fast loans of $200-$2,500 repaid over a period of 3 months to 2 years at 19% APR. Applicants can begin the application online.

ATB Financial (Alberta Treasury Branch) - Public Bank	Alberta - Public Bank - the largest public bank in North America.	Provides personal loans at Fixed or variable rate, based on ATB's prime rate, ranging from 7.20-14.20% APR with a repayment period of 1-5 years. There is no limit to the amount of loan a person can borrow, it depends on their documents and financials. The credit product can be accessed by individuals who are not customers of the ATB.
CUA - Personal Microloan (Credit Union) https://www.cua.com/Home/ProductsAndServices/MortgagesandLoans/Microloans/	Nova Scotia - Credit Union	Loans of $500-$5,000 with flexible repayment terms of 12-36 months. Rate: 14.5-18.5% APR
Windsor Family Credit Union (WFCU) SmarterCash: A Payday Loan Alternative https://www.wfcu.ca/Personal/ProductsAndServices/LoansLinesOfCreditAndMortgages/	Windsor - Credit Union	Loans of $500 or less to a maximum of $2,000. For a $300 loan, the fee is $4.26.
Desjardins Mutual Assistance Fund https://coop.desjardins.com/ca/about-us/social-responsibility-cooperation/responsible-financial-products-services/solidarity-based-finance/mutual-assistance-fund/index.jsp	Quebec and Ontario - Credit Union	Through a partnership with 35 community organizations across Quebec and Ontario, the Desjardins Mutual Assistance Fund provides people experiencing financial difficulty with free budget counselling and under certain conditions, loans with payment terms adapted to their financial capacity.

Restart loan - Affinity Credit Union https://www.affinitycu.ca/borrowing/personal/loans/restart-loans	Saskatchewan - Credit Union	Loan of $200 to $2,000 with terms ranging from two up to 24 months to pay it back. Fixed annual rate of 17.99% and no fees.
Rent banks to help prevent homelessness		
Toronto Rent Grant (Neighbourhood Information Post and City of Toronto) https://www.toronto.ca/community-people/employment-social-support/housing-support/financial-support-for-renters/toronto-rent-bank/	Toronto - Rent Bank	Grants for rental arrears up to $4,000 or three months' rent, whichever is the lower amount. For rental deposits, grants are based on unit size.
BC Rent Bank https://bcrentbank.ca BC rent bank itself does not provide a loan but provides funding and assistance to rent banks across the province.	BC Locations: https://bcrentbank.ca/apply/ • Rent bank	Interest-free financial assistance, including loans to be repaid within 6 to 24 months. Administrative fees, often $1/month, associated with the issuing of loans. For rent payment or arrear, essential utility payment or arrears (essential utilities include hydro and gas), security deposit, pet deposit or first month's rent for tenants who have recently secured housing. Some grants are also available. Details here: https://bcrentbank.ca/frequently-asked-questions/

Following are some of the key points that emerge with respect to some of the fair credit alternatives that exist in Canada:

- In recent years, there have been only two fair banking alternatives available nationally and one of them offered by Canada Post in partnership with TD Bank has since been discontinued. The other one - Desjardins Accord D Financing is a product offered by a credit union, which does offer loans to borrowers who are not members of the credit union, but they still need to have a chequing account and credit card with Desjardins and have good credit history etc. This potentially limits its access to a lot of low- and moderate-income consumers.
- In terms of types of loans, some of the options such as the WFCU Smarter Cash and Restart loan are marketed as alternatives to payday loans while others such as Canada Post - My Money loan option is more of an installment loan option that starts at $1,000.
- It is notable that most of these low-medium cost credit options are available through credit unions which require membership and are location specific. This limits the reach of these options.
- Although not exactly low-cost credit options, initiatives such as rent banks play an important role in helping low- and moderate-income tenants to pay for rental arrears and prevent homelessness. The city of Toronto Rent Bank program started a rent grant program during the pandemic as thousands of renters fell behind on rent. These are options that people can use to avoid borrowing from predatory lenders. However, again, very few cities/provinces have rent banks.

A review of the bank legislation shows that banks are not otherwise willing to ensure accessibility unless there is legislation. Explaining the need for additional legislation, the Government of Canada (2015) states "while demand for low-cost accounts have increased…several banks had reduced the maximum number of transactions allowed in these plans" (as quoted in Spotton Visano, 2018, p.162). With respect to attempts to reduce access to barriers to financial services, there have been some admirable attempts by some banks and credit unions in some communities. However, the fact that these efforts have not reduced the uptake of high-cost non-bank financial services reflects their limited impact. The financial alternatives that exist today are a patchwork of solutions and will have limited impact because of being ad hoc (Spotton Visano, 2018).

3.2 Fair banking initiatives in other jurisdictions

Outside of Canada, affordable loans and other initiatives to promote fair banking are noteworthy. This scan is primarily informed by a Google search and ACORN's previous work on this issue. The scan of U.S. specific initiatives has been informed by Gittleman, R. & Mancini, V. (2022).

Other jurisdictions		
Goodshepherd https://goodshep.org.au/services/nils/	Australia – Not-for-profit	0% interest loans up to $2,000 for essential goods and services including household essentials, car repairs and registration, medical & Dental, technology, housing and education.
Bank products	US - Banks	Bank of America Balance Assist program - offered to customers who have been with the bank for at least a year and have a qualified checking account. Cap of loans at $500, repayable in 3 installments over 90 days with 5.99-29.76% APR depending on the amount of loan. US Bank Simple Loan program - Up to $1,000 with repayment period of 3 months. APR is 35.26-76.83% depending on the amount of loan.
Community Development Financial Institutions (CDFI) Fund's Small Dollar Loan program	US – Lenders certified by the US Treasury Department	CDFIs are lenders with a certification given by the US Treasury Department's CDFI Fund to organizations that provide financial services in low-income communities. CDFI has specific funding for programs offering affordable small dollar loans but CDFI's eligibility criteria are based on each institution's mission and market with no explicit interest rate caps. Outside of this particular program as well, some CDFIs offer affordable small dollar loan products at 36% APR or less.

Federal Credit Unions	US - Credit Unions	Federal credit unions are covered by the Federal Credit Union Act rate caps, generally at 18% APR. Many credit unions offer small dollar loans under 18% APR. Payday Alternative Loans (PALs) - Rules for these approved by the National Credit Union Association (NCUA). Loans up to $2,000 with APR of 28% and a capped $20 application fee. Require underwriting for ability to repay. Overseen and regulated by the NCUA.

In addition to the low-cost credit products available, fair banking initiatives in other jurisdictions are making mainstream banking more affordable. Many banks in the US have recently taken steps to eliminate the overdraft protection fee - a subset of Non-Sufficient Fund (NSF) charges. Some banks have eliminated NSF fees as well as eliminated overdraft fees or increased the amount an account can be overdrawn before a fee is charged. Some of the big banks include Citigroup, Bank of America and JP Morgan Chase among others.

In the UK too, from April 2020, banks and building societies will no longer be allowed to charge fixed daily or monthly fees for overdrafts. In addition, there will no longer be higher fees for unplanned overdrafts than for arranged ones. In 2017, banks made more than £2.4bn ($3.03 billion) from overdrafts - with 30% alone coming from unarranged overdrafts - where customers become overdrawn without prior agreement or exceed any agreed overdraft limit. As per the Reuters article by Jones (2018), unarranged overdraft fees can, in some cases, be more than ten times as high as fees for payday loans. Due to these changes, fees on an unarranged overdraft of 100 pounds would be slashed to 20 pence a day from 5 pounds at present.

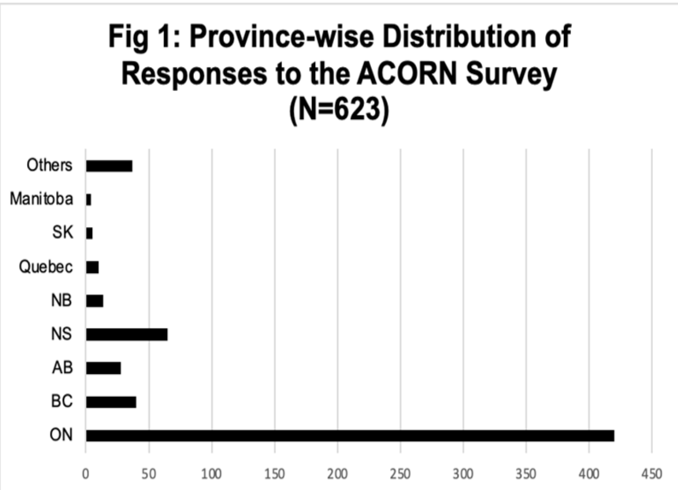
Another example from the US worth mentioning is *Bank On*. The Cities for Financial Empowerment (CFE) Fund works directly with national and regional financial institutions to encourage access to mainstream banking services. As of March 2022, there are 200 nationally certified bank and credit union accounts that meet the *Bank On* National Account Standards. Core account features of these standards include low costs, no overdraft fees, robust transaction capabilities such as a debit or prepaid card, and online bill pay. These comprise over 56% of the U.S. deposit market share, and 47% of all US bank branches offer a certified account. Over 3.8 million Bank On certified accounts were open and active in 2020 in 80% of US zip codes. Noteworthy is the fact that 80% of consumers opening Bank On certified accounts at reporting institutions were new banking customers.

Chapter 4

FINDINGS OF THE ACORN CANADA SURVEY ON FAIR CREDIT ALTERNATIVES

An online survey was sent to all contacts that exist in the ACORN database nationally between February and March 2023. It was sent in both the official languages - French and English. A total of 623 responses were received.

Figure 1 provides information on the number of responses received from different provinces. Given that ACORN has a long history of working in Ontario, most responses were from Ontario followed by BC, Alberta, Nova Scotia and New Brunswick where ACORN has established chapters.



Prior to conducting the survey, two focus group discussions were conducted with ACORN members online. The discussion saw participation of 15 members from different provinces. The objective of this discussion was to understand the experiences of members in accessing any short term, low-cost credit options in their provinces which helped in finalizing the survey questions.

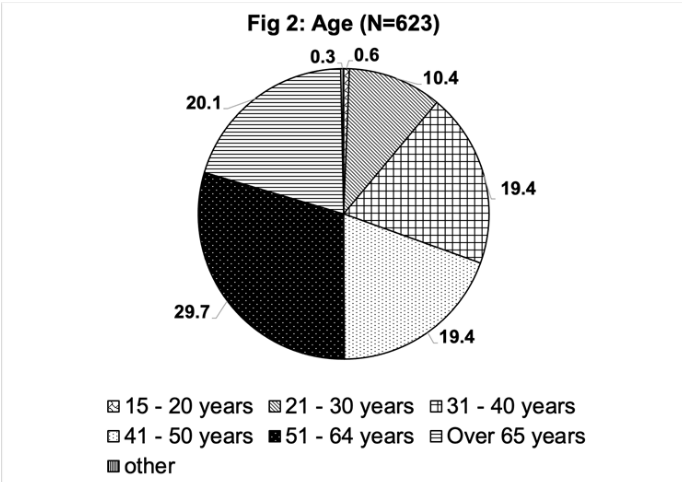
Findings of the survey

This section details the findings that emerged from the survey on fair credit alternatives. The survey was divided into different sections including demographic information, need for credit, awareness of and access to fair banking alternatives, usability of high-cost loans and access to traditional banking institutions.

Section 4.1: Demographic information

4.1.1. Age of respondents

- Almost 40% of respondents belonged to the age group of 31-50 years.
- Around 30% of respondents are in the age group of 51-64 years.
- One in ten respondents are in the age group of 21-30 years and a very few respondents are less than 20 years.

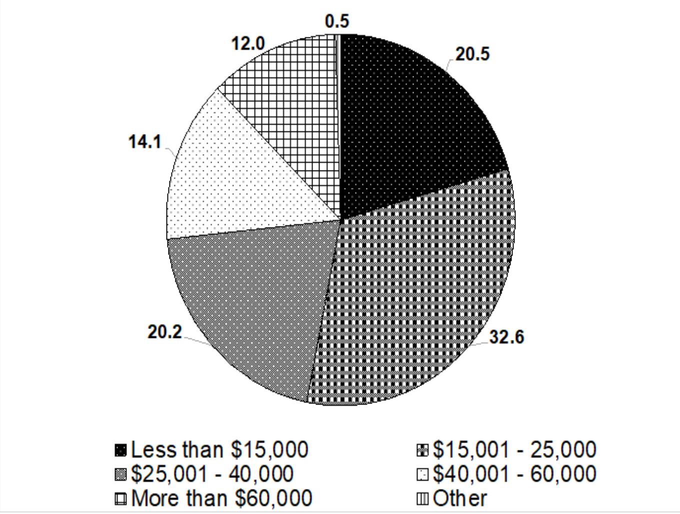


4.1.2. Annual income of respondents

- Nearly 90% of all respondents had an income of $60,000 or less.
- Around a third of respondents reported their annual income range between $15,000 - $25,000.

- Around 20% of respondents have annual income between $25,000-$40,000 and an equivalent percentage of respondents reported their annual income of less than $15,000. About 14% of respondents have annual income between $40,000-$60,000

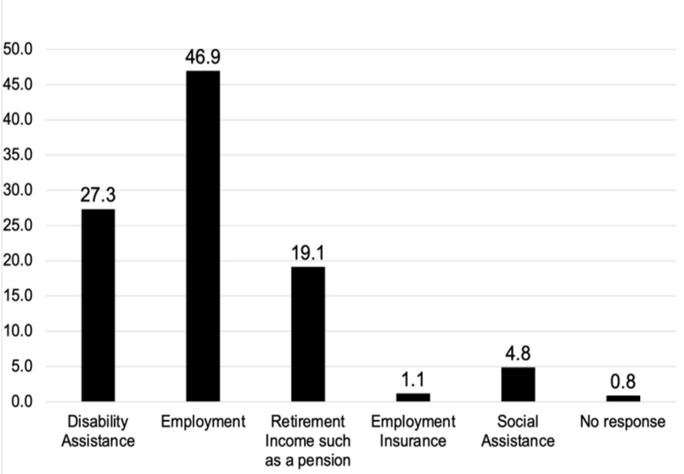
Fig 3: Annual Individual Income (N=623)



4.1.3. Main source of income

- Almost half of respondents reported employment as their source of income.
- Around 30% of respondents reported disability assistance as their source of income.
- 27% of respondents stated pension as their source of income.
- A few respondents reported receiving social assistance.

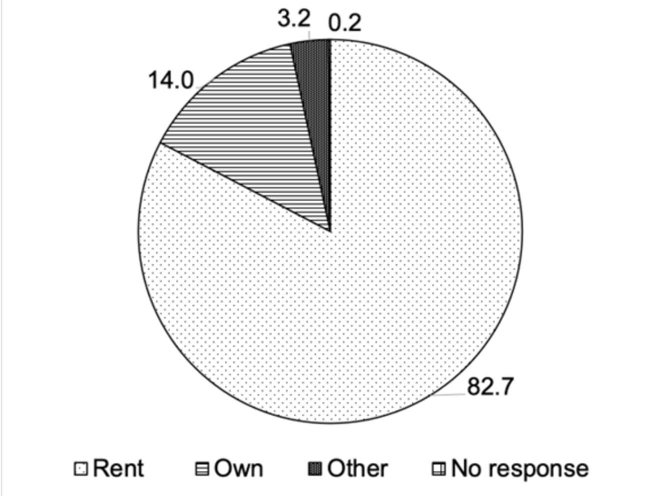
Fig 4: Main source of income (N=623) (in %)



4.1.4. Renters vs. Owners

A vast majority (82.7%) of respondents identified themselves as renters.

Fig 5: Do you rent or own your home? (N=623)

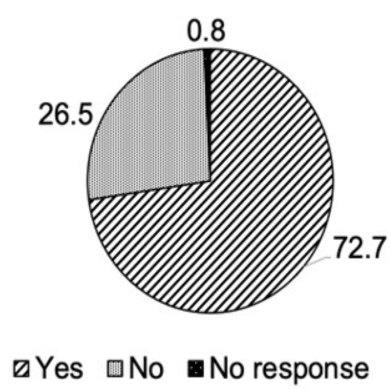


Section 4.2: Need for credit

This section consisted of questions that helped gauge the extent to which the respondents were in a financially precarious position.

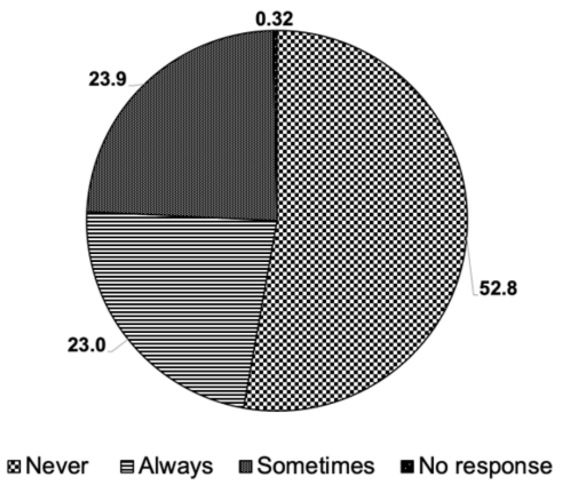
4.2.1. Most respondents (73%) reported receiving the same amount of income every pay period **(**every week/two week or monthly).

Fig 6: Do you get the same income every pay period (every week/two weeks/month)? (N=623)



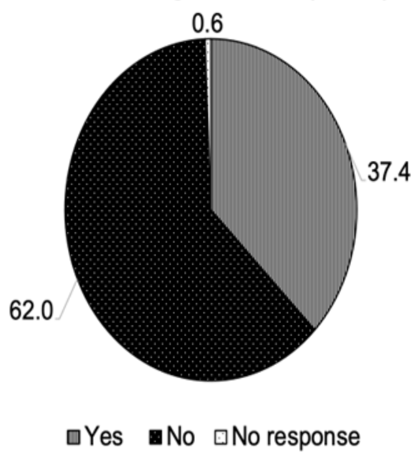
4.2.2. More than half of the respondents said they never have enough money to cover one month's worth of expenses while a quarter of them reported that they have it sometimes.

Fig 7: Do you have enough savings today to cover 1 month of living expenses? (N=623)



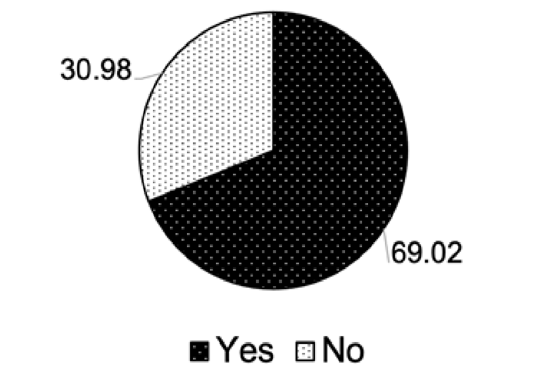
4.2.3. Around **40% of respondents said that they would fall into debt in case they had to make an unexpected expenditure today of $500.**

Fig 8: If you had to make an unexpected expenditure today of $500, could you do so without falling into debt? (N=623)



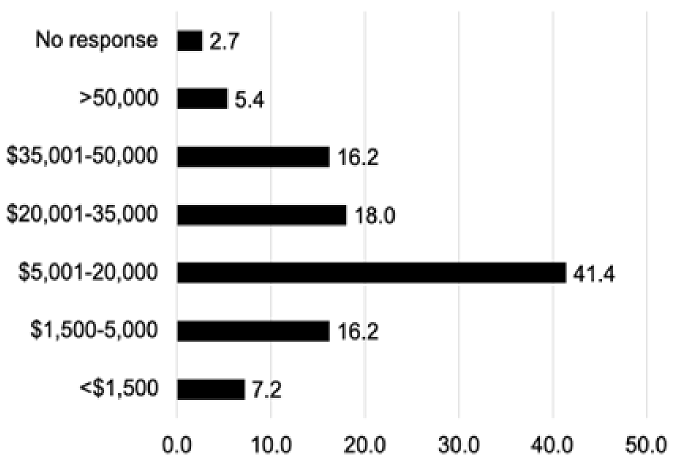
4.2.4. Seventy per cent of respondents stated that they are currently in debt.

Fig 9: Are you currently in debt? (N=623)

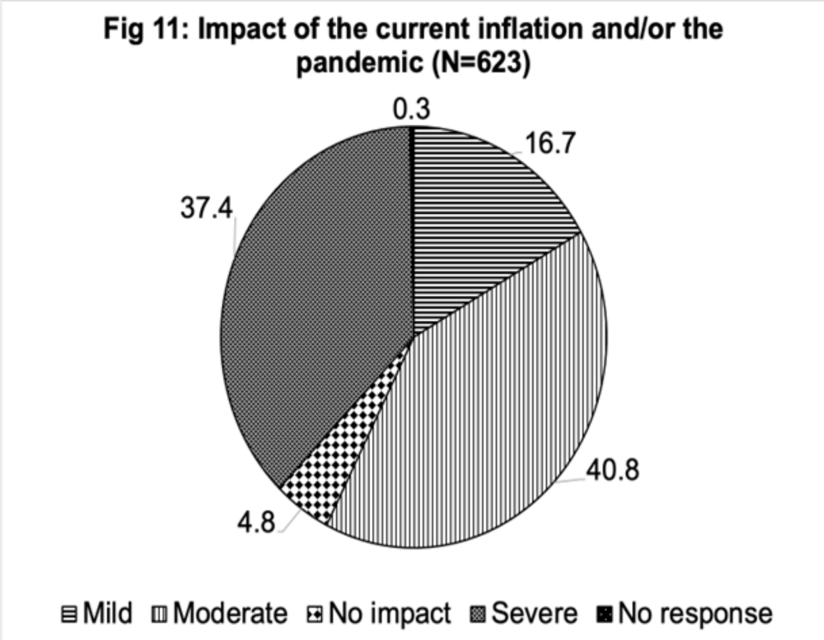


4.2.5. Of the nearly 20% of respondents who reported the details of their debt, very few people mentioned the total debt they owed to be less than $1,500 which is typically the maximum amount of a payday loan offered by fringe lenders. For the largest proportion of people i.e., 40%, the total amount of debt reported varied between $5,001 and $20,000, another 18% said they owed anywhere between $20,001 and $35,000 and 16% of people owed more than $35,000 but less than $50,000. This shows most people who filled out the survey have medium to high amount of debt.

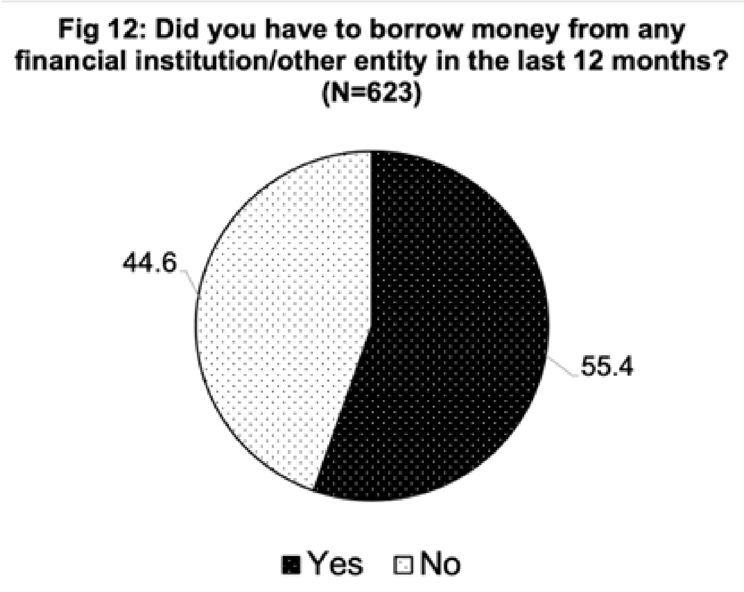
Fig 10: Total amount of debt (N=111) (in %)



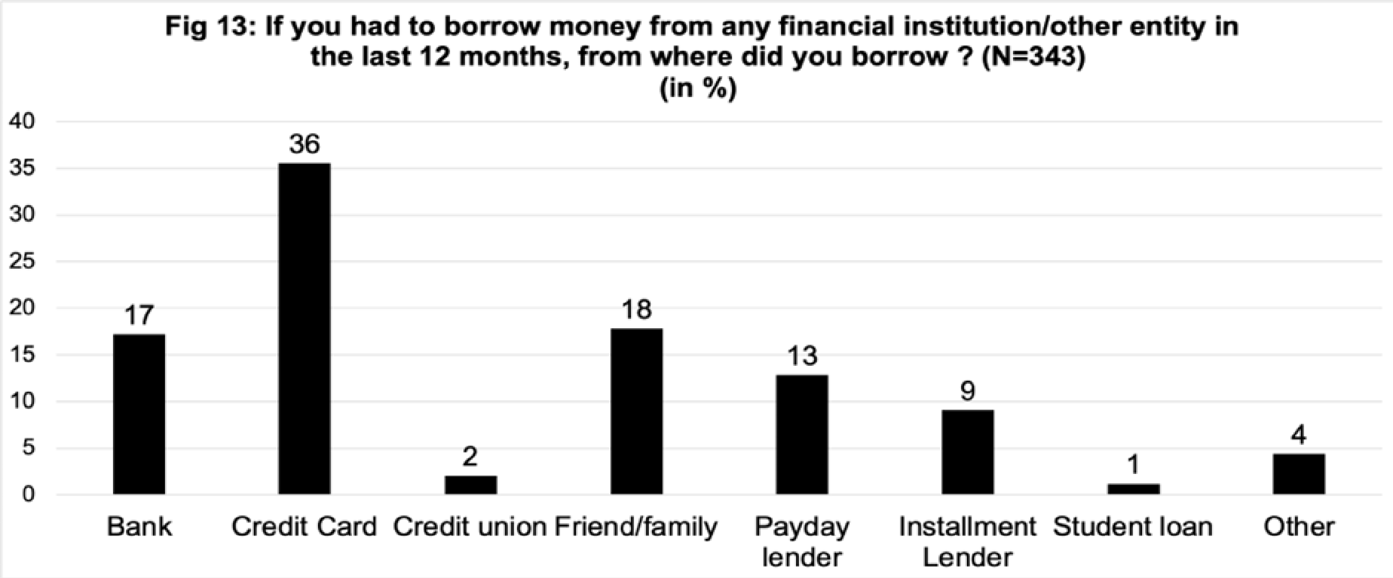
4.2.6. When asked if the pandemic and/or current inflation had caused them financial hardship, 40% of respondents stated severe impact and only 5% stated no impact.



4.2.7. More than half of the respondents had to borrow money in the past 12 months.



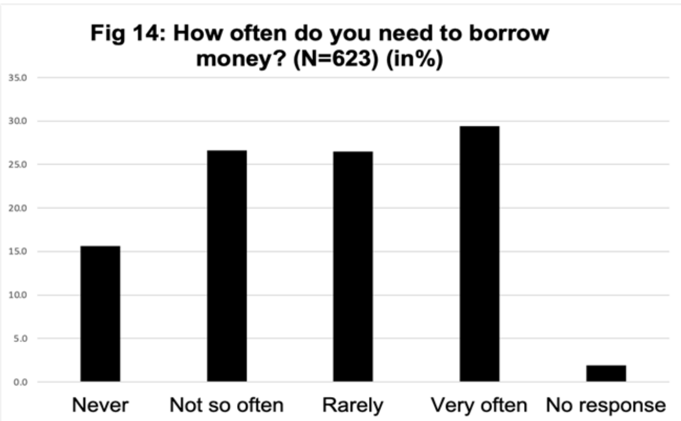
4.2.8. In terms of the institution/individual **from where the money was borrowed**, out of the 343 respondents who said they had to borrow money in the last 12 months, the largest proportion of people used their credit card (36%), followed by borrowing it from a family member/friend (18%) or the bank (17%). Important to note that 13% of respondents stated that they had to go to a payday lender and 9% had to approach an installment lender. Payday loans are short-term, small dollar loans with a maximum amount of $1,500 to be repaid in 2-4 weeks. Installment loans are higher amount of loans to be repaid in installments over a period of time agreed with the lender. Few people mentioned using a credit union (3%).



** Note: We called a sample of people after the survey was conducted because there was a difference between the number of people who said they borrowed money from payday/installment lender and those who said they had to take out a high-cost loan in the last 12 months. In this question, the data show that 22% of people borrowed from a payday lender/installment lender in the last 12 months (out of 343 people who said they had to borrow money). As per section 4.4 (first question, 4.4.1) in this document, 20% of people said that they had to take out a high-cost loan such as a payday/installment loan in the last 12 months. The reason for the smaller number of people saying they had to borrow money from a payday/installment lender is because the question provided a list of options for people to choose from (bank, credit card, credit union, family/friend, installment lender, payday lender) and they could select only one option. Hence, there might be people who borrowed money from a credit card and a high-cost loan but they couldn't select both options.

4.2.9. Respondents were asked how often they need to borrow money.

- 30% of respondents stated the need for borrowing very often or monthly.
- Only 16% of respondents mentioned that they never needed to borrow money.

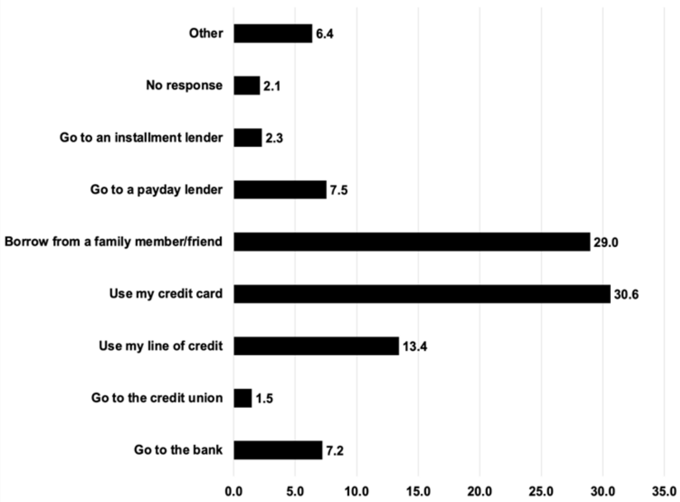


Section 4.3: Fair Banking Alternatives

4.3.1. What do you do first when facing a tough financial situation:

When faced with a tough financial situation, only 7% of all respondents stated that going to a bank would be their first course of action. Around 31% of respondents reported using a credit card closely followed by 29% of respondents who said they approach their family/friend (31-29%). Another 14% reported using the line of credit. However, one in ten of the total number respondents (623) said they either go to a payday or an installment lender first.

Fig 15: What do you do first when you are facing a tough financial situation? (N=623) (in %)

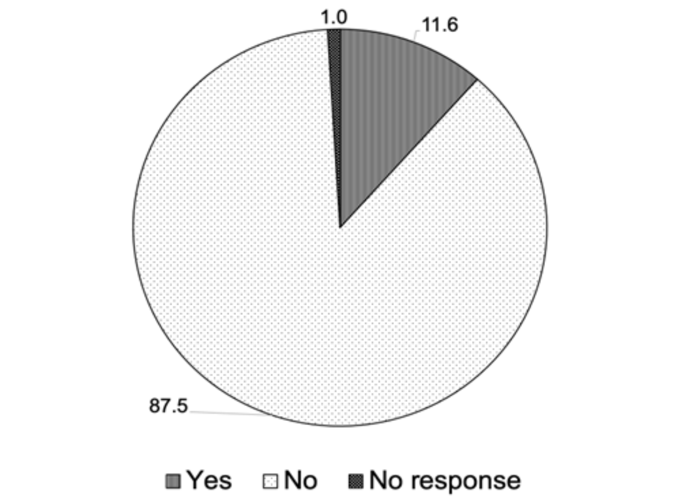


4.3.2. Awareness of medium or low interest credit options

Respondents were asked if they were aware of any medium or low interest consumer credit options (annual interest less than 30%) or other sources of emergency funds for people with a low or moderate income who can't access credit from the major banks (such as CIBC, TD, Royal Bank of Canada and Scotia). The question specifically mentioned that such options exclude credit cards and lines of credit from mainstream banks/credit unions.

A vast majority of respondents i.e. **87% of respondents mentioned that they are not aware** of any such medium or low interest credit options.

Fig 16: Are you aware of any medium or low interest credit options or other sources of emergency funds? (N=623)



4.3.3. Low-to-medium credit options that respondents were aware of or used (respondents could choose multiple options).

Respondents were given a list of some available low-to-medium cost credit options and asked to choose the options they are aware of or had used in the past. This list was informed by the scan conducted as part of this study as well as focus group discussions. The respondents could pick more than one option. Important to note that this list did not include the loan products such as credit cards offered by banks and credit unions as an option.

The two nationally available low-to-medium credit options listed were Canada Post My Money product that was launched with the TD Bank and Desjardins.

- While the Canada Post My Money product has been discontinued now, 13 out of 73 respondents who said they were aware of medium to low credit options stated being aware of it or having used it.

- Regarding Desjardins, 15 out of 73 respondents stated that they were either aware of it or had used the product.

The only other product that people seemed to be aware of had used was the Vancity Fast and Fair - a product by Vancity in BC. A total of 7 respondents in BC out of 72 respondents said that they are aware of low-to-medium cost options.

Out of these 7 BC respondents, 3 respondents said that they were aware of or had used Vancity Fair and Fast credit product.

4.3.4. If respondents tried accessing low-to-medium credit options

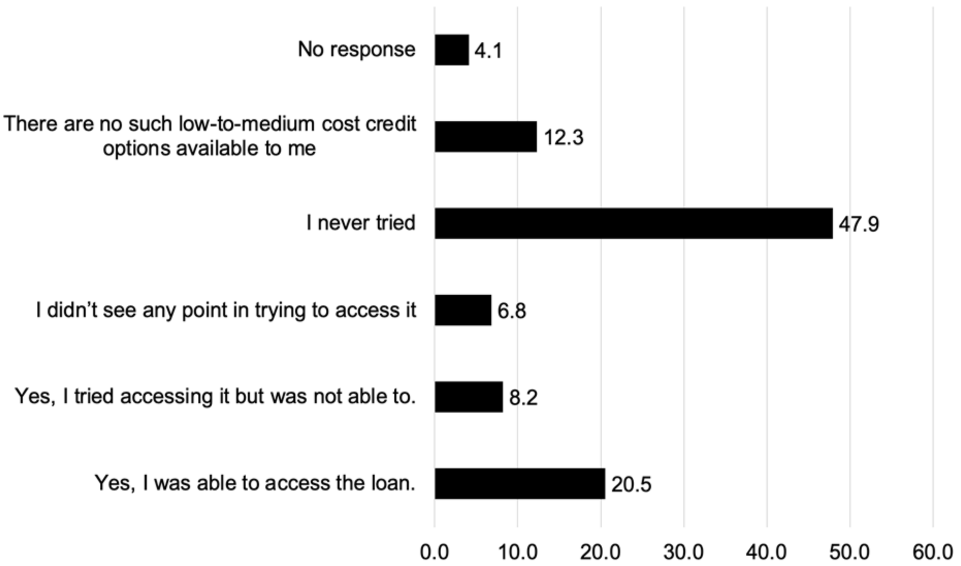
Out of the 73 people who said they were aware of and/or had used a low-to-medium credit option, about half of the respondents said they never tried accessing them, 20% said they were able to access them, 8% said they tried but couldn't gain access and 7% said that they didn't see any point in trying to access them.

4.3.5. Interest rates of low-to-medium credit options

The respondents were asked about the annual interest rates of the low-to-medium credit options that they were aware of or had used in the past. Again, the question excluded credit cards and lines of credit available from mainstream banks/credit unions.

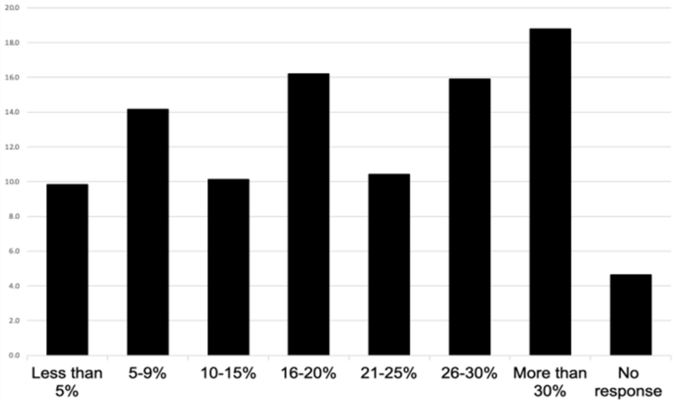
- Around a quarter of respondents said that the annual rate of interest of such options was less than 10%.
- 26% of respondents mentioned the annual rate of interest between 10-20%
- Another 26% stated the annual rate of interest to be between 21-30%
- Close to 20% of respondents said that the interest rate was more than 30%, which falls in the high-cost category.

Fig 17: Have you tried accessing low to medium cost credit options? (N=73) (in %)



These results suggest that the knowledge about and take up of low-cost credit options are very limited among those who need money but cannot access mainstream bank credit. Hence, there are still a lot of people who have to borrow money at medium-to-high cost.

Fig 18: What is the annual rate of interest of the medium or low interest credit option you know of/have used in the past?

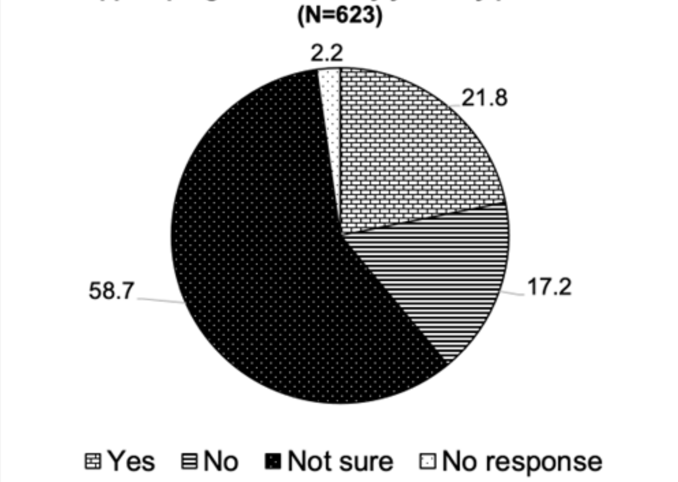


4.3.6. Rent bank/rent grant/other rent support programs in the city/province.

4.3.6.1. Availability of rent bank/rent grant/ any other rent support program

Respondents were asked if their city/province offered a rent bank/rent grant/other rent support program. 22% of respondents mentioned having a rent bank/rent grant/ other rent support programs. A majority of respondents (60%) stated they weren't sure if a rent bank exists in their province/city.

Fig 19: Rent bank/rent grant/any other rent support program offered by your city/province? (N=623)

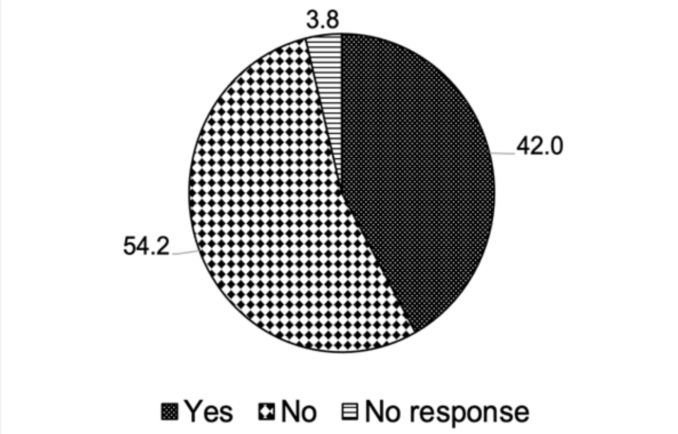


Since there are very few rent banks, it is not surprising to find that a low proportion of people are aware of them.

4.3.6.2. Benefit from the rent bank/rent grant/ any other rent support program

Of the 131 respondents who said they are aware of a rent bank/rent grant or other rent support program offered by their city/ province, 42% said that they were able to benefit from it.

Fig 20: Have you been able to benefit from rent grant/rent bank/rent support program? (N=131)

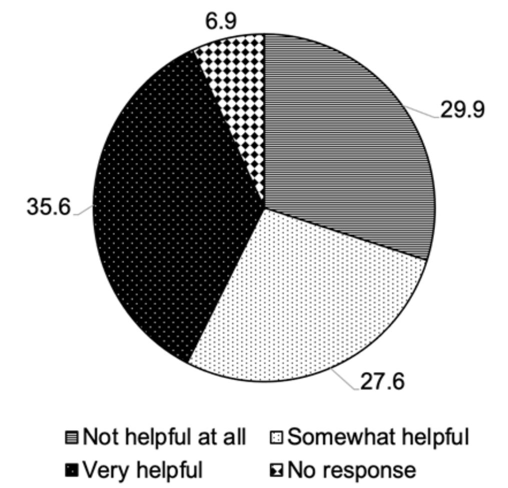


4.3.6.3. Experience with the rent bank/rent grant/any other rent support program

Eighty-seven people or about 14% of all respondents reported having experience with rent bank/ rent gather/ other rent support programs. Those with experience include people who would have applied and received support from the rent bank/rent grant/other rent support program and also those who could not access such kind of support due to various reasons.

Slightly more than a third of respondents stated that they found it very helpful. Almost 30% of respondents said that they did not find it helpful at all. The responses "not helpful at all" or "not helpful" does not only mean people who were able to access the support but also those who would have applied but could not receive it or never applied because of different factors.

Fig 21: How would you rate your experience with the rent bank/rent grant/rent support program? (N=87)



Rent support programs have the potential to play a pivotal role in preventing low-income renters from becoming homeless owing to rental arrears. Rent support programs also have the potential to prevent people from taking loans from predatory lenders and falling into further debt.

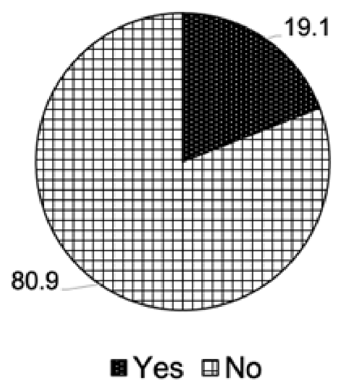
Section 4.4: High-cost loans

This section focused on questions relating to high-cost loans such as those taken from lenders like Money Mart, Easy Financial, Cash Money etc. that offer payday loans and installment loans. These loans are predatory. The APR for payday loans varies between 400%-600% across provinces. Interest rates for installment loans are regulated federally. Currently, the Criminal of Code allows lenders to charge an APR of 47% for installment loans (60% EAR).

4.4.1. Uptake of high-cost loans in the last 12 months

Around 20% or 119 people of the total respondents (623) said that they had to take out a high-cost loan such as a payday loan/ installment loan or other high-cost loan with annual interest rate over 30% in the last 12 months. Hence, the questions in this section were responded by 119 respondents (in some cases slightly lesser number since none of the questions were mandatory).

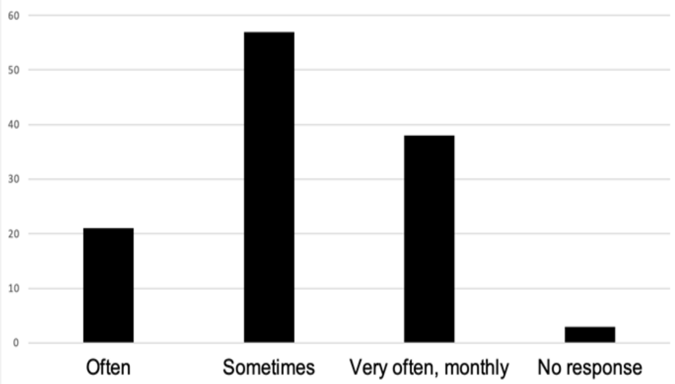
Fig 22: In the past year, did you have to borrow a high-cost loan with annual interest rate over 30%? (N=623)



4.4.2. Frequency of usage of high-cost loans in the past 12 months

Almost one-third of the 119 respondents who used high-cost loans mentioned that they had to take out a high-cost very often i.e. every month in the last year, another 18% said that they had to take out such a loan often in the past 12 months.

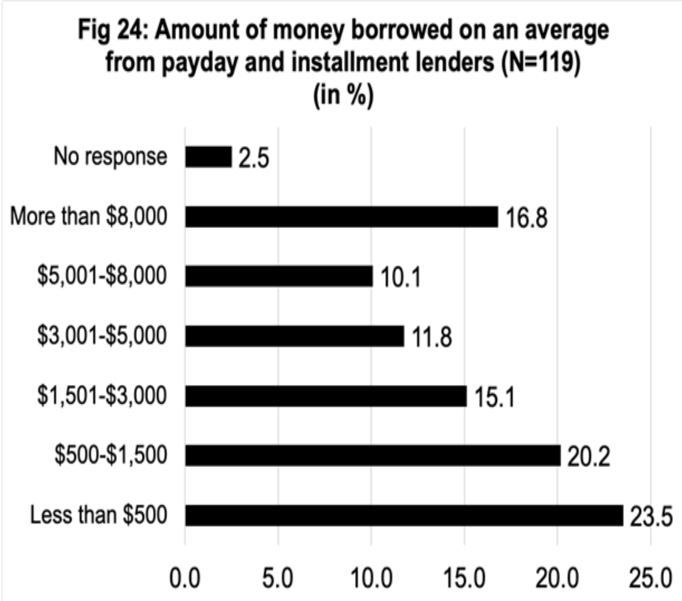
Fig 23: Frequency of borrowing a payday loan/installment loan or any other high-cost loan in the last 12 months (N=119)



4.4.3. Amount of high-cost loan borrowed in the last 12 months.

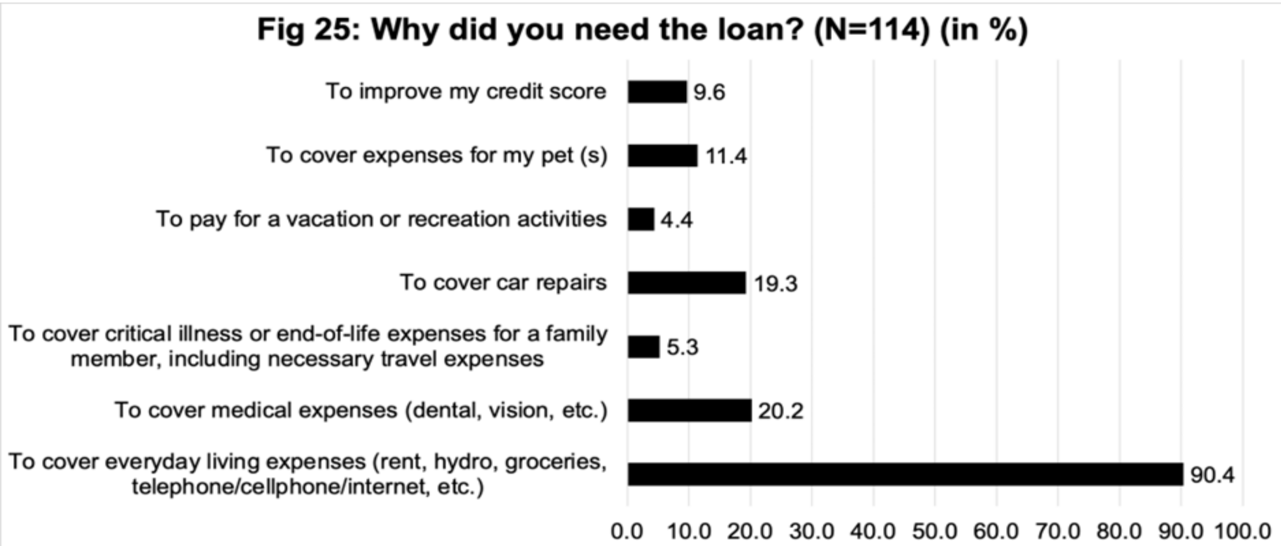
Respondents were asked how much money they have to borrow on an average from payday and installment lenders like Money Mart, Easy Financial, Cash Money etc. or other high interest lenders in the past year.

A quarter of the 119 respondents had to borrow a high-cost loan of less than $500. Around 20% of respondents said they had to borrow a high cost between $500-$1,500. Another 15% had to borrow such a loan anywhere between $1,501-$3,000. Another 12% had to take a medium sized loan ranging from $3,001-$5,000. Roughly 27% had to borrow a high-cost loan above $5,000.



4.4.4. Reason for taking out the high-cost loans.

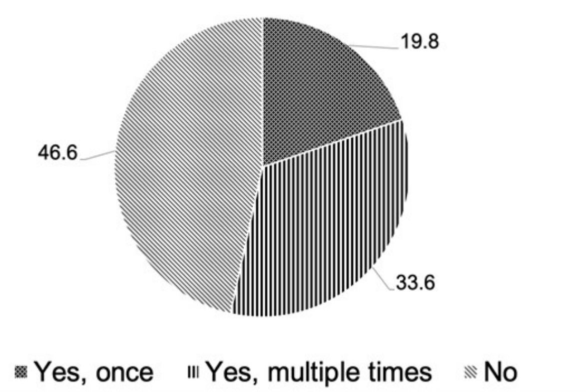
The most prevalent reason reported by more than 100 of the 114 respondents for taking out a high-cost loan was to meet everyday living expenses such as rent, groceries etc. Other reasons but far less common ones included car repairs (20%), medical expenses (19%), pet expenses (11%) and to improve credit score (10%).



4.4.5. Refinancing of the high-cost loan

A common tactic employed by the high-cost lenders to extract more money is by refinancing or rolling over the loan in case people miss a payment or they are drawn into further debt by offering more money. A third of the 116 respondents said that their loans were refinanced multiple times while 20% of the 116 respondents mentioned it being refinanced at least once.

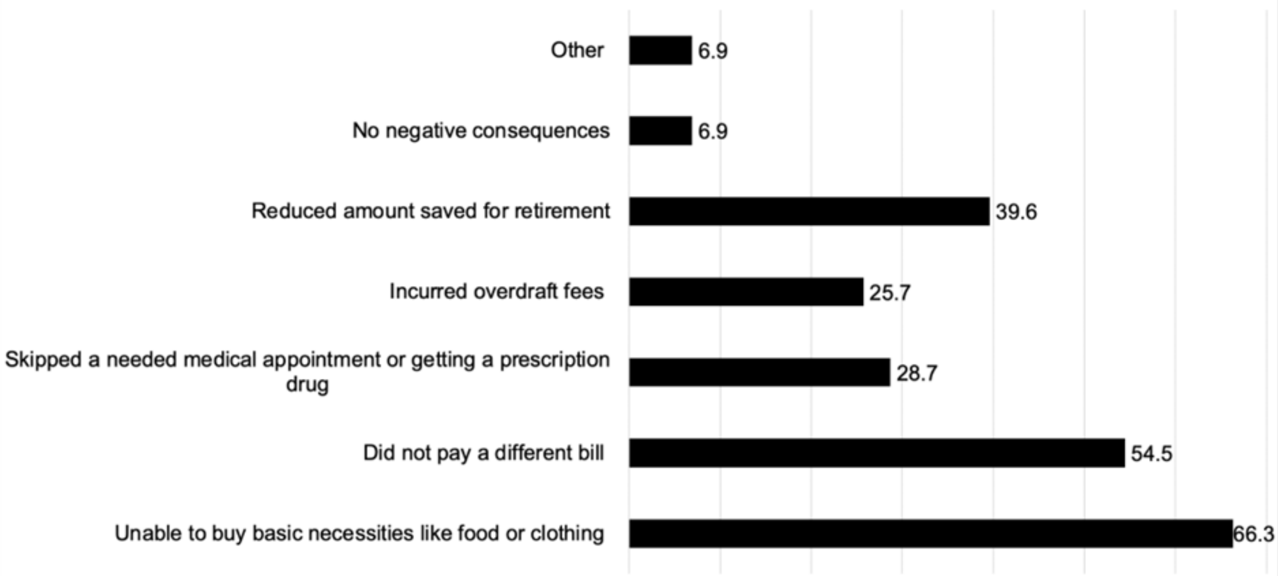
Fig 26: Did you have to get your loan refinanced or rolled over to extend the loan's term? (N=116)



4.4.6. Financial hardship faced as a result of the <u>making the high cost loan payments on time</u>

Some of the main impacts on people's lives as a result of them making their loan payments on time included not being able to buy basic necessities (66%) followed by inability to pay a different bill (48%), reduced amount of savings for retirement (40%), skipping a needed medical appointment (29%) and incurring overdraft fees (26%).

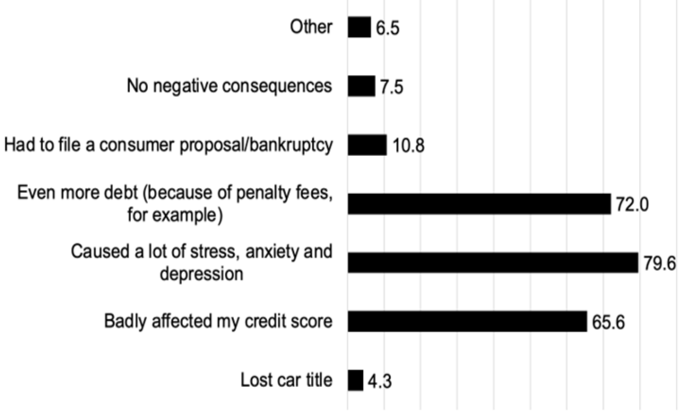
Fig 27: Financial hardship because of MAKING loan payments on time (N= 101) (in %)



4.4.7. Impact on financial situation as a result of the not making the high cost loan payments in time

Some of the main consequences reported by the respondents as a result of them not being able to pay loan payments on time included stress, anxiety and depression (80%), closely followed by getting into even more debt (72%), an adverse effect on the credit score (67%) and having to file a consumer proposal/ bankruptcy (11%). Very few people reported no consequences as a result of missing payments.

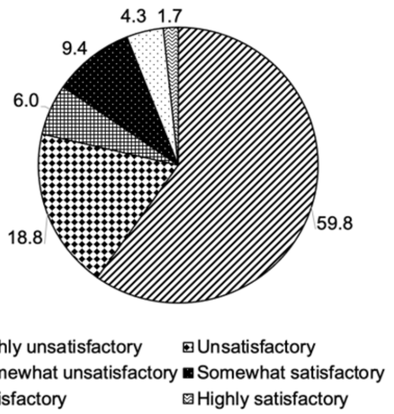
Fig 28: Consequences due to NOT making all or most of loan payments on time (N=93) (in %)



4.4.8 Level of satisfaction with high-cost loans

Around 60% of respondents rated their level of satisfaction with the high-cost loan as highly unsatisfactory. Further 20% rated it as unsatisfactory. Very few people rated their experience as satisfactory or highly satisfactory. This clearly demonstrates the predatory nature of high-cost loans, the demand for which arises due to a lack of fair banking alternatives for people with a low or moderate income.

Fig 29: Level of satisfaction with the high-cost credit options (N= 117) (in %)



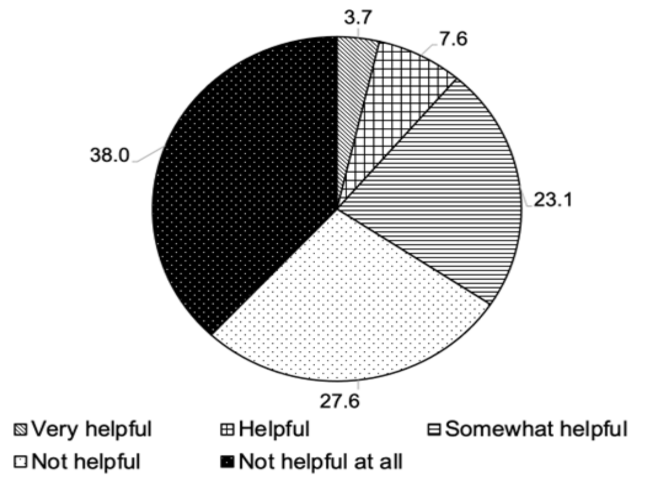
Section 4.5: Traditional banking institutions

The last section in the survey focused on the extent to which people are able to access products offered by traditional banking institutions such as banks or credit unions.

4.5.1. Extent to which bank/credit union products were found helpful in times of financial hardship.

Respondents were asked as to what extent they find banks/credit union products helpful in times of financial hardship. Around 40% of 594 respondents said that banks/credit union products were "not helpful at all" in times of financial hardship. Barely 11% found the products "very helpful" or "helpful".

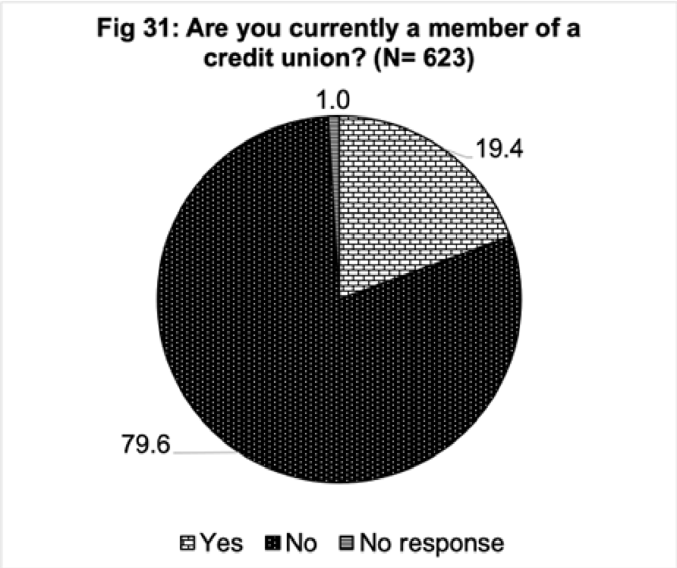
Fig 30: To what extent do you find banks/credit union products helpful in times of financial hardship? (N= 594)



4.5.2. Credit union membership and extent to which it's helpful.

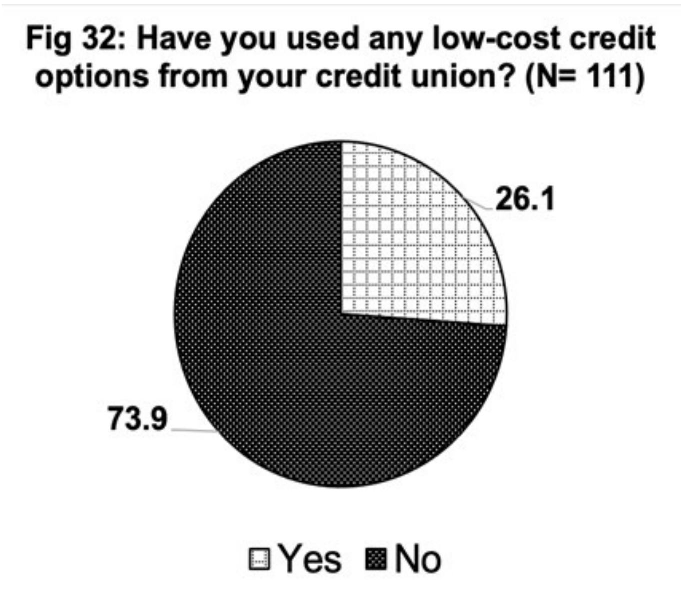
4.5.2.1. Member of a credit union

Around 19% of all respondents reported being a member of a credit union.



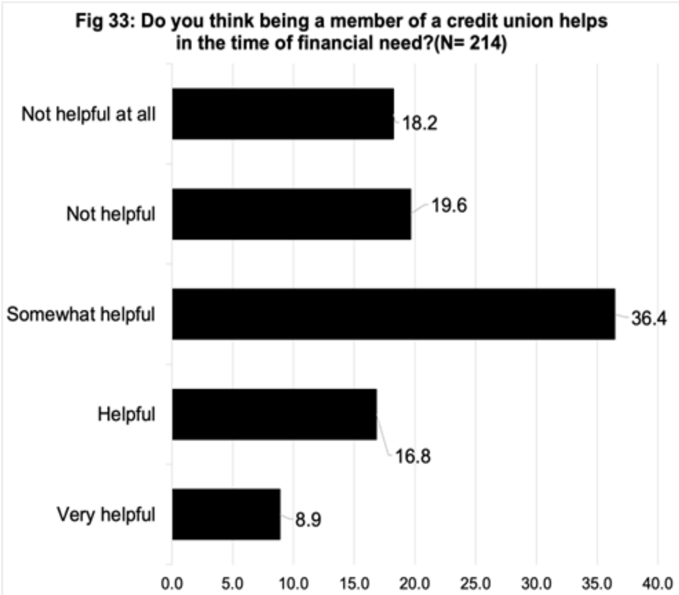
4.5.2.2. Uptake of low-cost credit options from credit union

People were asked if they have used any low-cost credit options from their credit union. A quarter of the respondents who are a member of a credit union stated using a low-cost credit option from them.



4.5.2.3. Extent to which the credit union membership was found helpful.

Respondents were asked if being a member of a credit union is helpful in the time of financial need. Those who are not members of a credit union were also able to answer this question. Around 37% of respondents said that it was somewhat helpful.



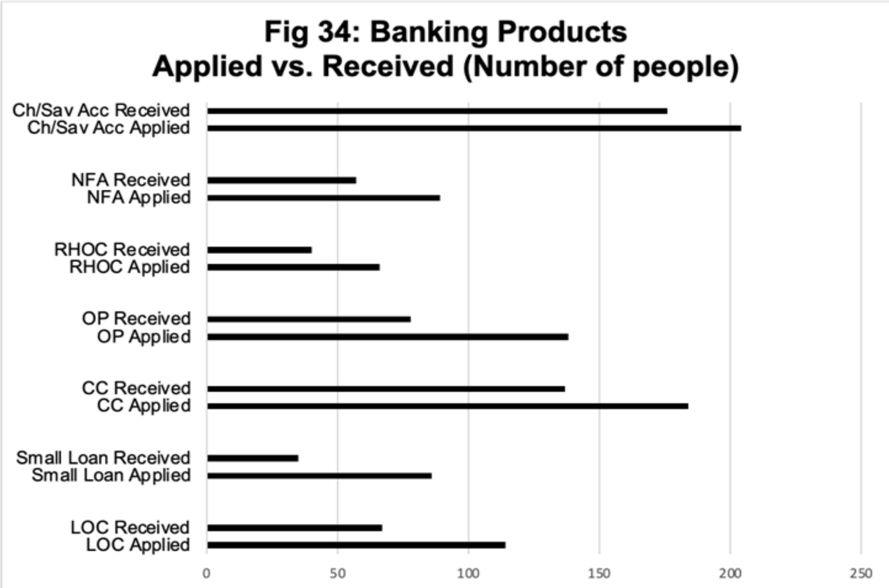
4.5.3. Banking products: Applied vs. Received

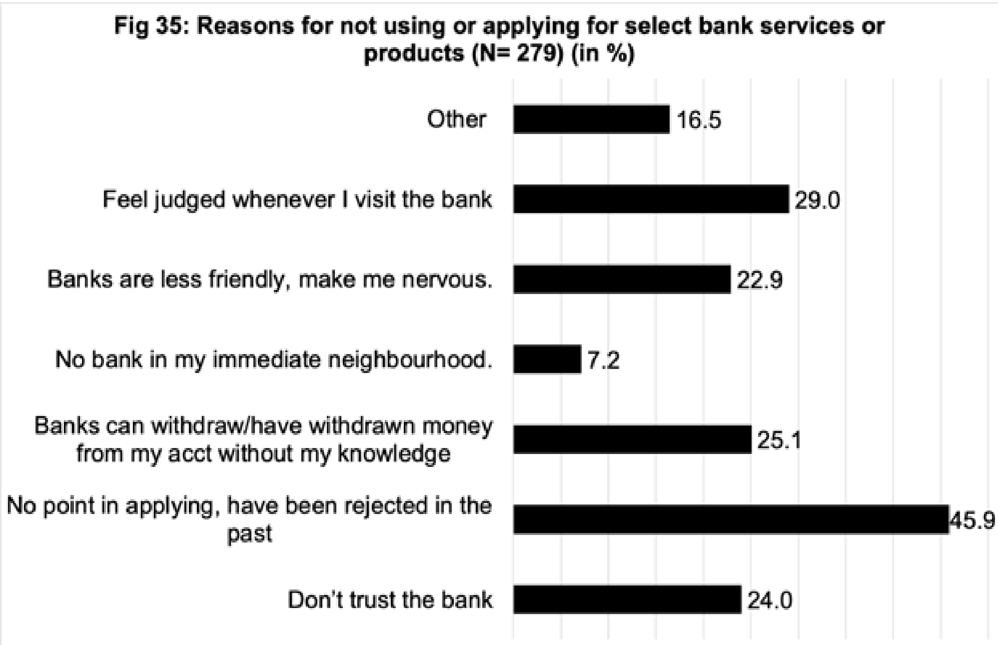
Respondents were asked if they applied for the different types of banking products and whether they received them. These included a line of credit, small loan, credit card, overdraft protection (OP), removing holds on cheques (RHOC), no fee accounts (NFA). As seen in the figure, the number of people who received a particular banking product is noticeably lower than those who applied for it. The difference is especially pronounced in case of small loans, overdraft protection and credit card - all of which can be extremely helpful in case of a financial crisis.

4.5.4. Reasons for not using regular banking/financial services such as a line of credit, a small loan, credit card, overdraft protection etc.

There are various reasons as to why people don't use regular banking/financial services. Respondents were asked if they do not regularly use or have never applied for any of the bank services or products (as mentioned in the previous question), then why not? People could choose more than one option.

One of the main reasons stated by the respondents was a previous rejection from the bank (46%). Furthermore, around 30% of people stated that they feel judged when they go to the bank. A quarter of respondents don't trust the banks or don't use their products because the banks have withdrawn from their account without their knowledge. Also, 22% of people said they feel banks are unfriendly and make them nervous.





Chapter 5

ACORN MEMBERS' TESTIMONIES

In addition to the survey, interactions were held with ACORN members who were willing to share their experience in detail. The testimonies again demonstrate the lack of fair credit alternatives that pushed them to rely on predatory lenders. Many of them had to declare bankruptcy or had to go for debt consolidation to get rid of the debt.

"*I took a few hundred dollars from Cash Money a few years ago. I was able to make regular payments until 2020 but since then everything has become so expensive. Because I haven't been able to pay back, today I probably owe them close to $4,000. I am on disability, whatever I get goes into paying rent, there is no money left for food. I also owed some money to Capital One but because I was paying them regularly, they lowered the interest rate for me to close to 9% for six months. That's a great relief but they take an annual fee of $59 and it's not clear what that's for. I tried changing it to a non-fee credit card, but they said that I can't because the card was overlimit. I am feeling so stressed just thinking about the debt I owe. I cannot take care of myself, there is no money for personal care.*"

ANNMARIE, *Toronto*

HEATHER, St. John

"*It's kind of a cycle, you need money to pay rent and so you go and get payday loans but then you are never able to pay them back. You don't realize that cycle that you are getting into, it's terrible.*

For months and months, we were into this debt cycle. The only way we were able to get out of it was to default it. Not being responsible is not who we are as a people, but when the option is to put food on the table and pay your rent, that's what you do. They take advantage of vulnerable people. It's not right.

You feel bad for going in there, you feel bad for not being able to pay it back. We have taken payday loans and installment loans and finally ended up in bankruptcy.

I used to have a credit card, but now I don't have anything. Two years ago, I had to declare bankruptcy. These loans suck you in, you are there to pay it off, but get into another loan.

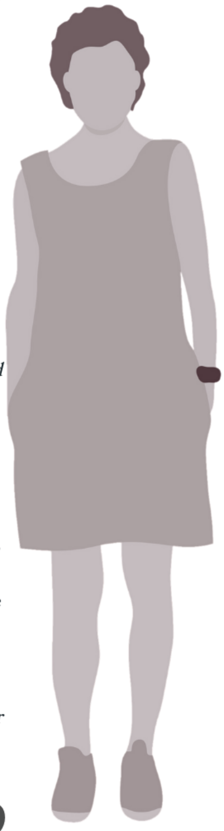
I have five children and I am currently taking care of my disabled son. I am on assistance. Banks would have never given me a loan."

KAVIN, Calgary

"*I am severely handicapped, so banks would never lend me money. I have been living in Calgary subsidized housing for years. The previous unit was infested with roaches and bedbugs, so I needed to buy new furniture when I moved into another unit. That's when I used the Desjardins credit card, but I couldn't pay back all the money. I also had to take out loans from Cash Money, Easy Financial and recently Fairstone. Fairstone loans seem to be most expensive. I needed more money, but Cash Money offered me only the amount equivalent to what I get as disability assistance monthly. That's just not enough. I am now under debt consolidation, trying to pay off my debt. I don't know of any other credit options; I needed the money so took the risk.*"

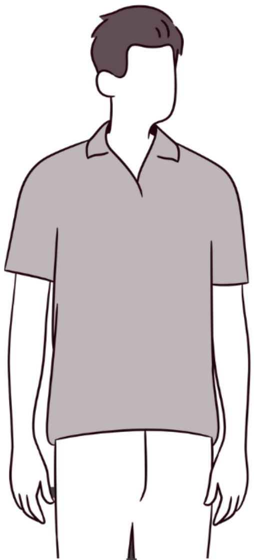
ROSEMARIE, *Oshawa*

Few years ago, I was in a bad relationship and ended up having a bad credit score. So, none of the banks would give me a credit card. I applied for a couple credit cards but what I got was a credit card from Easy Financial, what's the point of getting a high interest credit card?
I had no choice but to borrow money from Cash Money and Money Mart. I took out a few payday loans, the interest rate is so high. I also took out some lines of credit worth $2,000. It's been more than 6 years since I started taking loans from these places and finally paid them off only last year. They put me in a great deal of debt.
It sucks because when you make the payments, it doesn't affect your credit score in a positive way, but when you don't, it ruins your credit. I don't qualify for any of the programs that exist because I am not low-income, but I am not high-income either.
I had the option of power cut off or take a high interest loan! My bank takes a monthly fee of $25 to maintain a basic account.



I needed to pay a bill and there was nowhere I could turn to. I got sick during COVID, was infected with the Delta variant and it really affected my health due to underlying health issues. I couldn't go back to work for almost two years. No sick days or insurance would ever help. Banks will never help in these cases either.
So, my friend suggested that I go to one of these ICash places. I borrowed $500 and that was my first and last. I had to return the money by the next pay cheque and that too with so much fee and interest. These loans put you in a position even lower than what you began with. You are basically sinking yourself. There are no options available and if there is a financial emergency such as this, there is nowhere to go.

SANDRA, *Pickering*



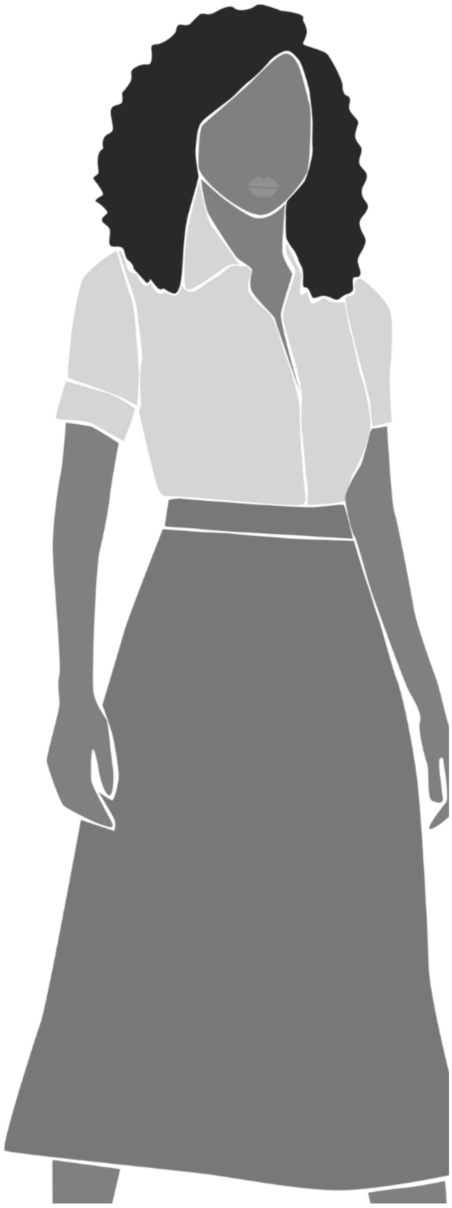
MICHAEL, *Hamilton*

I got into a cycle of payday loans a long time ago. You can get any number of these loans from any number of these lending places. If I choose, I can go to four different loan agencies all at once and can get multiple loans. But once you get them, it has a cascading effect. It's like cat and mouse, you are paying fees and other loans, and getting into more debt!

I was lucky enough to have someone who could lend me a few thousand dollars. Plus, I got in touch with ACORN and went to a townhall where there was also a DUCA credit union pilot program. DUCA changed the game for me - from 42% interest rate, it came down to 8% interest rate.

When I started paying on time, it changed to 4%. I was able to get a credit card.

I wish there was a product like DUCA that can stay and help people. Big banks don't care, credit unions are my only hope.



I am a single mother of three children, the costs were too high when they were young. I was in a situation which led me to go to a payday lender. I could never pay them back, took one out and then another and another. The interest rate is so high. The bank would never give me a loan because I am on disability assistance. Finally, I had to undergo debt consolidation otherwise there was no way to get out of this mounting debt. I couldn't look anywhere else, there was no choice. It's been years now since I took out a payday loan. I would never like to go back to them. I know a friend who despite having a decent job has to borrow from these lenders because there is no alternative.

ANICIA
Mississauga

I have had experience with all kinds of lenders - Money Mart, Cash Money and many others. They would give you a loan, they won't let you know the full amount that you owe and then you notice the compounding interest and end up paying back 3-4 times the amount you took out! It's been years since I took out these loans. I had to declare bankruptcy.

It was really for day-to-day stuff that I had to go to them.

Banks even don't look at you when you have a bad credit score. I couldn't even get $500 overdraft protection despite my credit score being high at the time.

I have had full time jobs but apparently my credit score was low. Banks would just straight deny, they won't even tell me why my credit score is low.

I lost my job last year, no specific reason for why they let me go. I am looking for a job right now, currently on Employment Insurance.
I believe there is an East Coast credit union, but the issue is there is not a whole lot of advertisement about what they offer. It's hard to access these things when they are not even advertised. In fact, some of their programs

- **GEOFFREY,** Halifax

Chapter 6

CONCLUSION & RECOMMENDATIONS

The report clearly demonstrates the extremely limited availability of and awareness about short term, low-cost credit alternatives in Canada. While credit unions are playing an important role and so are programs such as rent banks/rent grant programs, these remain too few and limited in reach. Given the lack of financial inclusion, many low- and moderate-income people are being forced to borrow from predatory lenders. The federal, provincial and local governments have an important role to play to ensure that low-to-moderate income people have access to fair credit. The need is greater than ever given the record inflation, skyrocketing rent prices and other economic factors that are adversely impacting the lives of the most financially on the edge who often lack access to fair credit.

Policy recommendations:

Based on the findings of this study, following are the policy measures that the federal government could consider for enhancing the access to fair credit.

1. Support fair lending alternatives.

The study clearly illustrates the lack of fair banking alternatives. Unless there are fair credit alternatives, people will continue to borrow from predatory lenders.

a. The federal government must create a federally funded Fair Credit Benefit so that all low-income people have access to low-cost credit options in case of emergency.

b. The federal government should support postal banking. Canada Post's infrastructure can be leveraged to ensure that low-income people have access to low-cost loans in case of financial emergencies.

2. Enhance financial inclusion.

One of the key reasons why so many people have to rely on predatory lenders is that they are underbanked. As the study shows, many people applied but were denied banking products, the difference between applying and receiving a banking product was especially pronounced for overdraft protection and credit card, which can be extremely important tools in the event of a financial emergency.

Further, the NSF fee charged by the mainstream financial institutions is again a factor which pushes so many low-income people to go to predatory lenders. In Canada, the NSF fee charged by the big banks varies between $45 and $48. This is extremely high and pushes people further into debt.

a. ACORN repeats its call on the federal government to lower the NSF fee from $48 to $10.

b. Further, in case of people who do have overdraft protection, banks charge a fixed overdraft fee or a fee each time the individual goes into overdraft. Following the lead in other countries, Canada's options are clear.

- ACORN calls on the federal government to eliminate overdraft fees. Several important fair banking initiatives in other jurisdictions are instructive for Canada. Canadian banks need to follow suit and ensure that low- and moderate-income people are being ripped off due to all these fees as has been done in so many countries.

- ACORN wants banks to provide overdraft protection to all customers.

3. Lower the criminal rate of interest of predatory loans.

As the study shows, in the absence of access to mainstream financial services and products, people are pushed to go to predatory lenders.

ACORN's previous survey showed that there was a 300% jump in the uptake of installment loans between 2016 and 2020. After years of campaigning, ACORN and allies finally secured a commitment in the Federal Budget 2023 to lower the criminal interest rate of installment loans from 47% APR to 35% APR or 60% Effective Annual Rate (EAR) to 42% EAR.

While this marks a huge step forward, ACORN would like to see it lowered even further. Also, this interest cap should include all associated fees and costs such as insurance.

Moreover, the federal government needs to enforce the regulations and make contesting violations accessible to borrowers. Currently, it is nearly impossible for any borrower to challenge a predatory lender or take them to court if they are being ripped off.

Two important technical changes must be made to section 347 of the Criminal Code to permit appropriate enforcement of violations by Crown prosecutors. The attorney general fiat requirement (subs. 347(7)) and the actuarial calculation requirement (subs. 347(4)) both must be removed. Both are considerable impediments to prosecution of criminal interest rate violations and effectively make prosecution under section 347 impractical and therefore non-existent. It is in this grey zone of non- enforcement is where the high-cost lending industry grows new products that violate the criminal interest rate.

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