



Social Planning Council Oxford  
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# POVERTY: PREDATORY LENDING

December 2017

## INTRODUCTION

The Social Planning Council - Oxford is committed to providing the citizens of Oxford County information and education to improve the wellbeing of all members of our community, as in this case, about income inequality. Alternative financial institutions, often called payday loans, engage in predatory lending practices. This report is designed to provide information about predatory lending and the effects of alternative financial institutions on vulnerable populations in Oxford County.

### ***What is predatory lending?***

Predatory lending happens when people need fast cash to make payments for goods and services. Typically, payday loans are used by people earning up to \$30 000. While banks and credit unions also lend, the practice becomes predatory when vulnerable populations are targeted, left with exorbitant annualized interest rates and are pushed into a vicious cycle of debt. Payday loan establishments, installment loans, rent-to-own agreements, cheque-cashing outlets and tax refund services all fit under the predatory lending umbrella (ACORN Canada, 2016). Section 347 of the Criminal Code of Canada (2007) currently cites criminal interest rates as “an effective rate of interest calculated in accordance with generally accepted actuarial practices and principles that exceeds sixty percent of the credit advanced under an agreement or arrangement.” Many alternative lending institutions are charging up to 500% in annualized interest rates says the Canadian Centre for Policy Alternatives, if fees and interest are included.

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## Why use alternative financial institutions?

The Canadian Centre for Policy Alternatives report on predatory lending summarized the survey produced by ACORN Canada on high interest alternative financial service users. Many of the respondents to the survey indicated that they use high-interest alternative financial services as a last resort.

Without viable lending options from traditional banking institutions or income security, alternative financial services were used most often to provide money basic necessities such as food, shelter, medical bills and other basic necessities (CCPA, 2016). Nearly 36% of the respondents receive government assistance as a monthly income while over 32% have full-time or part-time jobs.

Making ends meet is the priority but is near impossible with predatory lending practices. Predatory loans are often seen as the only reasonable option. For a variety of reasons, practices of traditional lenders contribute in pushing people to predatory lenders.

*“End the cycle of debt  
for those most  
vulnerable.”*

The SPCO is working with community, municipal, provincial and federal partners to release information about living wages and basic annual income in order to address the issue of poverty and income inequities in our community. This work includes combating the use of predatory lending institutions to end the cycle of debt for those most vulnerable.

## Making Changes

Social Planning Council Oxford advocates changes to legislation about predatory lending as well as tackling income inequality in our community. In 2016, Hamilton Town Council, a forerunner in this area, unanimously voted to enforce licensing fees for payday loan institutions, to oblige them to post annualized interest rates for clients to see, and to provide information about credit counselling services (Green and Cooper, 2016). These legislative initiatives are the first of their kind in Ontario. The City of Hamilton has urged the province to follow suit. The banning of predatory lenders’ targeted advertising from various media can be done at the municipal, provincial, federal or all levels. Ottawa needs to update federal banking legislation to relieve poverty.

While policy and legislative actions are a necessity, we can address poverty and income inequities in our communities. Continued efforts to fight for living wages, basic income and increases to social security will improve the quality of life and well-being of low income earners in Oxford and their more fortunate neighbours.

## Next Steps

SPCO recommends the following:

- education on predatory lending practices, especially to vulnerable populations (low to middle income earners)
- increased access to credit counselling services
- loans options through traditional banking institutions
- living wages and employment security in Oxford County
- guaranteed basic annual income
- legislation similar to that of Hamilton to prevent predatory lenders from establishing in Oxford.

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# POVERTY: PREDATORY LENDING CASE STUDIES

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## STORIES ON PREDATORY LENDING IN OXFORD

The following are excerpts from interviews conducted in Oxford County by people who answered a call for stories on predatory practices. All names have been changed.

### SALLY

*"I use the pawn shop for just money through the month because I don't get enough to live off of for the month, for food, and other regular life expenses. I use my Xbox for example, I take it in to the pawn shop and then they already know me in there. So, they just, like, call my name up, and then they give me \$60 for the Xbox. You can sell it outright but you get more money if it's on loan. You have 30 days to go and get it, and if you don't get it in 30 days then you have to pay fees on it. It depends on what you have, so I get \$60 for the Xbox for the fees on that is \$10. When I want my Xbox back I have to give \$70 to give it back, \$10 more than what they give me. The longest I ever left it with them was 4.5 months. I have given it to them over 100 times. It doesn't change my life. It helps me get diapers and food or whatever I need for the kids. It gets boring because then we can't watch movies."*

*"Because I'm on OW, I'm not eligible for services at the bank. I'd still prefer to go to the pawn shop only because with the bank they have more fees. The bank, if you get an overdraft or something, you have to, they, automatically comes out if you have the money or not. If my cheque was to go in the bank, it automatically comes off my overdraft. What if I don't have the money? I don't like to get into that. My stuff is all direct deposit."*

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**REBECCA**

*“Sometimes I know we need a lot more money put into the helping services, maybe through the helping services, even if we can put something into that so we can help people who need money. On ODSP we get a maximum of about 2200, by the end of the month I’m scraping the barrel and you’re trying to keep money left over in the bank account. It ends up you can’t do it. Right now I have no oil, I’m heating my home with a little electric thing. If we had a place where we could go to ask for a little bit extra, with lower interest, it would make things a bit easier for us. But, it would have to be an absolute emergency. A lot of people at the end of the month have trouble with food. Heating your home. Most people shouldn’t be short on rent because that’s paid at the beginning of the month. Your son or daughter gets hurt and you need to be driving back and forth to a hospital in London. That’s why some people go, things come up and they don’t have enough to get through to the month.” [ ... ]*

*“I think you almost need to start a new organization that includes some of the social service areas, some of the bankers, and some of the council members. I think if you can get all their heads together you’d be covering all your bases. Get in some of the folks on OW or ODSP, it would be nice if you could have just one or two that could speak from experience.”*

**JENNY**

*“They draw people in, because they make promises. They’re promising you money, but you don’t know what the consequence of it is. When it comes time to pay back that consequence of trying to figure out, ok now how do I pay this back. It’s almost like deceiving a person.”*

*“We needed money for something, I wish I could tell you what it was for but I don’t remember. It was for an emergency. I don’t think I would’ve used it otherwise. I think it was because something came up that we weren’t expecting. I’m thinking it was something to do with needing to get the car fixed. At that time we lived in Beachville. In Beachville if you don’t have a car you’re stranded. I remember that I only needed \$120 and they were pushing me to take more. The teller was “but this is how much money you make, you could have this much more money on the cheque.”*

*[ ... ] “I know a gentlemen, I’ve known it for years, but it’s horrible, he went and they gave him as much as he would get for his cheque, so he’d have to take his cheque up there, they would cash his cheque, take the whole thing, and he would have to take out the biggest loan so that he could pay his monthly bills. I’m pretty sure that it went on for 2 years that I know. I don’t know if he’s still in that same predicament. Pretty sure it was 200 something dollars off of his cheque that they were making profit. It was crazy.”*

**“He would have to take the biggest loan so that he could pay his monthly bills”**

*“I’m angry. They’re risking people’s homes. Like, I think some folks, like some of the folks that take out the payday loans have the perception that somebody will come save them when it all falls apart and there’s no money left and they’ll be ok. In reality, it’s caused them a lot of heartache. Like I know with the first guy I was talking about, for him, he never did get the money back and the church stepped up and helped him catch up his rent. It was horrible.”*

## NEXT STEPS

**SPCO recommends the following:**

- education on predatory lending practices, especially to vulnerable populations (low to middle income earners), through shared stories
- increased access to credit counselling services at multiple contact points with vulnerable populations, along with loans options through traditional banking institutions, including credit unions
- living wage and employment security in Oxford County
- guaranteed basic annual income
- legislation similar to Hamilton's to require posting of interest rates at predatory lenders.



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# POVERTY: PREDATORY LENDING SOLUTIONS

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## WHY IS PREDATORY LENDING PROBLEMATIC?

Predatory lenders, payday loans, cheque-cashing, wire transfers, instant loan companies have filled a service gap which has been created by banks in Canada. Neighbourhoods where bank branches have closed are those where predatory lenders often establish themselves. Like “food deserts” where grocery stores have closed, these neighbourhoods see declining availability of banks and credit unions. In a series of maps from the Real Cost of Payday Lending (2014), neighbourhoods with any or all of these factors are targeted by predatory lenders: high percentage of low-income, single-parent families and/or immigrant families. Curiously, the highest percentage of users of predatory lenders is male, those with earnings under \$30 000. While this number is higher than the often-used poverty earnings of \$21 000, it is still lower than the \$40 000 figure noted by the Oxford Community Index of Wellbeing (2016) below which wellbeing falls sharply. The use of predatory lenders results in the further impoverishment of the borrowers, takes people away from community financial institutions like credit unions and/or banks, and strains their familial and friendship network during efforts to pay off the accumulating debt.

Predatory lenders have the means to expand their footprint through their prevalent advertising in media, on billboards along streets, on bus shelters and buses, and with their online presence. The bright colours of their ads and their balloons on the signs planted along boulevards are intended to catch the eye. They also have the means to resist (though not defeat) efforts by non-profits to educate them out of business and by communities to legislate them out of town. Their lobby group argues their case strongly at the provincial and federal levels. Further, “free” initial loans are offered by predatory lenders to begin a cycle of dependency for more loans, thus creating a clientele.

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Conversely, traditional banks have retreated, closing branches, especially in low-income neighbourhoods. The division is both geographical and demographical. Despite the fact that men use predatory lenders more often than women, according to ACORN's Special Report: Reining in Payday Lending Industry (2004), bank closures are prevalent in areas where female-led families, immigrant populations and English-language learners and low incomes intersect. In fact, their mapping shows that predatory lenders establish themselves in the wake of the traditional banks' departure in close proximity to the former locations of banks. With modified practices and minimum loans, banks could be actors in the reduction of poverty. Credit unions, with their larger flexibility and more community-focussed model, could also be significant partners in the reduction of poverty through the provision of services which otherwise might be at payday lenders. Both TD Canada Trust and Meridian Credit Union are partners in projects to educate the public on financial management that specifically targets the areas now served by predatory lenders. This is sensible in terms of their community involvement and is a means to push back against the foreign banks who own large percentages of predatory lenders.

### WHAT SOLUTIONS ARE AVAILABLE TO PEOPLE, NON-PROFITS, COMMUNITIES AND COMPETITORS?

Lawyers can assist people who are entangled with predatory lenders, although it is unlikely that many would think of them as a first resort. Lawyers are widely perceived as beyond the abilities of the working class to pay. Even lawyers who take on pro-bono work may not be well known in the community for it. Nonetheless, interventions by lawyers will level the playing field in terms of perceived power, and where available free are not to be slighted. Empowerment, however, can take other forms and is included in Bridges Out of Poverty and other programs.

Micro-loans are a common solution to poverty in the developing world through a variety of aid agencies. Typically, they help people set up small enterprises which then generate enough profit that a high percentage of these are paid off with low interest. That interest then covers any defaults or allows for expanded lending. Many micro-loan schemes originate in charities. Their long-term viability depends on one or two factors: repayment by almost all borrowers, or, continued donations to keep the fund afloat. Chris Robinson in Regulation of Payday Lending in Canada (2006) notes that "the payday lending industry is not very risky in the way that we usually think of risk in financial institutions." He reasons that "the lending portfolio is very diversified in the form of many very small loans, and hence the loss rate is reasonably stable" (Robinson, 2006). People generally pay up if they have the means. Credit unions, banks, churches and community funds can support micro loans. Alternatively, post offices are in most communities and often in multiple locations. Postal banks are seen by Jim Holland, Katherine Steinhoff and Geoff Bickerton in Banks have failed us: Postal banks to the rescue (2014) as a counter-effort against predatory lenders were these to exist. In their absence, the creation of multiple points of contact to programs against poverty in the community seems more feasible.

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Financial literacy education can be useful to prevent people from falling into poverty or to help people who are emerging from it. A number of non-profit institutions offer this, as do banks and credit unions. Prosper Canada connects non-governmental organizations, charities, the banking and investment sector, faith groups, and the federal government in working with local wrap-around projects with “an integrated set of interventions proven to measurably improve financial inclusion, opportunities, behaviour and outcomes for people living in poverty” (Prosper Canada, 2014). They note that “to make these solutions both widely available and sustainable, we don’t create new standalone programs” which recognizes the need for collaborative practice in a community to prevent poverty in the first place, to draw people out of poverty caused by individual, local or national emergencies, to solidify those gains over a period of time and to use their skills and advocacy to assist others. In practical terms, financial planning is not possible when daily needs exceed the available cash. Living wages and full-time employment and/or a guaranteed basic income are necessary for financial literacy training to be relevant.



The enforcement of federal and provincial legislation against usury would reduce predatory lenders as it has in some American states. Based on geographical size, were Ontario to ban payday lenders and their kind, clients would be out of their physical reach. Municipalities can prevent or discourage predatory lenders through bylaws and their enforcement. Typically, the predatory lenders end their leases on buildings – they are not permanent residents of the towns – and move to an adjoining community. Momentum, in the Real Cost of Payday Lending (2014) advises that municipalities have at least four courses of action including the following:

- Passing land-use bylaws limiting the number of payday lending businesses within a community or municipality.
- Instituting licensing bylaws that increases business licensing fees for payday lenders
- Re-invest license fees in financial empowerment programs
- Convening banking institutions to collaborate and offer appropriate banking products for the working poor
- Encouraging employers to pay employees by direct deposit rather than by cheque or cash.

Ultimately, payday loans, rent-to-own, car purchases advertised with slogans such as “Bad credit! No credit”, cheque cashing, instant loans, etc. carry both a cause and an effect of poverty. For people earning under \$30 000 an emergency leads to debt. Once the first payday loan has been taken, the exorbitant interest rate leads toward poverty even bankruptcy. Lower on the annual income scale, it is almost inevitable that the need for shelter, food, medical care, etc., has dire consequences, pushing people to payday lenders despite the consequences.

## RECOMENDATIONS

1. The use of bylaws to rein in the visual and physical presence of payday lenders in Oxford by the enforcement of current ones, for instance as regards boulevards, and new bylaws both to control their prevalence in neighbourhoods and to provide more resources to assist in the elimination of poverty.
2. Engagement with a variety of NGO's, financial institutions, etc. to offer alternative sources of micro-loans for long or short-term needs at reasonable interest rates.
3. Financial training as an integrated portion of other services to individuals and families in or near poverty. This financial training needs to be invitational, flexible in schedule, and with support for families with young children to attend. In parallel with financial literacy education in schools, this can provide a breadth of information to families.
4. Provision of affordable housing can reduce costs of shelter for individuals and families.
5. Living wages and full-time employment can bring significant portions of the population above the line where predatory lenders seem the only solution for emergencies.
6. A guaranteed basic income to reduce poverty can also result in added economic vitality for a community both by increasing spending power and by allowing for entrepreneurship among individuals whose entire time was consumed by the rounds of consultations with various agencies in order to have some necessities.

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