



As Canadian lenders start a letter writing campaign to scare borrowers, ACORN & Momentum debunk some myths!

As the government marches ahead with its commitment to lower the criminal interest rate for predatory loans such as installment loans, Canadian lenders are crying foul. They are sending out [letters](#) to their clients scaring them by saying that they won't be any alternative and this lending industry will cease to exist!

Many low- and moderate-income people are forced to go to lenders such as Easy Financial, Cash Money, Money Mart and others that are legally allowed to charge 60% Effective Annual Rate (equivalent to approximately 48% in Annualised Percentage Rate basis) plus insurance, fees etc. This is deeply problematic as it pushes people who are already in extremely vulnerable situations into a vicious cycle of debt. Installment loans are more concerning given that amounts of debt are typically much higher.

ACORN and Momentum are encouraged to see the government moving ahead with the commitment it made in Budget 2023 to modestly lower the criminal interest rate from 48% APR to 35% APR and would like to see it reduced further.

The [submission](#) made by the Canadian Payday Lenders Association (CLA) to the federal government alleges how the Canadian predatory lenders are offering help to people in need and that lowering the interest rates will harm people.

Position of ACORN and Momentum

This position is based on experiences of ordinary people who are denied access to credit by banks and are left with no choice but to go to predatory lenders.

- *MYTH 1: Canadians will be cut off from accessing credit from the legal lending market. Some lenders might no longer be able to operate*

There is strong [evidence](#) from the US that even after the criminal rate of interest was lowered to 32.5% for installment loans, lenders continue to thrive across states. Also, **Quebec's regulation** allowing lenders to charge no more than 35% interest rate has existed for years and has not pushed lenders out of business. In fact, Easy Financial in its 2020 annual report, mentioned huge expansion plans in the province. Moreover, GoEasy's (Easy Financial) CEO, Jason Mullins, [said](#) that its business was in an excellent position to accommodate a lower overall rate cap when that happens. GoEasy's [annual report 2022](#) reiterates that lowering of the criminal interest rate will be beneficial for its business and will not impact its growth. Research from the US that lowering the criminal interest rate leads to an increase in affordable loans, benefiting all borrowers.

- *MYTH 2: People might have to resort to more expensive borrowing such as payday loans.*

Payday loans and installment loans are two different types of credit products. Payday loans are short-term small dollar loans not more than \$1500, and most often around \$300, while installment loans are longer term loans of much higher amounts. Loans given by lenders such as Money Mart, Easy Financial etc. are already extremely expensive and are relatable to loan sharks. While they claim to provide help to people and function like banks, they are not bound by regulations as banks are. It's common for ACORN members to experience illegal practices that these lenders resort to such as going to people's homes, calling the family of the borrower or harassing people by other means to get their money back, deeply compromising an individual's right to privacy and confidentiality.

- *MYTH 3: These loans offer an opportunity to people to build their credit score.*

There is no relation whatsoever between paying an installment loan or payday loan and improving a person's credit score as found by a previous [ACORN survey](#). It almost always leads to the exact opposite because the interest is so high that people are never able to pay back the loan and end up filing for bankruptcy or consumer proposal. In fact, this is used as a tactic to entice people to borrow money.

The bottom line is that lowering the criminal interest rate will reduce the harm caused by predatory loans, it's good for people, it's good for society.

ACORN is pushing the federal government to create fair credit alternatives so that people are not forced to rely on these lenders. Government has an important responsibility to provide fair credit, especially to people who are vulnerable.

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ACORN Canada, a national community union of low- and moderate-income people, have fought long and hard to push the government to lower the criminal interest rate. To learn more, visit www.acorncanada.org

Momentum is a Momentum is a change-making organization that combines social and economic strategies to reduce poverty. To learn more, visit <https://momentum.org>