Serving or Exploiting People Facing a Short-term Credit Crunch?

A Study of Consumer Aspects of Payday lending in Manitoba

Report for the November 2007 Public Utilities Board Hearing to Cap Payday Loan Fees

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By

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Background of the Authors

Jerry Buckland
Jerry Buckland earned his PhD in Economics from the University of Manitoba in 1995. He is Professor & Co-ordinator of International Development Studies at Menno Simons College, part of the Canadian Mennonite University (CMU) and affiliated with the University of Winnipeg. He also teaches on Economics courses at CMU. Specializing in development economics, Buckland has taught International Development Studies at Menno Simons College since 1994. His research and teaching concentrates on social and institutional aspects of economic development and his research interests include rural development, banking and poverty, and community economics.

In the past five years he has focused much of his research on the issue of financial exclusion and fringe banking in Canada. In 2002, with Dr. Thibault Martin he received a research grant of $35,000 from the Winnipeg Inner-city Research Alliance (WIRA) to study fringe banks and financial exclusion in Winnipeg’s North End. In 2005 with colleagues in Vancouver and Toronto he received a research grant of $100,218 to undertake research on financial exclusion and inclusion in three Canadian inner-cities.

Buckland acted as a witness in the Manitoba Public Utilities Board hearings on capping the fee for cashing government cheques in 2006. Buckland has co-authored several articles and reports on financial exclusion including “Two-Tier Banking: The Rise of Fringe Banks in Winnipeg’s North End” [with Thibault Martin] found in the Canadian Journal of Urban Research, 2005, “The Rise of Fringe Financial Services in Winnipeg’s North End” (WIRA, 2003) and “Fringe Banking in Winnipeg’s North End” (Canadian Centre for Policy Alternatives, 2005). Buckland has also made numerous conference presentations on the topic.

Tom Carter
Tom Carter is currently Canada Research Chair in Urban Change and Adaptation and Professor of Geography at the University of Winnipeg. Prior to becoming the Research Chair Tom was Director of Urban and Regional Research at the Institute of Urban Studies for several years.

Tom’s research under the Canada Research Chair Program focuses on urban and neighbourhood change and revitalization of inner city neighbourhoods. He is also the Principal investigator of a Community University Research Alliance grant for community based, partnership research on inner city revitalization and capacity building. Tom is also co-investigator on a Social Economy Project focusing on neighbourhood enterprises. He has been an affiliated researcher with the Metropolis Project since its inception twelve years ago and is the Chairperson of the Board of Governors of the Prairie Metropolis Centre of Excellence and the Research Domain Leader on housing and neighbourhood research initiatives.

Tom works extensively with community based organizations and governments to assist with community needs assessment and policy and program development and evaluation. His work in building community capacity and strengthening neighbourhoods was recognized in 2003 when
the University of Winnipeg awarded him the Marsha Hanen Award for Excellence in Creating Community Awareness. In 2005 he was awarded the Clarence Atchinson Award for Excellence in Community Service by the University of Winnipeg.

**Wayne Simpson**  
Wayne Simpson is Professor and Head of the Department of Economics, University of Manitoba. He is a graduate of the University of Saskatchewan and the London School of Economics. He is a specialist in labour economics, applied microeconomics, quantitative methods and social policy, and has worked for the Bank of Canada and Economic Council of Canada.

Dr. Simpson testified before the Manitoba Public Utilities Board in the matter of determining an appropriate rate stabilization reserve for Manitoba Public Insurance. He is the author of *Urban Structure and the Labour Market: Analysis of Worker Mobility, Commuting and Underemployment in Cities* (1992) and co-author (with D. Hum) of *Income Maintenance, Work Effort and the Canadian Mincome Experiment* (1991) and *Maintaining a Competitive Workforce* (1996). He has also published more than 40 refereed articles in economics and policy journals and numerous technical and research reports, book chapters, and other articles.

**Anita Friesen**  
Anita Friesen brought to the research a combination of academic and experience-based knowledge coupled with qualitative research skills. Her formal studies in Community Planning (MA Planning, UBC) and Socio-cultural anthropology (BA, UBC) focused on complex issues of poverty alleviation, housing and homelessness, marginalized populations, community development, and systemic socio-economic factors. This is supplemented by experience with community-based organizations working to alleviate poverty, and providing services and supports for low-income people, some of whom are street-involved. Anita brings skills in policy analysis and qualitative research methods including development of surveys, research ethics, interview questionnaires, key informant interviewing, participant observation methods, data coding, and analysis.

**John Osborne**  
John Osborne provides a strong background in the social sciences and technical skills in quantitative analysis. He has a BA in Geography from the University of Winnipeg and is currently completing his BA Honours thesis. His educational background has provided him with knowledge of social, economic, and political issues as related to the urban context. In July of 2006, John participated in a HIV/AIDS community needs assessment in Kampala, Uganda as a member of the City of Winnipeg team. He has been a Senior Research Assistant for the Canada Research Chair in Urban Change and Adaptation for the past 16 months. John brings experience gained from previous projects with diverse topics ranging from panhandling, to refugee settlement issues, to examining Winnipeg demographic change.
Summary

a) Analysis of Literature and Survey Data

We use Mayer’s (2003) analysis of exploitation and counter pose it with the concept of service. Critics argue payday lenders exploit the poor while proponents argue these loans serve the clients. While neoclassical and neo-Marxist definitions of exploitation are useful, Mayer defines two more particular types of exploitation to evaluate the payday loan impact on the client. These two definitions are sufficiency and ‘relative advantage’ or relative advantage exploitation. Sufficiency exploitation is evidenced when consumers who fall below some economic threshold (e.g., the Low-income Cut-off) use a service, such as payday loans, that consumers above the threshold do not use. Relative advantage exploitation occurs when a consumer enters into a medium-term, say 6 month loan relationship with a borrower, but through the ‘door,’ and with the use of rollovers and repeat loans, of a 12-day payday loan. There is evidence from available studies that both types of exploitation take place. However, there is also evidence from the data that many payday loan consumers are served by the lenders: many consumers are not low-income and do not rely on successive payday loans.

We argue that institutional and economic changes –stagnant low-incomes, rising consumer debt, bank branch closings in marginal neighbourhoods, declining services targeting low-income people and consumerism– have created the context in which payday lending has grown rapidly in Canada. Many low- and modest-middle income households –perhaps 12 million Canadians in total– face stagnant or declining incomes. Many of these people cannot access any, or sufficient small-sum credit. For many of these people payday loans are one of their few options. That the total fees are not very accessible or easily comparable may complicate matters for consumers.

Lump sum fees for payday loan don’t seem huge but when the fees are converted into annualized interest rates they are very expensive as compared with other types of credit. This may be evidence of ‘bounded’ rationality on the part of some consumers who do not take the time or effort to compare the fees across different credit products. However, given the institutional changes mentioned above (stagnant low incomes, declining bank branches in low-income neighbourhoods) a large number of low- and modest-middle income people face structural barriers to credit. Some people may face both types of barriers (bounded rationality and structures).

The core group of payday loan clients in Canada are similar, but not identical to those in the US. The core group are of clients are characterized by young, low- and modest middle-income people who are credit constrained. One characteristic that may distinguish clients in the two countries is their ethnic background. While this has been found to be an important characteristic in the US it is not clear that it is as important in Canada.

While rollovers are less common in parts of the US because of regulation that limits them, rollovers are done in Canada and repeat loans are common in both the US and Canada. Repeat loans, possibly less problematic to the consumer than rollovers, are nevertheless more problematic than one-off loans because they raise the costs to the consumer and increase the chance of becoming trapped in a debt cycle.

While there is some controversy about the relationship between repeat borrowers and store profit in the US there is strong evidence in Canada that payday lenders need repeat customers in order to improve profits. This presents a conflict between the interests of the producer and
consumer. It is arguably in the consumer’s interest to limit the number of payday loans per year in order to reduce the total cost and the possibility of falling into a debt cycle.

The market structure of the payday loan business in Manitoba is highly concentrated with two very large firms controlling 62 percent of the outlets. Rent Cash—owner of Instaloans and the Cash Store—operates owns 36 percent of the outlets while Money Mart has 26 percent. This may have led to imperfect competition in the form of oligopoly. In this case the benefits to the consumer may be reduced in order to raise benefits to the producer. This creates a rationale for government regulation.

Field Research Summary

i) Payday Lending Locations

The mapping of payday lenders in Winnipeg demonstrated a bias in locating in inner-city and poorer suburban over suburban and higher-income suburban areas. In some cases these locations are on principal roads and possibly attract people from a variety of neighbourhoods. While no statistical methods were applied, it was apparent from the maps that payday lenders disproportionately locate in neighbourhoods with poorer income indicators (e.g., lower median income, higher incidence of low-income), lower social indicators (e.g., average education levels) and certain ethnic characteristics (higher rates of aboriginal people and visible minorities). (See figure 4 from Appendix 8, replicated below)

Figure 4. Payday Loan Outlet Locations & Neighborhood Median Household Income

ii) High Lump Sum Fees & APRs
The mapping, pricing and mystery shopping methods provided a number of insights into the consumer experience of payday lending. Across all 14 identified Winnipeg payday loan outlets, 12 disclosed information (8 offering data for $250 loan, 4 offering data on other sized loans). Currently, lump sum fees for a typical $250, 12-day loan ranged from $44 to $109 (Table 3, replicated below). The annual percentage rate (APR) for $250 loans ranged from 535 to 1,321 percent with an average APR of 778 percent. Effective annual rates (EAR), which takes into account the time value of money, ranged from 13,753% to 5.8 million percent with an average of 1.1 million percent. Rates outside the perimeter, in other locations in Manitoba were available from the firms (2 offering data on $250 loan and one offering data on a $165 loan). Lump sum fees for $250 loans ranged from $50 to $57, APRs ranged from 608 to 694 percent (averaging at 651 percent) and EARs ranged from 25,511 to 51,556 percent (averaging at 38,533 percent). Two web-based firms supplied information on a $250 loan. The lump sum fees ranged from $59 to $75, with APRs ranging from 718 and 913 percent (averaging at 815 percent) and EARs ranging from 63,084 to 292,165 percent (averaging at 177,624 percent).

The average APR for a $250 payday loan across 8 Winnipeg firms today amounted to 778 percent; the average APR for a $300 loan in 2002 was 546 percent. Average (weighted by firm) APRs have increased by 42.5 percent from 2002 to 2007.

Table 3 (Replicated from text). Payday Loan Fees by Firm in Manitoba, Based on Field Research August- September 2007*

<table>
<thead>
<tr>
<th>Firm</th>
<th>Loan Size</th>
<th>Total Repayment</th>
<th>Lump Sum Fee</th>
<th>Annual Percentage Rate, APR** (on 12 day loan)</th>
<th>Effective Annual Rate, EAR***(on 12 day loan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winnipeg Firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>$250</td>
<td>$295</td>
<td>$50</td>
<td>608%</td>
<td>25511%</td>
</tr>
<tr>
<td>B</td>
<td>$250</td>
<td>$359</td>
<td>$109</td>
<td>1321%</td>
<td>5831073%</td>
</tr>
<tr>
<td>C</td>
<td>$250</td>
<td>$348</td>
<td>$98</td>
<td>1194%</td>
<td>2373886%</td>
</tr>
<tr>
<td>D</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>25511%</td>
</tr>
<tr>
<td>E</td>
<td>$250</td>
<td>$311</td>
<td>$61</td>
<td>742%</td>
<td>76481%</td>
</tr>
<tr>
<td>F</td>
<td>$100</td>
<td>$124</td>
<td>$24</td>
<td>715%</td>
<td>61305%</td>
</tr>
<tr>
<td>G</td>
<td>no data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>$200</td>
<td>$240</td>
<td>$40</td>
<td>608%</td>
<td>25511%</td>
</tr>
<tr>
<td>I</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>25511%</td>
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<tr>
<td>J</td>
<td>$300</td>
<td>$360</td>
<td>$60</td>
<td>608%</td>
<td>25511%</td>
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<td>K</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>25511%</td>
</tr>
<tr>
<td>L</td>
<td>$200</td>
<td>$250</td>
<td>$50</td>
<td>760%</td>
<td>88550%</td>
</tr>
<tr>
<td>M</td>
<td>no data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>$250</td>
<td>$294</td>
<td>$44</td>
<td>535%</td>
<td>13753%</td>
</tr>
<tr>
<td>Average Firms in Winnipeg</td>
<td>8 firms @ $250</td>
<td></td>
<td></td>
<td>778%</td>
<td>1049655%</td>
</tr>
</tbody>
</table>

| Other Manitoba Firms Outside of Winnipeg | | | | | |

2 The time value of money, a form of opportunity cost of money, is factored into the EAR calculation. This factor takes into account that the payday loan fees could have been used in another use, e.g., deposited in a savings account to earn interest income.
\[
\begin{array}{|c|c|c|c|c|c|c|}
\hline
\text{Firm} & \text{Loan Size} & \text{Total Repayment} & \text{Lump Sum Fee} & \text{Annual Percentage Rate, APR}^* & \text{Effective Annual Rate, EAR}^{**} & \text{Repeat or Rollover APR} \\
\hline
\hline
5 & \$120 & \$144 & \$24 & 604\% & 24607\% & \text{Not applicable} \\
6 & \$100 & \$123 & \$23 & 698\% & 53642\% & 698\% \\
7 & \$100 & \$120 & \$20 & 608\% & 25511\% & 608\% \\
8 & \$100 & \$148 & \$48 & 1469\% & 16052425\% & \text{Unknown} \\
\hline
\text{Average} & \$105 & \$134 & \$29 & 845\% & 4039046\% & 653\% \\
\hline
\end{array}
\]

iii) Complicated Services & Limited Information for Consumer

- From the pricing and mystery shopping methods we learned that payday loans are complicated in terms of fees, criteria for getting a loan, rules about repayment, default and
rollover/repeat borrowing. Payday loans are quite complex but we found that the information provided to the consumer is limited. The pricing method in particular found that smaller firms, as compared with larger firms, provided more variable amounts of information about fees and rules. Information from smaller firms varied from very comprehensive, partial to nothing at all. Here are some examples of the incompleteness of information provided to the mystery shopper,

- During the enquiry mystery shopping:
  - 3/12 (one-quarter) cases, the teller either did not know or did not provide an answer to simple identity questions (such as would the customer’s employer be contacted or credit rating checked).
  - 7/12 (58%) tellers said little or nothing about fees during the first step of the mystery shopping.
  - Rarely were our researchers provided an annualized interest rate such as APR or EAR that included all fees and that would allow them to compare loans between companies.
  - 8/12 (two-thirds) tellers said nothing about the minimum and maximum amount available to borrow during the first step of mystery shopping.

- Even after step 2 (probing questions) mystery shopping, in 50% of the mystery shopping trips, shoppers left feeling that they were not given an adequate explanation of the entire payday loan process or that they were given incomplete information or unclear details about fees, rules, payment options, etc that were not easily understandable. Through the additional information gathered in the second step of the enquiry visit, it became evident that in many cases tellers failed to offer information in the first step that would be crucial for making informed decisions about taking a payday loan.

- For 4/4 lenders the contracts had a disclosure section in which the costs and annual rates of interest were ‘disclosed’. Upon closer reading (after the fact) of the disclosure forms, the shopper discovered that in three of the four cases she had signed the form indicating that the full costs of borrowing had been explained to her and that she understood them. In fact, the shopper felt that she understood how much she was obliged to pay back, but still did not fully understand the terms or the costs that would arise should there be a failure to pay back the loan on the specified date.

- Re information on loan default: In all four cases, it remained unclear exactly what steps would be taken by the lender if the repayment deadline was missed, or if the cheque that had been left with the lender bounced. The charges associated with these scenarios were also not very clearly explained, even at this stage of the process.

  iv) Excessive personal information required
- In all 4 loan mystery shops, the consumer’s social insurance number was required and this requirement was not made clear in the enquiry or probing stage of the mystery shop. All four of the lenders required the names and phone numbers of personal references, but only one
lender disclosed this requirement prior to the loan-taking process. Not knowing of this requirement in advance means that the customer is not allowed the opportunity to contact their references to ensure that sharing their name and phone number for such purposes is alright with them. Four of the lenders took a digital photo or copy of photo-identification for their records. None of them had disclosed beforehand that this was required.

- On 2/4 loan agreements it was indicated what the personal information would be used for, and that it will be shared with certain third parties only, and that the customer’s signature indicates permission to share the information. The purpose of the forms was not always clearly explained by the tellers. Some of these forms used legal wording that many customers would find difficult to understand. Some forms consisted of two pages of small print, the reading of which was not possible, especially when there was a lineup of people forming.

- One payday lender (#8) required an extraordinary amount of information above and beyond what they identified as necessary beforehand. In addition to usual information, this lender required information on date of birth, spouse’s name, name and number of previous employer, credit card number, detailed information about vehicle owned, plus whether the customer’s residence is owned or rented, and monthly rent/mortgage (If rented, they also wanted the landlord’s name and number).

v) Rollovers/Repeat Loans

While rollovers were not encouraged in most of the outlets, repeat borrowing was. In ¾ cases, the mystery shopper was able to get a rollover or a repeat loan: one rollover, one repeat loan and one partial repeat loan. In only ¼ cases was the consumer required to repay the loan without possibility of rollover or immediate repeat loan. This raises a concern described in terms of relative advantage exploitation. If firms are allowing either rollovers, repeat loans or for that matter, if consumers are able to borrow from one lender to pay-off another, then it raises the possibility that some consumers are ending up with a very large bill for a very small loan. At the national level there is evidence that Canadian payday lenders rely on repeat customers for their growth (Ernst and Young LLP, 2004). Perhaps this is a factor leading the tellers to allow repeat and rollover loans.

This is a troubling phenomenon for both firms and consumers. It is troubling for firms in that it means they are partly reliant for their business survival on promoting repeat customers who may, in some cases, end up spending large sums of money on small loans. Firms relying on this type of business model may find their clients’ financial situation deteriorate and ultimately face a declining market. To the extent that repeat and rollover borrowing is pursued by consumers, they will also be hurt. As Elliehausan and Lawrence, 2001) and Mayer (2003) describe, one payday loan used to avert a greater loss of income, can be an important service to a consumer. However, using payday loans without concomitant improvement in income or using many payday loans in a given year can be very costly indeed.

Recommendations
We recognize that the recommendations below are not all within the purview of the Public Utilities Board (PUB). We offer them here because we believe that the complex nature of the
consumer-payday lender relationship requires interventions in a number of areas. We also realize that the PUB must establish caps on payday loan fees. While this report does not make a specific recommendation on the fee caps, a companion report will do so.

1) Fee & Loan Rule Disclosure

a) Fee Disclosure: payday loan fees usually involve a variety of different fixed and variable fees or a percent of the loan amount. It is not easy for the consumer to calculate the total fees for a given loan amount. It is also difficult for the consumer to calculate an annualized interest rate (e.g., APR) that allows comparison between the payday loan and other types of loans. For these reasons we recommend that total lump sum fee (that includes every fee charged) and annualized interest rate (e.g., APR) information be available to clients in pamphlets, posters and through conversation with staff.

b) Loan Rule Disclosure: by loan rules we refer to such things as consumer information disclosure (covered in separate point below), method or repayment (post-dated cheque, cash payment option, debit card), rollover/repeat loan and default rules, payment deadline (payday, day before payday), contract, default penalties. Since loan rules vary across firms it is important that either the rules become more standardized or that each firm be required to more clearly explain the rules to consumers. As with standard disclosure of fees, standard disclosure of rules will allow consumers to better compare loans among payday lenders and with other types of loans.

2) Limit and Standardize Consumer Personal Information Requirements: the field research found that payday lenders ask for a lot of private information about consumers including information on employment, residence, banking, social insurance numbers and references. In some cases the amount of information required escalated from the enquiry to the loan mystery shop. It is not clear how the firm uses this information. In some cases the staff could not explain to the mystery shopper what would be done with this information. In one case a mystery shopper could read client’s names on files located nearby. We realize that payday lenders need to have access to information to make judgements on the credit worthiness of each client. However, the need of the lender must be carefully weighed against the privacy needs of the consumer. We believe that the private information that payday lenders collect should be standardized and minimized. Moreover, this information must be confidential and destroyed according to privacy rules.

3) Rollovers & Repeat Loans

A payday loan is a short-term loan lasting usually one to two weeks. However, in some cases, consumers may find that they are unable to repay the loan on the payment deadline. This problem has been addressed by some lenders by offering clients a rollover, or extension of the loan period, or by offering the client another loan to repay the first. In other cases clients may go to another payday lender for a second payday loan to pay off a first payday lender. It is understandable that firms and consumers both feel pressure for these types of extensions. However, as Mayer (2003) has pointed out, rollovers and repeat loans can quickly lead to a type of relative advantage exploitation of the client. Because firms rely on consumers for their business viability, if extensions hurt the client then it will also hurt the firm. For this reason we recommend that the following concepts be considered,
a) Disallow Rollovers: rollovers can rapidly increase in fees and increase the likelihood the consumer faces huge debt servicing fees and a very large debt. Payday loans are intended to be short-term loans paid off on payday. Extending the deadline of repayment extends the loan and transforms it into something other than a payday loan. For this reason we propose that rollovers be disallowed and that consumers be informed of this fact at very beginning of the relationship (through clear information disclosure discussed above).

b) Regulate Repeat Loans: there is evidence that repeat loans are quite common for some payday loan clients. One Canadian study found that 26 percent of payday loan clients use payday loan and cheque-cashing services at least once a month. From our mystery shopping we found that getting a rollover or repeat loan was possible in three of four cases. Data from the US (Stegman, 2007) raises concerns that repeat borrowing may be creating problems similar to rollovers. If consumers are borrowing from one or more lenders several times per year, particularly if this is done serially, then it once again raises the question about the nature of the payday loan. It is intended as a short-term loan but if consumers are borrowing back-to-back loans this suggests they are using the loans as an extended loan. Yet the rules and terms for the payday loan are such that they are not designed for this type of extended use and negative consequences for consumers can be aggravated. For these reasons we recommend,

i) We cannot offer a specific recommendation on what the optimal or maximum number of payday loans might be. Ernst, Faris & King (2004) use 5 loans per year as a cut-off: if clients take more than five payday loans per year then they are being exploited. What we recommend is that more research be undertaken to determine the cut-off point (in payday loans per year, for instance), beyond which, another payday loan will be hurtful to the consumer. This research will be successful if payday lenders would cooperate in providing data on their experiences with rollovers and/or repeat loans.

ii) Even if lenders were limited in terms of the number of times they can loan to a particular client each year, this leaves open the issue of repeat borrowing among a number of lenders. It is not clear how this might be addressed but one option is to consider some way to centralize information about payday loans (discussed below).

4) Consumer Credit Reporting: The rapid rise in popularity of payday loans raises many social and economic questions. The industry is hounded by the question of its legitimacy: do they exploit or serve their customer? A core sub-question is whether the payday loans itself is a legitimate service? We argue that if payday loans are a legitimate type of loan (i.e., consumers are by-and-large served by them) then consumer experience with the loans should count towards their credit report. In so doing, consumers who repay their loans in a timely fashion will see their credit report improve and possibly increase their reliance on mainstream forms of credit. Central reporting on payday loan experience could also assist in ensuring that inter-firm repeat borrowing is limited. However, we have not concluded that payday lenders and loans are always serving their clients. With many low- and modest-income Canadian clients and with a large fraction of the customers returning monthly, some clients may be experiencing Mayer’s sufficiency and relative advantage exploitation. Because of the co-existence of evidence of service and exploitation we are not willing to recommend that payday loan experiences appear on clients’ credit reports. It is all too likely that these experiences would negatively hurt these consumers’ future credit options. We recommend that once the payday loan industry is better regulated and once all firms follow good business practices such that exploitation is minimized that the question of credit report be reconsidered.
5) Monitoring of Payday Lending and Lenders: one of the limitations we found in undertaking research for this report is the paucity of data on payday lenders in Manitoba. Authoritative lists of firms and outlets do not exist. We recommend that lenders and their activities be monitored on a regular basis. The monitoring may involve data reporting from lender and/or other methods such as mystery shopping. Annual data that should be included for various jurisdictions (city, province),
   
i) Number of firms  
ii) Number of outlets  
iii) Number of payday loans by outlet  
iv) Number of clients by outlet  
v) Average, median and range of payday loan size by outlet  
vi) Number of defaults, rollovers and repeat loans  
vii) Average, median and range of consumer income by outlet.

6) Improve Access to Mainstream Financial Services for Under- and Un-banked: the evidence shows that many payday clients have some problematic financial experiences (poor credit rating, lower income, difficulty paying bills). In addition, structural changes in the economy and with mainstream banks have meant that for many consumers it is more difficult to access mainstream banking services. These factors explaining the rise of payday lending must be addressed by providing appropriate financial services to people under- and un-banked. This might be done through collaborative efforts of mainstream banks, financial support organizations (e.g., credit counselling agencies) and, for particular under served groups (ethnicity and/or neighbourhood-based) with community organizations. Fringe banks may be another important partner, particularly when they follow good business practices and in jurisdictions that require them to do so.
   
a) Improved access to mainstream banks and appropriate banking services. In the case of payday loans a particular need is to develop credit and savings schemes that are cheaper and longer term.  
b) Improved access to credit counselling, financial management, credit repair and credit rating building.
Foreword
This report was prepared for the Public Utilities Board (PUB) in preparation for a hearing to determine allowable fees for payday loans. Under The Consumer Protection Amendment Act (Payday Loans) (Act) of December 2006 the PUB has been given the mandate to hold hearings with interested stakeholders and to establish an allowable fee limit for first-time, rollover and default payday loan fees. This new regulation is part of a series of steps that the Manitoba government is taking to address challenges and gaps in the regulation of fringe financial sector. The authors of the report were retained by the Public Interest Law Centre on behalf of the Consumers Association of Canada (Manitoba Branch), the Manitoba Society of Seniors and Winnipeg Harvest to prepare a report examining consumer aspects of payday lending. A companion report is being prepared examining producer aspects of payday lending.

The report was written by a group of five people. Each person took a lead in one or more sections of the report and the team met regularly to share plans and results. The lead writer for sections 1, 2 and 4 was Jerry Buckland. Wayne Simpson and Jerry Buckland guided writing of section 3 and Wayne Simpson undertook the econometric analysis of the survey data reported there. Section 5 reports on the field research undertaken for the project that was supervised by Tom Carter and Jerry Buckland. Anita Friesen was the lead writer of section 5b and John Osborne was the principal writer of sections 5c and 5d.

1. Analysis of Literature

Introduction
This report explores the phenomenon of payday lending. Rising rapidly in the last 5 years in terms of number of outlets and in the consciousness of Canadians, payday lending is now a subject of growing academic and media interest and the industry is in the midst of facing regulation for the first time. This report seeks to inform public discourse and policymaking about payday lending by examining consumer issues. Prominent issues considered in this report include the cost of borrowing and fee disclosure to consumers for loans, rollovers and repeat loans. The report draws on the academic literature, less extensive in Canada because of the newness of the topic but relatively more extensive in the US where payday lenders have a slightly longer history and the size of the market leads to a larger industry. This report also draws on field research undertaken in Winnipeg on payday lenders.

Part of the public interest in payday lending has resulted from the realization of the high fees they charge for their services. While lump sum fees for a payday loan may seem small, when fees are combined into an annualized interest rate such as annual percentage rate (APR) they amount to a

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3 A rollover is generally understood to be when the loan repayment deadline is extended, perhaps until the consumer’s next payday. In some cases the loan extension requires the consumer to pay the fees at the repayment deadline and then involves new fees –possibly higher than those associated with the first loan– that raise the total cost of borrowing. A repeat loan or ‘re-loan’ is when the consumer takes out a new payday loan on or around the deadline of the first loan. The fees for a repeat loan are generally similar to the fees for the first loan. This repeat loan may be partly used to pay off the first loan.

4 Annual Percentage Rate, APR, is a standard way to measure the total cost of credit to a consumer which is converted into an annualized rate and allows the consumer to compare the costs among different credit providers. To calculate APR one needs to know the following: the total ‘lump sum’ fees for the loan, the size of the loan and the duration of the loan. Take for instance a $250 payday loan for a 12-day period with total fees of $50. The calculation is as follows: APR = (lump sum fees/loan size) x (365/12) = (50/250) x (365/12) = 6.08, or 608%. Effective Annual Rate, EAR, is another standard way to measure the total cost of credit and is preferred by financial accountants for one reason because, in addition to including all fees associated with the loan, it also includes the ‘time value of
large amount. In field research for this project we found fees for a $250 loan from 8 payday lending firms in Winnipeg ranged from 535% to 1,321 percent, (weighted by firm) averaging 778 percent. Proponents of payday loans argue these high fees reflect high fixed per-loan costs. Critics claim that these high fees hurt consumers by taking a large bite out of their income and reliance on payday loans can lead some consumers into a debt cycle.

This report will refer to literature and data from Canada to the extent that it is available. However, given the limitations to the Canadian data we have also drawn on data and sources for the US payday lending market. In the US payday lenders have been around longer and there are many more of them (10,000 to 15,000 outlets). The literature on payday lending in other countries is more limited. The payday lending service is available in the UK but there are limited data and few studies focused specifically on payday lending. Access to credit has been identified as a key issue in addressing financial inclusion in the UK (Collard, 2007) but studies tend to lump payday lending with other types of fringe credit including pawnshop loans and ‘home’ (or ‘doorstep’) credit (Kempson & Whley, 1999; UK Competition Commission, 2006).

Payday Lending & Lenders

The payday loan involves a short-term (1-2 weeks) small-sum loan (typically $100 to $500) to a client who is employed and has provided the lender with, among other things (including a bank statement), a post-dated cheque to pay-off principal and interest on the loan on payday. It is new type of service akin to the advance some employees can obtain from their employers but undertaken by a third party, with the concomitant costs and risks of another party. It is has some characteristics in common with a small loan that used to be available from a bank except that it is very short-term (usually 1-2 weeks) and involves a non-depositary institution that earns all its revenue on fees (and none on deposits). The pay-day loan also has some similarities to the now common credit card or credit line in that the latter can be used for smaller sums. However, credit cards and lines involve broad agreements between creditor and borrower with fewer conditions except on the credit limit and minimum payments. The relationship between the payday lender and consumer involves more limitations. If the borrower cannot repay the loan on time then loan goes into default, is rolled-over or a ‘repeat’ loan is arranged.

Public interest in payday lending has peaked in the last couple of years as their outlets have become more commonplace and more Canadians use their services. In fact payday lenders are usually involved in offering a variety of financial services including cheque-cashing, money wiring, bill payments and debit card services. Before the advent of the formal payday loan these ‘multi-service’ fringe banks were sometimes referred to as cheque-cashers. By fringe bank we refer to a variety of businesses that provide financial services, are relatively unregulated (until recently) and operate on the margins of the financial system. Fringe banks include payday

\[
\text{EAR} = \left(1 + \frac{\text{lump sum fees/loan size}}{365} \right)^{365} - 1.
\]

\[
(1+50/250)^{365} - 1 = (1.2)^{365} - 1 = 255.11 = 25,511%.
\]

For instance, Dollar Financial Group’s UK subsidiary Money Shop offers payday loans (or ‘cash advances’) and has 197 shops in Britain (http://www.dfg.com/default.asp).

We contacted a leading UK-based researcher in the field of access to financial services, Dr. Elaine Kempson, with the Personal Finance Research Centre at the University of Bristol, UK. She is a noted specialist in the field of consumer credit and financial exclusion in the UK. Along with Nicola Dominy she has completed a study examining consumer aspects of payday lenders in the UK (Dominy and Kempson, 2003). She confirmed that payday loans are available in the UK but was not aware of a major literature on the topic (personal communication).

Caskey (1994, p.31) notes the precursor to payday lending is the payday advance provided by an employer or by a third party.
lenders, cheque-cashers (often the same firms), pawnshops (that have a much longer and distinct history to payday lenders), rent-to-own shops, income tax refund advancers, white-label automatic teller machines (ATMs), sub-prime lenders (e.g., Wells Fargo, Citifinancial), etc. In this report we refer to ‘mainstream’ banks by which we refer to financial institutions that have been more formally regulated and compose the core of the financial services sector including banks, trust companies, credit unions, caisse populaire, etc.

Today payday lending is a fast growing business and outlets are becoming commonplace in many neighbourhoods in major cities in Canada. It is estimated that there are 1,300 to 1,500 outlets in Canada and that 5 to 7 percent of Canadians have used their services. The market is made up of small one-outlet companies, medium-sized multi-store companies and two very large companies. One of the two large companies, Victoria-based Money Mart –subsidiary of US-based Dollar Financial Group– has dominated the payday loan market until quite recently (Buckland, 2006, p.24-30; Robinson, 2006, p.9-17). The other large company, Edmonton-based Rent Cash with subsidiaries Instaloans, the Cash Store and Insta-rent is the other major player in the payday loan market.

While payday loans are generally provided by fringe banks, it is important to distinguish this service from many other fringe bank services. Cheque-cashing and pawn loans are other important types of fringe bank services but these services are generally used by low-income people, many who have very few other bank options. Many cheque-cashing and pawnshop loan clients are financially excluded or unbanked. These clients often don’t have bank accounts or don’t regularly use the bank account they have. Payday loans, on the other hand, generally require that the client is employed and has a bank account. The client is banked although sometimes it is argued that the payday loan client is underbanked, in that they are unable to get all the financial services they need through mainstream banks.

**The Question of Exploitation**

The debate about payday lending has been quite contentious at times in the US. Critics sometimes claim that payday lenders ‘prey on,’ exploit or trap their clients. This is done through high fees charged to low-income or credit-constrained clients, unfair business practices and rollover or repeat loans. Proponents counter that payday loans are a product that help consumers with a short-term financial crunch. Payday loans are a service to people with a particular need. Without payday loans, many payday loan clients would either have no options or would have to resort to underground moneylenders. How can opinions conflict so greatly? Mayer (2003) argues that this is the result of complex relationship between consumer and producer in the payday loan market. He argues that a clearly exploitative relationship is one where there is a winner and loser, but that exploitation can also take place when both parties ‘win.’ Here exploitation occurs where other elements are at work: either that the client is poor or becomes dependent on payday loans.

Mayer defines four different types of exploitation. He argues that proponents and critics of payday loans are often drawing on neoclassical economic and neo-Marxist definitions, respectively, of exploitation. The neoclassical economic definition of exploitation finds that exploitation exists only when markets are imperfectly competitive. In an imperfectly competitive market, say a monopoly, the firm can restrict output in the market in order to raise the price the consumer pays for the good. In the case of a monopolistic market, *all* consumers in the market are exploited; they have to pay too much for the product.
Conversely, consumers in a perfectly competitive market, according to the neoclassical economic school, are all not exploited, instead, they are served by the market.

In a later section we will see that imperfect competition is a real possibility in the payday loan market. The neo-Marxist definition, on the other extreme, finds that exploitation occurs whenever a person—and Marxists were most concerned with workers—is disconnected from the means of production (e.g., land, capital). In some forms of Marxist theory, all workers are exploited. Since this is that case for many people in a capitalist economy, exploitation defined in this way is widespread. Only capitalists are served within this structure. While few people today embrace neo-Marxist theory, other theories point to social division as the source of exploitation.\(^8\)

Mayer argues that there are other, less universal ways to define exploitation. Neoclassical economic exploitation ignores the relative disadvantage of certain actors (e.g., poor people) while neo-Marxist exploitation finds exploitation is ubiquitous in capitalism. He introduces two other types of exploitation that are relevant to the study of payday lenders: ‘sufficiency’ and ‘relative advantage.’ Sufficiency exploitation results when an absolutely poor person engages in a relationship with someone who (or some company that) is better-off. Sufficiency exploitation can occur even if the consumer ‘wins’/is better-off from the loan, i.e., she is better off having taken out the loan as compared to not having taken out the loan. Sufficiency exploitation is the result of the absolute disadvantage of a certain group. Their disadvantage leads them to live in poor neighbourhoods, rely on high-priced local corner shops and fringe banks. The determination of exploitation is based on whether persons with privilege (without absolute disadvantage) engage in the payday loan service. If better-off people don’t use payday loans, sufficiency exploitation has occurred. Conversely if privileged people use payday loans equally as much as disadvantaged people then sufficiency exploitation is not demonstrated, and the loans are a service. As we shall see later in this report, since the core group of payday loan clients are from low and modest middle income groups, there is some evidence of this type of exploitation. On the other hand, some payday loan clients come from less disadvantaged backgrounds so that sufficiency exploitation is not clear cut.

Mayer’s fourth type of exploitation, ‘relative advantage,’ exploitation, is associated with the rollover (or repeat loan) phenomenon. Relative advantage exploitation is caused by the conflict between her short- and long-term interests the consumer faces when extending (or repeat-borrowing) and payday loan. Mayer explains with an example of a payday loan customer:

For example, she may prefer a $20 fee for a two-week loan rather than bounce a check, which might well cost $50 in bank and merchant penalties (-20 > -50). If she cannot pay off the principal after two weeks, it is once again in her interest to spend $20 to renew the loan for another two weeks to avoid the bounced-check penalty (-40 > -50). Short- and long-term interests still coincide. But not so if the principal is rolled over again, as the costs of the loan are accumulating but the benefit (avoiding the bounced-check fee) remains constant. In the short term, it still makes sense to pay another $20 fee to extend the loan two more weeks rather than bounce a check, but cumulatively the loan has become a bad bargain. She will have paid $60 in accumulated fees to avoid a constant $50 penalty… Cumulatively the transaction has ceased to be mutually advantageous, but borrowers are not in a position to act on their long-term interest (Mayer, 2003, p.207).

\(^8\) More commonly today political economy or critical theory is used to describe a theoretical approach with roots in Marxism/neo-Marxism. These contemporary theories identify a number of sources of social conflict including class, gender and ethnicity.
Relative advantage exploitation results when the 1-2 week short-term loan is converted, week-after-week into a 3-12 month medium-term loan. The consumer experiences no improvement in the fees – in fact with rollovers the fees can grow astronomically – and the benefits disappear into the past. The relative advantage exploitation is not due to the high fees. Critics of rollovers and repeat loans argue that payday lenders encourage, or even need repeat or rollover customers to thrive. Yet continuous rollovers or repeat loans demonstrate that payday lenders are not in the market for short-term loans but only attract customers that way. Once in the door, many customers get trapped into back-to-back loans because they cannot repay the loan quickly. The result for the consumer is a costly medium-term loan. To the extent that clients are repeat and rollover clients, relative advantage exploitation may be demonstrated. On the other hand, if repeat borrowing is uncommon then this type of exploitation is not demonstrated and payday loans are a useful service.

Mayer’s explication of different types of exploitation is useful for the study of payday lending and its consequences for consumers. His argument that some types of exploitation are more subtle than what either neoclassical economics and neo-Marxist theories would suggest points to the existence of exploitation co-existing with a ‘win-win’ producer-consumer relationship. While the term exploitation is more commonly associated with more extreme forms, it is clear that there are more subtle forms of exploitation that must be considered in analysing the impact of payday loans on consumers. Conversely, non-exploitation, or service, is the result when markets are competitive (neoclassical economic school), labour is empowered (neo-Marxist theory), poor and rich use a service equally as often (sufficiency exploitation) and short-term loans aren’t a door into a medium-term loan.

b) Theory of the Consumer: Rational, Indebted & Vulnerable
There are three or four general types of theories that seek to explain people’s financial strategies and their choice of financial services. Arguably the dominant theory, associated with neoclassical economic theory, argues that people make rational decisions to maximize their ‘satisfaction’ including decisions about what type, and what size of credit to use. However, new types of financial services, such as payday loans challenge the underlying assumptions of rational financial choice. As mentioned above the number of payday loan outlets in Canada and the US has grown dramatically from virtually nothing to a significant sector in the last 5-10 years. Because of its apparent high fees for these small-sum, short-term loans, many have wondered why they are so popular, and some have wondered if payday loan clients are indeed behaving in a rational way.

Although neoclassical economics continues to guide many who study consumer use of fringe banks (e.g., Elliehausen and Lawrence, 2001; Elliehausen, 2006; Morgan, 2007), there are three other theoretical perspectives seeking to understand consumer behaviour. One of the competing perspectives is associated with New- or Post-Keynesian theory. Prior to the 1980s, Keynesian theory was another popular theory regarding macroeconomics and finance. It similarly assumed rational individual behaviour but found that at times structural barriers, such as liquidity traps, could stall an economy from achieving ‘equilibrium.’ Post-Keynesian macroeconomics continues in this tradition although it typically focuses on a narrower set of structural barriers such as information asymmetries (See Dymski 2003; Stiglitz, 2003; Stiglitz & Greenwood, 2003). Dymski finds that market imperfections – such as asymmetric information and asymmetric market power – have led US mainstream banks to segment the financial service market such that low-income people face sub-prime lenders and fringe banks while middle and upper-income people
face mainstream bank financial services supply. The segmentation of these markets makes it difficult from low-income people to access mainstream banks.

A second theoretical approach taken to understanding the rise of payday lenders is rooted in behavioural economics. It finds that people’s behaviour is complex and not entirely rational, sometimes referred to as ‘bounded’ rationality. From this perspective people may chose financial services such as payday loans because it leads to immediate gratification even though the longer-term consequences are problematic. Instead of seeking ways to repair or improve one’s credit rating the payday loan is a convenient and accessible source of short-term cash. In this case the rationality is bounded by time or myopic since the consumer is not considering the longer term consequences of having to pay the loan off. While there have been some interesting behavioural economics studies of credit decision-making (Karlan & Zinman, forthcoming), as far as we are aware there have been no experimental economics studies of payday lending.

A final theory, institutional theory of financial exclusion (Sherradan and Barr, 2005; Caskey, 1994), continues with the assumption that people are largely rational in their financial decisions. However, because of structural changes in the economy certain types of consumers flock to payday lenders in increasing numbers. Structural changes may include factors that affect the consumers and the providers of banking services. Declining or stagnant incomes among low-income people combined with the decline in banking services to low-income neighbourhoods are examples that will be discussed in detail below. These changes create pressures on consumers to look for alternative sources of financial services. Fringe banks have stepped into the void through the rapid rise of payday lending outlets across the US and Canada.

This report understands that consumer behaviour can sometimes be bounded in rationality although it assumes that, in general people behave rationally. Consumers of payday loans may at times behave in this way: by borrowing at high interest rates some consumers may be meeting short-term needs and sacrificing longer-term needs and goals. This might be said of consumer behaviour with other goods and services. Yet because of the uniquely high cost of payday loans the bounded rationality argument seems to apply better here.

While some payday loans and some payday loan clients may be explained by bounded irrationality we believe that a more useful starting point is to say the most consumers most of the times behave in rational ways. We argue that to understand the rise of payday lending one must consider the institutional changes that have taken place in the last ten to twenty years. This report builds on the institutional theory of financial exclusion that argues structural changes explain financial choice particularly of low-income and credit-constrained people. Thus this report while recognizing people’s complex and sometimes bounded decisions is rooted in the institutional theory of financial exclusion.

Before moving on, the next section discusses two key structural factors affecting financial consumers: (a) household income and debt, (b) mainstream bank inner-city and small-sum short-term loans.

2. The Institutional Context of the Rise of Payday Loan Consumers
Institutions –the norms, rules and structures— embedded in a society, change over time. Of interest here is how institutional changes have affected income, debt and consumer choice particularly among low and modest middle income people as well as how mainstream and fringe banks have changed the services and delivery networks.
Understanding these institutional changes can help us to understand the changing consumer choice in financial services. The basic argument here is that a consumer makes decisions about financial strategies based on her personal and household goal. Then financial services are chosen to meet the financial goals that achieve the household goals. If the net benefits to the household to becoming banked or improving one’s credit rating are positive then we argue this household, in general, will open a bank account or seek to improve one’s credit rating. For instance, if the household wants to eventually purchase a home then member will seek to establish a credit rating that allows them to get a mortgage. This would suggest a strategy of careful use of credit cards or lines of credit through mainstream banks.

Since payday lenders are not members of credit reporting agencies and since their loans are expensive, it is very possible that intensive use of payday loans is not a likely strategy of this household. Alternatively if a household is not interested in home purchase, building a credit rating or saving for the future then it is more likely opt for the payday loan. Now let’s introduce institutional change into this simple model. What if factors in the labour market and government social assistance programs are changing so that the incomes of low-income people are stagnating or declining? Then, other things being equal, more households are going to decide that a home purchase and saving for future are not a part of their financial plan. These families would then be more likely to opt for a payday loan. Equally important are institutional factors on the supply-side: as banks restructure their services and retail networks, then this too will affect consumer choice which can also explain booming payday lending.

a) Household Income, Debt & Consumerism

In his seminal work on fringe banking in the US, John Caskey (1994) identified declining real incomes among low-income Americans as an important factor explaining the rise of pawnshops and cheque-cashers. In fact, real income for the bottom quintile of Americans dropped by 1.5 percent in the 1980s. With lower income, many Americans had few incentives to be banked and alternatively relied increasingly on fringe banks for their financial services.

In Canada, similar changes have been noted, particularly in the 1990s. There are several aspects to this issue: inequality between Canadians and income/asset levels among low-income Canadians. While data on income inequality is more ambiguous in the 1980s, there is a clear increase in inequality in the 1990s. Commenting on their review of the data, Green and Kesselman (2006) comment: “In short, inequality of income and earnings increased significantly in the 1990s and particularly in the last half of the decade… (p.29)” Beach, Finnie & Gray (2006) find that long-run inequality in labour income grew over 1980s and 1990s. Similarly, Yalnizyan (2007) finds growing inequality of family income from 1970s to early 2000s. Morisette & Zhang (2006) find that inequality of wealth has widened for the last twenty years: “The growing wealth dispersion since the mid-1980s suggests that Canadian families are becoming increasingly unequal in their capacity to mitigate negative income shocks in bad times or to initiate forward-looking strategies in good times” (p.14).

Since rising inequality can be associated with rising incomes and assets throughout the income range, an important question is how rising inequality has specifically affected the incomes and assets levels of low-income Canadians. The evidence suggests that incomes and assets of vulnerable Canadians have stagnated or declined particularly in the 1990s. Picot and Myles (2004) found that in the 1990s earnings of poorer families stagnated in part because social transfers declined. Yalnizyan (2007) found that family income for three of the four bottom deciles of the population faced incomes that “barely stayed in place” from 1976 to 2004 while
middle income families saw modest improvement in income due primarily to higher labour market participation (p.26). Median net worth stagnated or fell between 1984 and 2005 for the bottom 40 percent of the distribution. This means that possibly 12 million Canadians have experienced stagnant or declining incomes and assets in the last twenty years.

There are no doubt a variety of institutional factors that explain the stagnating or declining incomes and assets of low-income Canadians. Globalization, labour market changes, changes in government entitlement programs are all possible factors. The consequence of this relative deterioration for financial planning is that more households have more modest goals in terms of mortgages, retirement savings plans, major consumption items and business starts. This means that more households face reduced net benefits (or possibly net costs) of building and maintaining a good credit rating. In this scenario payday loans become a more attractive option.

Another critical contextual factor in understanding payday loans rise is the high and rising levels of consumer debt. Ramsay (2000, p.1) noted debt-to-disposable income levels rose from 78 percent in 1992 to 100 percent in 1998. By 2003 consumer debt increased further to record levels, reaching 103% (Harchaoui and Tarkhani, 2004, p.21). Ramsay noted that, in 1984, debt-to-income ratios were higher for people who were young and who had lower-incomes. As we will see below, younger people are more likely to use payday loans than others.

Record high consumer debt may be another factor explaining the growing use of fringe bank, especially payday loans. Some people, particularly younger people, with high debt levels are unable to obtain more mainstream credit and must resort to credit from fringe banks. While interest rates are low this may not present an unsustainable burden. However if interest rates were to rise, this level of debt would become unsustainable for many households.

While lower interest rates may help to explain the record high household debt levels, other factors at work include changing consumer tastes towards immediate consumption, consumerism. Stegman (2007, p.186) refers to the “addiction to credit” in the US. Quoting a former US Treasury Department official Stegman writes, “[T]he escalating demand for the [payday loan] product reflects the woeful inability of millions of Americans to effectively manage their finances and accumulate savings.” In turn, consumerism is driven by aggressive advertising on the part of banks and, consumer good manufacturers and retailers.

Rising debt and stagnating incomes among low-income people dampens their financial goals leading more people to place less emphasis on improving their credit rating and opting for high cost credit like payday loans. If one expects to always rely on low-wage jobs and to receive little support from government then one’s expectations on future income will be modest. With modest income expectations purchasing a home is an unlikely life goal. So, for some people, there is little incentive to build a positive credit record.

b) The Changing Structure of Banking Services

A second category of structural change in the last twenty years helping to explain the rise of payday lenders has to do with the services and accessibility of mainstream banks. There is evidence that mainstream banks are disinterested in low-income clients and communities (Brennan, 2007; Leyshon and Pollard, 2000). For instance, banks no longer offer small-sum loans opting instead for credit cards and lines of credit. Access to small loans is an important financial service for lower income people who are either unable to obtain lines of credit or credit cards or are uninterested in, obtaining them.
The advantage of the small-sum loan over these more flexible services is that the one-time loan involves a clearer set of rules, generally involving a simple borrow-repay cycle as compared with the on-going borrowing and repaying associated with credit card or line. The credit card/line is more flexible which might also be thought of as being more tempting in that it is easier to get the credit and get into a credit hole. This clearer set of rules and expectations associated with the small one-time loan may be more preferable to some low-income people. Since banks no longer offer these services, consumers who prefer it must look elsewhere, payday loans, rent-to-own contracts and pawnshop loans.

Further evidence of banks failing to meet the financial service needs of low-income Canadians is provided by the Financial Consumer Agency of Canada (FCAC)-sponsored Ipsos-Reid Corporation report (Ipsos-Reid Corporation, 2005) that finds the likelihood of a bank refusing to open an account was 1.5-2 times higher for people with lower income, education and age (p. 7). Low-income customers were more likely to not get a bank loan9 and to have fewer savings products and fewer saving than higher-income respondents (Chèron et al. 1999, 54). Low-income respondents were also more likely to not have heard about investment and savings products from their financial institution (Ipsos-Reid Corporation 2005, 47). What these data demonstrate is that banks are less interested in serving and providing appropriate services for low-income clients. Since banks are not providing appropriate services a space has been opened for other providers.

Another aspect of bank services deals with the location of branches. Even if mainstream banks offer appropriate services, if they are not conveniently located then people are less likely to use them. Considering low-income people are more likely to not own a car, more reliant on public transportation, less likely to own a computer and have internet access means they are more likely reliant on in-person (or ATM) transactions. If bank branches are being closed in low-income neighbourhoods then low-income people will find it more difficult to use their services. Moreover, if fringe bank outlets are more densely located in low-income neighbourhoods then people there will find these more convenient.

Evidence in the US finds that mainstream bank branches (and closures) and fringe bank outlets have been concentrated in lower-income neighbourhoods. One study of eight US cities found higher per capita levels of fringe banks and lower per capita levels of mainstream banks in ethnic minority and/or poor neighbourhoods as compared with non-poor areas” (Temkin and Sawyer, undated). Data from Louisiana & Cook country (Illinois) found payday lenders are locating in neighbourhoods that are poorer and have higher concentrations of minority population Graves (2003). Graves (p.311) also found that banks are showing locational bias in favour of neighbourhoods that are wealthier and “whiter.” They are closing branches even faster in neighbourhoods that are poorer and have higher concentrations of minority population than payday lenders are opening them in these areas.

Using data for North Carolina Burkey & Simkins (2004) found “payday lenders tend to locate in urban areas with relatively high minority concentrations, younger populations, and less-well-educated citizens” (p.203). They found that homeownership & marriage rates were positively correlated and public assistance rates negatively correlated with the number of payday lenders by zip code area. Finally they conclude that “controlling for other covariates, race is still a powerful predictor of the location of both banks and payday lenders” (Burkey and Simkims, 2004, p.1).

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9 Chèron et al. (1999, 53) found that low-income people were twice as likely to not have obtained a bank loan (34 versus 18 percent) than higher-income clients. Lower-income and lower-educated respondents were less likely to have a personal loan from a bank (Ekos Research Associates Inc. 2001, 21).
Using data for Charlotte, North Carolina, a ‘regional banking centre’ Stegman and Faris (2003, p.11-13) also found that fringe banks prefer working-class neighbourhoods\textsuperscript{10} and minority neighbourhoods.\textsuperscript{11}

In Canada the data are more limited but for three inner-cities in Toronto, Vancouver and Winnipeg there is evidence of a similar location bias for mainstream branch closures and fringe bank outlet locations. Evidence for Winnipeg, Vancouver and Toronto is that most mainstream branch closures in the last 5 years have occurred in neighbourhoods with lower average incomes (Buckland, 2006; Stratcom, 2005). Data for Winnipeg found that fringe banks were largely located in neighbourhoods with lower incomes (Buckland, 2006) and that payday lenders had located more densely in inner-cities in Toronto and Vancouver (Stratcom, 2005). Another study found an inversion of types of banks over a 23 year period. In Winnipeg’s North End there were 22 mainstream bank branches and one pawnshop in 1980; by 2003 there were only 5 banks and 18 fringe banks. (Buckland et. al, 2003)

The result of the rising density of fringe banks and declining density of mainstream banks in low-income neighbourhoods is that it is more difficult for people in these neighbourhoods to reach mainstream banks and easier to reach fringe banks. This lowers the relative net benefits to low-income consumers of being banked, using bank services and building one’s credit report.

While fringe banks and payday lenders in particular are growing in outlet numbers and use by Canadians and Americans, some mainstream banks are responding. Credit Unions in particular have demonstrated interest by developing new models of retail outlets and services that come close to competing with payday loans. Opening special outlets in disadvantaged neighbourhoods is one approach. Vancity Credit Union, based in Vancouver, partnered with PHS Community Services Society to open Pigeon Park Savings in Vancouver’s disadvantaged Downtown Eastside. Pigeon Park offers a basic bank account with an overdraft and savings account option. RBC has worked with St. Christopher House and other neighbourhood organizations to design Cash and Save based in Parkdale, a disadvantaged neighbourhood in Toronto. The Community Financial Services Centre (CFSC) in Winnipeg’s North End is a final example of a special outlet designed for a disadvantaged neighbourhood. The CFSC provides access to financial management training and basic accounts at Assiniboine Credit Union and will soon offer consumer micro-loans.

In some cases mainstream banks have built relations with fringe banks in a variety of ways. The most notable example of this is the so-called ‘rent-a-bank’ phenomenon in the US that allows a payday lender in a state prohibiting payday loans to actually offer payday loans by working with a bank in another state where payday loans are not prohibited (Stegman, 2007, p.178). This type of arrangement has not been identified in Canada but mainstream banks do have different types of relationships with fringe banks here. RBC Financial Group and Toronto Dominion Bank Financial Group (and their affiliates) have invested into American payday lenders and ‘sub-prime’ lending companies including Toronto Dominion Bank Financial Group is $7.2 million shares of Dollar Financial Group (ACORN, 2007, p.6). In Winnipeg, in some cases, local banks provide a variety of account and credit services to fringe banks (Buckland et al., 2003).

Other services are provided by some mainstream banks to address credit needs that payday loans have tapped into. Overdraft protection, credit cards and lines and small loans are examples of these. Several credit unions in the US and UK are seeking to expand their services for un- and

\textsuperscript{10} Working class neighbourhoods with median incomes between SUS 20,000 and SUS 40,000 had 5 outlets/100,000 as compared with neighbourhoods with very poor neighbourhoods with median incomes less than SUS 20,000 just 3.4 fringe banks/100,000 people.

\textsuperscript{11} There were 4 times as many cheque-cashers in neighbourhoods with at least 70 percent minority.
under-banked people.\textsuperscript{12} For instance, in the US, 1,000 of the 9,000 credit unions now have services that act as an alternative to a payday loan (Kirchhoff, 2006, p.2). For instance, in 2001 North Carolina based State Employees’ Credit Union introduced a short-term (maximum 31 days) small–sum (maximum $500) loan repaid when the consumer receives her paycheque. 40,000 clients use the loan each month and with the requirement that with each loan 5\% of the loan value is saved, $10 million has been saved by members (Kirchhoff, 2006, p.1-2).

In Canada, several credit unions have taken the lead in developing some of these products. For instance,

- Assiniboine Credit Union offers a secured credit card to credit-constrained customers. A customer unable to obtain a credit card is eligible to apply. If approved, the customer would deposit funds into a secure account and the amount secured would determine the credit limit on the card.

- Vancity Credit Union offers a secured credit card similar to Assiniboine Credit Union. In addition they are in the process of developing a product that would be an alternative to a payday loan.

- Alterna Credit Union is another credit union in Canada considering developing alternatives to a payday loan.

- The Fédération des caisses Desjardins du Québec in conjunction with local caisses populaires and credit counselling agencies offers micro-loans to previously unbanked people. Once the unbanked person joins the program and goes through the financial management training she is eligible for a small loan for which a maximum of 5\% interest is charged.

The structural changes associated with stagnant low incomes and bank reconfigurations reinforce one another to help explain the boom in fringe banking in the last ten years. Income and asset data demonstrate that there is a significant proportion of Canada’s population, perhaps 40\% or 12 million people, who are experiencing stagnant or declining incomes and assets. Many of them may also have record high debt yet face consumption pressures. These two factors have created a large and growing segment of the population that is economically vulnerable. We argue that as incomes and assets of low-income people decline, the net benefits of being ‘banked’ decline and people will increasingly rely on fringe and informal financial services to meet their needs (Buckland, forthcoming). With lower income and assets, low-income people find that there are fewer mainstream financial services that meet their needs. Since banks have pulled out of inner-cities and small-sum loans and focus their efforts on larger financial products such as mortgages and retirement savings, the benefits of having a bank account are limited. As fringe banks have increased their outlets in inner-cities and diversified the services they provide—from cheque-cashing to money wiring to payday loans— the benefits to low-income consumers to using these services increases.

\textsuperscript{12} For analysis and description of credit union activities for the un- and under-banked in the US see, Caskey & Humphrey (1999) and Kitsch (2006). For information on credit union activity for the un- and under-banked in the UK see, Brown, Conaty & Mayo (2003).
3. Who Are Payday Loan Clients?

While data on payday loan consumers are limited and generally not available at a national level, there are some general characteristics that consistently emerge in US and Canadian studies, including income level, credit situation, age, family type and ethnicity of payday loan clients. In fact, the characteristics of payday lending clients appear to be quite similar across these neighbouring countries. This section pulls together this evidence.

a) In the United States

In an important article on payday lending, Stegman (2007) finds that 5 percent of the US population has taken out a payday loan at some time in their life while 10 percent of the population are “somewhat or very likely to obtain a payday loan” (p.173). Arguably coming from different perspectives on the payday loan sector Stegman and Faris (2003) concur with Elliehausen and Lawrence (2001) who argue “the core market for payday loans are from households with checking accounts, steady employment, impaired credit, and annual incomes under $US 50,000 (Elliehausen and Lawrence, 2001).”

Most reports find the typical payday loan consumer coming from a low to modest middle income, with incomes ranging from $US 25,000 to $US 50,000 (Caskey, 2002; Elliehausan, 2006; Stegman, 2007; Stegman and Faris, 2003). Median incomes of payday lending clients for various states include $US 25,000- $US 30,000 (Indiana), $US 24,000 (Illinois), $US 19,000 (Wisconsin)(Stegman, 2007). Stegman (2007) notes that most clients are highly credit constrained, debt burdened and have a poor credit history.

Elliehausan and Lawrence (2001, p.18) note that more than two-thirds of clients are young (under 45 years old) and another 35% of clients are characterized as ‘less than 45 years of age, married, [and with] children.’ Because of a high rate of payday loan use among US military personnel (3 times more likely than non-military personnel) a law has been recently passed banning payday loans being given to active personnel (Stegman, 2007). Stegman (2007) notes that there is evidence that ethnic minorities are more common clients. He notes that African Americans in Charlotte, North Carolina are twice as likely to use payday loans as “whites” (p.174).

b) In Canada

National-level surveys in 1998, 2001 and 2005 found that reported rates of ‘ever’ using a cheque casher or payday lender have remained at around 7-8 percent.13 Regionally in Canada it has been found that payday lending is more commonly used in western provinces (Envirronics, 2005; Ipsos-Reid Corporation, p.10). This is supported by higher per capita payday loan outlet numbers there than other parts of Canada. There are limited sources of data to analyse the characteristics of Canadian payday loan clients, and this section relies mainly on three key sources (Box 1).

A consumer profile of those taking out payday loans is now emerging from a series of surveys conducted in 2005. Statistics Canada conducted a Survey of Financial Security (SFS)14

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13 The rate of ever having used cheque-cashers in 1998 was 8 percent (from the MacKay Report, cited in Lott and Grant, 2002, p.33); in 2001 the rate was 8 percent (Ekos Research Associates Inc. 2001) and in 2005 the rate of ever using a cheque-casher or payday lender service was 7 percent (Ipsos-Reid Corporation 2005, 10). In addition, a 2002 national survey found that almost 5 percent --1.4 million Canadians--had used a service from the fringe bank in the last 3 years (Lott and Grant, 2002).

14 The Survey of Financial Security succeeds the Survey of Consumer Finance, which occasionally collected information on wealth and financial behaviour. The Survey of Consumer Finance was combined with the Labour
in 2005 which, for the first time, asked whether 5,300 respondents had received a payday loan in the previous three years. The Financial Consumer Agency of Canada (FCAC) commissioned Canadian Ipsos-Reid Express to survey 5,005 Canadian adults 18 years and over in five waves between February 1 and March 11, 2005 regarding their use of cheque-cashing and payday lending outlets, their access to banking institutions, and their knowledge of FCAC. And the Canadian Payday Lenders Association (CPLA)\(^\text{15}\) commissioned Environics Research Group to conduct 2,000 telephone interviews, a random sample of 1000 Canadians in the general population and a sample of 1000 recent users of payday loans taken from a list provided by CPLA members.

\(^{15}\) At the time of the study, the CPLA was known as the Canadian Association of Community Financial Service Providers.
Box 1. Data and Sources on Payday Loan Clients in Canada

Until quite recently there have been limited sources of data to research the characteristics of payday loan customers. In the past couple years more sources have become available. At present we have identified three recent sources of national-level data. This includes two government agency undertaken or sponsored surveys, including Statistics Canada’s Survey on Financial Security (2005) and the Financial Consumer Agency of Canada’s sponsored Ipsos-Reid Corporation survey reported in Public Experience with Financial Services and Awareness of FCAC (Ipsos-Reid, 2005). There is also a recent private sponsored survey by the Canadian Payday Lenders Association, undertaken by Environics Research Group reported in, Understanding Consumers of Canada’s Payday Loans Industry (Environics Research Group, 2005).

For this research we drew on the reports by Ipsos-Reid Corporation (2005) and Environics Research Group (2005) that analyse the FCAC- and CPLA- sponsored data. We also draw on an article by Pyper (2007) that analyzes data from the Survey on Financial Security. In addition to this we were able to obtain the public version of datasets for both the Statistics Canada Survey on Financial Security and the FCAC-Ipsos-Reid Corporation.

In order to describe payday loan clients with these three surveys –SFS, FCAC and CPLA– comparisons are made of payday loan respondents (PDL) and non-payday loan respondents (NL).

In addition to these studies, there are two other data sources of note: the 2002 study sponsored by the Public Interest Advocacy Centre (Lott and Grant, 2002) undertook a national survey of 202 people, and the 2005 ACORN Canada sponsored study undertaken by Stratcom Strategic Communications (2005) in which 419 respondents were recruited exiting payday lenders in Toronto and Vancouver.

With the establishment of a Canadian working group on financial capability there is the possibility that in future more detailed data will become available on payday loan—and other fringe bank—customer characteristics.

The three surveys provide estimates of the extent of payday loan use at the level of the household and the individual. The SFS estimates that about 353,000, or 2.7%, of Canadian families contained at least one family member who had taken out a pay day loan in the last three years. The FCAC survey found that 92 respondents (1.8%) had taken out a payday loan at some time. This provides an estimate of about 447,000 individual Canadians, based on a population of 24.8 million adults 18 years and over according to the 2006 Census. The CPLA survey estimates that 5% of the population had ever taken a payday loan, based on their survey.

Each of the surveys allows us to compare the characteristics of respondents who used a payday loan (PL sample) and those who did not (NL sample). We begin with a profile of household incomes. The sample of families using payday loans in the previous three years in the SFS survey (PL/SFS) tended to have lower after-tax incomes than those families not using payday loans (NL/SFS), as shown in Figure 1. For example, 46.7% of the PL/SFS families have incomes below $30,000, compared to 35.9% of the NL/SFS families, while 68.6% have incomes below $50,000 compared to 61.5% of the NL/SFS sample. Mean family income in the PL/SFS sample was $40,200, compared to $66,600 in the NL/SFS sample, a difference in mean family incomes between the two groups that is very significant.

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16 This figure is cited in Piper (2007) and confirmed by the author’s calculations from the SFS microdata file, using the weights provided by Statistics Canada for each respondent.

17 The p-value, assuming unequal variances between the two samples, is 0.0000, i.e. there is less than a 0.01% chance that the two samples have the same mean.
The FCAC survey, based on individuals rather than families, produced similar results. The PL sample in the FCAC survey (PL/FCAC) again tended to have lower household incomes than the NL/FCAC sample, as shown in Figure 2. For example, 35.5% of individuals in the PL/FCAC sample lived in households with incomes below $30,000, compared to 22.1% of the NL/FCAC sample, while 67.3% lived in households with incomes below $50,000 compared to 42.7% of the NL/FCAC sample.\textsuperscript{18} The CPLA survey (Figure 3) similarly found that the mean household income of the PL sample of $41,376 was also well below the mean household income of $56,400 in the NL sample. 52.7% of individuals using payday loans lived in households with incomes below $35,000 compared to 31.8% of those not using payday loans and 73.1% of the PL/CPLA sample lived in households with incomes below $50,000 compared to 50.6% of the NL/CPLA sample. What emerges from all these surveys is that payday loan clients are poorer than the general Canadian population.

\textsuperscript{18} Since the household income data is categorical, a comparison of mean incomes between the two samples is not possible, but the incomes in the NL sample clearly dominate, i.e. a smaller percentage of the NL sample is below each income level up to the top level ($100,000 and over). The FCAC (and CPLA) surveys do not define their income measure, but it is likely that household income in these surveys refers to before-tax income. In a progressive taxation system, we could expect that the gap between the (poorer) PL and (richer) NL samples would be larger using before-tax income.
While these three surveys did not have data on payday loan consumers’ income level relative to Statistics Canada’s Low-income Cut-off (LICO), two other studies did. An ACORN sponsored survey of 419 customers exiting payday lenders found that 46 percent of Vancouver clients and 30 percent of the Toronto clients had household incomes below $30,000, an amount which represents the LICO for a family between 2 or 3 members in 2005. In addition, almost one-half of
the chronic payday loan clients –those with more than 10 payday loans in the last year– have incomes below $30,000 (Stratcom Strategic Communications 2005, 3-7). Another survey found that only 15 percent of the customers using fringe banks in general fall below the LICO and that the average annual household income of the fringe bank customers is $51,400 (Lott and Grant 2002, 36).

Figure 3. Household income distribution for those using Payday Lenders (PL Sample) and those not using Payday Lenders (NL Sample) in the CPLA survey

The income-payday loan relationship is not explained by employment status, since more of the payday loan users are typically working full-time. For the SFS survey, 83.4% of the PL/SFS sample list wages and salaries or self-employment as the major source of income compared to 67.6% of the NL/SFS sample. For the FCAC survey, 70.3% of the PL/FCAC sample was working full-time or self-employed at the time of the interview, compared to 53.4% of the NL/FCAC sample. In the CPLA survey, the corresponding figures were 70% for the PL/CPLA sample and 55% for the NL/CPLA sample. This is hardly surprising since, in order to qualify for a payday loan, the PL samples must typically consist of respondents who were drawing a pay cheque at the time of the loan. In addition, however, the SFS indicates that those taking payday loans are at least as likely to be in a multiple-earner household (43.5% of the PL/SFS sample) as those not taking payday loans (41.8% of the NL/SFS sample), further evidence that employment per se is not a factor in explaining payday lending.

Although the PL samples tends to be employed, education levels are lower: 21% do not have a high school diploma in the SFS survey compared to 10.9% for the NL sample and 16.3% do not have a high school diploma compared to 10.9% for the NL sample in the FCAC survey. In the CPLA sample, however, only 14% lack a high school diploma in the PL sample compared to 15% for the NL sample. At the other end of the education spectrum, only 10.6% of the PL/SFS sample have a university degree or certificate compared to 25% of the NL/SFS sample; only 8.7% of the PL/FCAC sample has a university degree compared to 29.7% of the NL/FCAC
sample; and 21% of the PL/CPLA sample have a university degree compared to 32% of the NL/CPLA sample. Thus, while the CPLA sample appears to suggest higher levels of education than the SFS or FCAC samples, it still implies lower education levels, which may account for lower salaries and for some of the financial difficulties that lead to application for payday loans.

Some other clear differences occur on the demographic side between the two samples. In comparison with the NL group, the PL group is likely to be younger: 52.6% of the PL/SFS sample and 51.0% of the PL/FCAC sample were 34 years of age or younger compared to 23.9% of the NL/SFS sample and 28.9% of the NL/FCAC sample. The mean age of the PL/SFS group was only 37.4, compared to 50.5 for the NL/SFS group, a difference that is again very significant. For the CPLA survey, the mean age of the PL group was 39, compared to 45 for the NL sample.

The younger PL samples are also more likely to live in a household with children: In the SFS, 15.4% of the PL sample household contained a child under five years of age compared to only 2.4% of the NL sample and 26.2% of the PL sample contained a child 5-17 years of age compared to 16.8% of the NL sample. In the FCAC survey, 58.8% of the PL sample respondents lived in a household with children under 18 years of age compared to 40.4% of the NL sample. In the CPLA sample, 47% of the PL sample contained dependent children compared to 32% of the NL sample. Correspondingly, those using payday loans are more likely to live in larger households with more than two persons (47.4% of the PL/SFS sample vs.36.6% of the NL/SFS sample).

In comparison with the NL group, the PL group is more likely to be English-speaking rather than French-speaking based on the language of interview (89.0% vs. 77.9% in the FCAC survey), reflecting the fact that payday loans were not yet available in Quebec.

Only the FCAC survey provides information on the frequency of use of payday loans (Figure 4). Specifically, 10.0% of the PL sample report using cheque-cashing or payday loan services more than once a month, 15.9% report using these services about once a month, 8.0% report using the services every few months, 22.3% report using these services once or twice a year, 42.7% reported use less than once a year, and 1.2% did not answer. These results imply that more than one-quarter (26%) of the PL sample used cheque-cashing or payday loans at least monthly or at least 12 times a year. Although the survey does not distinguish payday loans from cheque-cashing, only 8.5% of the PL sample report using cheque-cashing services. Thus, the frequency of use figures cited here represent primarily the use of payday lending services in the PL sample.
Those with lower household incomes tended to use a payday lending service more frequently (Figure 5). For example, 52.4% of those who reported using a payday lending service at least once a month (i.e. reported either using payday loans more than once a month or about once a month) had a household income of less than $30,000, while only 32.3% of those using a payday lending service less frequently fell into this income category. And 95.2% of frequent payday loan users (at least once a month) had household incomes below $50,000, compared to 64.5% of the less frequent users (less than once a month).
The surveys ask a variety of questions which shed some light on the reasons people seek payday loans and their financial circumstances at that time. The SFS, for example, finds that only 16.8% of the NL sample live in households without a credit card compared to 42.9% of the PL sample. One reason for this discrepancy is that 14.3% of the PL sample had been refused a credit card compared to only 3% of the NL sample.

Those using payday loans were more likely to have a family budget (60.9% vs. 48.1% of the NL sample) but were still more likely to spend as a family in excess of income (40% vs. 17.5% of the NL sample), have less than $200 in bank accounts and term deposits (48% for PL sample vs. 30.6% of the NL sample), have no one to turn to in the event of financial difficulty (48% of the PL sample vs. 32.2% of the NL sample) and to resort to assets to pay off debt (16.2% of the PL sample vs. 4.6% of the NL sample), including selling assets to a pawnbroker (18.6% of the PL sample vs. only 2.2% of the NL sample). On the other hand, the PL sample were optimistic about their family financial situation in two years, with 63.7% expecting it to improve compared to 43.9% of the NL sample.

The FCAC survey finds that convenience, including fast and immediate service is important to those seeking payday loans (52% of the PL sample). Most had a bank account (98.8% of the PL sample), only 15.2% cited a poor credit rating as a reason for using a payday lender. Only 4.5% of the PL sample cited “good interest rates” as a reason for using a payday loan service, but 36.3% of the PL sample thought that the interest rates charged by payday lenders were at or below the rates charged by credit card companies. In addition, the survey indicates that, as a consequence of a payday loan, 6.9% of the PL sample filed for bankruptcy, 8.9% sought credit counselling, and 13.2% borrowed money to repay the payday loan company.

The CPLA survey also found that only 41% of its PL sample had a credit card. The PL sample had a generally favourable attitude toward payday lenders (59% vs. 11% of their NL sample); indeed, they rated payday lenders more favourably than banks (51% favourable rating in PL sample) and credit card companies (22% favourable rating). The PL sample claimed to be well informed about payday lending fees: 85% of the PL/CPLA sample indicated that they were aware of the administration fees and interest rates charged by payday lenders. Fifty percent of the PL sample cited convenience in various forms, including quick and easy access, as the most important reason for seeking a payday loan; only 5% thought that it was cheaper than other forms of borrowing but 36% that they had no alternative source for borrowing, including banks, friends and relatives.

This discussion of the characteristics of payday loan customers concentrates on individual’s relationships, or correlations, which may mask a complex relationship among a series of variables. To examine this possibility, we have used probit regression to explain the probability of payday lending in terms of the characteristics we have considered above interacting simultaneously. Our regression estimates are shown in Table 1. We include only age and income in the first regression (column (1)), then add three education categories plus gender (column (2)), then add family size and total bank deposits (column (3)), then add two categories of children in the family (column (4)), dropping insignificant variables along the way. What emerges are three robust results; that is, three results that endure as additional characteristics are added to the regressions: the probability of a payday loan declines with family income, age and

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19 The question is open-ended but “convenience” includes convenient hours/open evenings and weekends (6.5%) and other unspecified considerations (9.3%) while “fast and immediate service” includes faster service, more efficient service and needed money immediately. These categories are clearly linked, since someone who needed money immediately after banking hours could also cite convenient hours as the reason for seeking a payday lender.
holding a university of degree. In addition, the probability of a payday loan increases with family size or a closely related variable, the presence of children in the family. When family size alone is included in column (3) it is significantly positively correlated with the probability of the family using a payday loan service; when the presence of children is included in column (4), however, family size remains positively correlated but is no longer significant and the presence of children variables in two age groups—0 to 4 and 5 to 17—are also positively correlated with the probability of a payday loan but insignificant. It is therefore not possible from the evidence to know which characteristic, family size or the presence of children, explains family payday loan experience.

Table 1. Profit Estimates of the Determinants of Payday Lending from the SFS2005

[Dependent variable is PD=1 if member of household has taken out a payday loan in the last three years; 0 otherwise]

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<td></td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>5237</td>
<td>5201</td>
<td>5237</td>
<td>4780</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
*significant at 10%; ** significant at 5%; *** significant at 1%
Notes: Family size greater than 5 is coded as 5 in the SFS public microdata file.

i) Summary
In summary, we find that payday loan consumers can be characterized as distinct from the general population in the following ways,
• Consumers of payday loans have lower family incomes than those who do not use payday loan services (non-consumers)
• The general level in which data are available mean it is difficult to comment to what extent payday loan clients fall below LICO
• Consumers of payday loans are more likely to be fully employed but have lower education levels than non-consumers
• Consumers of payday loans are younger and more likely to live in larger families with children than non-consumers
• About one-quarter of payday loan consumers use the service at least once a month and these users tend to have lower family incomes than less frequent payday loan users
• Consumers of payday loans cited convenience as an important factor in choosing payday lenders but were also less likely to have other sources of borrowing, such as credit cards or someone to help with financial difficulties, or financial reserves
• Probit regression confirms that family income, age and holding a university of degree affect the probability of being a consumer of payday loans even when other characteristics are considered

These data document that the typical payday loan client in Canada has many similarities to her American counterparts. Her income is lower than average national family income, she has very little savings in her bank account and she has more trouble ‘making ends meet’ and accessing other sources of credit. Data are not available on ethnic make-up of payday lending clients in Canada.

4. Key Payday Loan Issues for Consumers
There are a series of key issues that have been identified about payday loans with respect to their impact on consumers. These include, size and accessibility of fees, the problem of repeat or rollover loans for the consumer, the association of repeat or rollover loans for store profit and the market structure of industry. In this section we review the evidence drawing on Canadian data where it is available as well as US data.

a) Fees & the General Impact on Consumer
A key issue regarding the impact of payday loans on consumers is the high total cost of the payday loans, sometimes described as high-cost, high-interest or predatory. In field research for this project we found fees for a $250 loan from 8 payday lending firms in Winnipeg ranged from 535% to 1,321 percent, (weighted by firm) averaging 778 percent. If the consumer is able to extend repayment, or ‘rollover’ the loan then APRs can rise dramatically. The concern is that these high fees cut deeply into the low or modest incomes of the clients. Moreover these high fees can lead vulnerable households into a debt cycle of ever expanding debt and declining ability to repay.

Critics of payday lending also point out the complex and inaccessible nature of the fees. Payday loans generally involve a number of different fees (administrative fee, an interest charge, brokerage fee, cheque-cashing fee, etc.) and the per-unit fee can vary depending on the size of the loan. But often these fees are poorly understood by the consumer and rarely are they combined into the form of an annual percentage rate (APR) to facilitate comparison shopping. For instance,
in a study of fringe banks in Winnipeg in 2003, no payday lending outlet posted fees and none provided fee information, orally or verbally, in the form of an annual percentage rate (APR) (Buckland et al., 2003). This lack of a common formula can make it difficult for a consumer to compare fees for the same size loan across payday lenders.

Proponents of payday loans argue that in fact pay-loans involve relatively small fees, say $50 for a 12-day, $250 loan. To convert this fee into an APR exaggerates the size of the fee and is inappropriate as no one takes out a payday loan for anywhere near one year. Moreover, payday lenders face high fixed costs to staff and run multiple outlets in order to provide small loans to large numbers of people.

Critics, on the other hand claim that a payday loan is a partial substitute for a credit card or line of credit for which APRs are an appropriate measure. High APRs of payday lenders is evidence of their exploitation of credit constrained and vulnerable consumers.

This is one of the most contentious issues related to payday lending and relates to Mayer’s concept of sufficiency exploitation. There have been different methods that have been used to more objectively evaluate this issue. None of these studies has followed entirely Mayer’s approach that focuses on the sufficiency level of the clients. The first two studies (Elliehausan & Lawrence, 2001; Morgan, 2007) use a simple household budget model to examine the net benefits to a consumer. The next two studies examine the impact on a particular community (Buckland, Hamilton and Reimer, 2006) or a national impact (Ernst, Faris and King, 2004).

Elliehausan & Lawrence (2001) argue that payday lenders do not exploit but in fact provide an important service to their clients. To demonstrate this they use a household consumption and investment model to determine the benefit to an individual borrower to calculate the net present value, or NPV, of the benefits and costs of taking out a hypothetical $US 200 two-week payday loan for a total cost of $US 30 (2001; cited in Elliehausan, 2004, p.13-15.) They assume that that the $US 200 is used to repair the borrower’s car to commute to work. The forgone costs due to the loan and repair include bus fare and the opportunity cost of extra time to take the bus. They find that the NPV is positive ($US 14.55) so they conclude the payday loan is ‘wealth enhancing.’

However this calculation assumes the client takes out just one independent payday loan rather than a series of loans over the year and that this loan is used for a household investment (fixing a car needed to get to work). If on the other hand the loan is one of several, which is often the case, then there may be other dynamic affects (debt accumulation) not taken into account in this calculation. Also, if the loan is used for consumption purposes, a lower or negative net present value may result. We argue that if more typical circumstances are introduced then the NPV would likely be negative and certainly would be smaller.

Morgan (2007) examines the hypothesis that payday lenders are predatory. He uses a standard model of household borrowing to determine if payday loan is predatory, which he defines as a welfare reducing provision of credit (p.6). Morgan compares non-mortgage debt levels and credit delinquency levels between two types of states in the US: (1) states that place no limits (e.g., fee caps, rollover limits, etc.) payday lenders (no-limit states) and (2) states that do not authorize payday lenders (e.g., fee caps set so low that payday lenders cannot operate)(non-authorizing states).

Morgan assumes that no-limit states will have many more payday lenders than non-authorizing states. His hypothesis is that if high debt and delinquency levels are higher in the states with
more payday lenders (i.e., no-limit states) then there is evidence that payday lenders exploit consumers. He concludes that high debt and delinquency levels are not higher in the no-limit versus the non-authorizing states.

However, in their critique of this study, the Center for Responsible Lending (CRL)(2007) points out that the ‘rent-a-bank’ (or ‘rent-a-charter’) phenomenon —whereby payday lenders in non-authorizing states can do loans financed by bank in another state which allows payday loans— means that Morgan’s non-authorizing states actually have payday lenders in operation.

The CRL commentary also notes that Morgan’s definition of a vulnerable household is problematic: Morgan defines a vulnerable household as one with an unpredictable future income but a survey found that a more important consideration for these households is unpredictable future expenses. Finally, Morgan’s definition of exploitation, as welfare-reducing, is at odds with Mayer’s definition of sufficiency exploitation which allows the coexistence of exploitation and welfare improvement. Thus Morgan’s study has not carefully distinguished between no-limits and non-authorizing so that his conclusion is questionable.

In a study of the impact of fringe banking in the North End of Winnipeg, an inner-city neighbourhood, Buckland, Hamilton and Reimer (2006) estimate the cost to the neighbourhood of using fringe banks instead of mainstream banks. If North End consumers used three types of fringe bank services —payday lending, cheque-cashing and pawnbroking— at a rate similar to other jurisdictions then they would spend an estimated $1.9 million each year or 0.38 percent of North End income. On the other hand if consumers used mainstream bank services instead, consumers would have faced annual costs of only $216,992 or 0.04 percent of North End total income. Since the conclusions from this study are based on simplifying assumptions about the use and volume of use of fringe bank services, they are useful to provide indicative information but are not definitive. Based on the frequency of banks in the neighbourhood it is clear that fringe banking is popular in the North End. Moreover, the added fees—over and above fees at mainstream banks—diminish the already lower-than-average incomes of North Enders.

Ernst, Faris & King (2004) calculate the cost to consumers of ‘predatory’ payday loans amounts to $US 3.4 billion annually. Their calculation assumes that predatory lending occurs if a borrower takes out 5 or more loans/year because these repeat borrowers are likely to get caught in a debt cycle. They calculate that 91 percent of payday loans are made to borrowers who receive 5 or more loans per year. Combined with payday loan volume of $US 25 billion and the typical payday loan fee of $US 15 on a $US 100 cheque leads to their estimated predatory cost of $US 3.4 billion per year. These calculations rely on some assumptions that generate ‘indicative’ conclusions. It might be that five or more payday loans per year are not sufficient to lead all clients into chronic debt. This is a question that could be studied. What this study does is to point out one of the more dynamic problems associated with payday loans and that is the problem of repeat loans.

These studies on the net benefits or costs to individuals and society have highly variable results depending on the assumptions made and the model used. One limitation for this type of analysis, particularly for Canada, is the lack of data. Before conclusive results can be generated for this type analysis more comprehensive data will be needed. Clearly the fees of fringe bank services to individuals and communities are greatly in excess of mainstream bank services. While the welfare of some consumers are no doubt improved because of access to payday loans, other consumer are likely using these services because there are so few options.
b) Rollovers/Repeat Borrowing

Another problematic aspect of payday loans has to do with repeat use and/or the use of rollovers. Recall that Mayer argued relative advantage exploitation can take place if consumers enter into the payday loan relationship (with its high fees and short term) but cannot make the repayment deadline and end up seeking repeat loans or rollovers. If this leads the consumer to re-borrow or rollover for a long enough period, in essence the loan has been converted from a short-term 2 week loan to a medium-term several week (or month) loan. Mayer argues that relative advantage exploitation takes place here as the fees far outweigh any benefits to the consumer.

Rollovers are the industry term for extending the deadline for loan repayment. Early critics of the industry noted that the additional fees associated with rollovers leading to dramatic rises in APRs that then increased the likelihood of the consumer falling into a debt cycle. With more US states outlawing this practice and some industry associations (e.g., the Canadian Payday Lenders Association) disallowing it for its members, rollovers are less of an issue today than five years ago. However since a large number of payday lender outlets in Canada are not part of the CPLA this practice may still be commonly undertaken by lenders. Repeat loans have become of greater concern more recently. In this case the client takes out several loans from one or more payday lenders in one year.

Caskey (2002) reviews the evidence in the US for repeat borrowing with payday loans and finds that there is a general consistency across states and sources. Caskey notes that 50-80 percent of payday loan customers had 7 or more payday loans within one year while another 20 to 30 percent of payday loan customers had 14 or more loans. Caskey (2002, p.38) concludes,

"Payday loans may well be the best immediate alternative available to borrowers without access to mainstream lenders, and who need to remedy a pressing financial shortfall. At the same time, the data are consistent with the charge that most payday loan customers are frequent borrowers who may be trapped in a persistent and costly debt cycle (italics added) (Caskey, 2002, p.38)."

Data on frequency of rollovers and repeat use of payday loans and client characteristics in Canada are more limited. We are able to piece together some interesting evidence from different types of studies:

- As discussed in a previous section, the FCAC national survey found that 26 percent of respondents who used payday loan, used them at least once a month or twelve times per year (Ipsos-Reid Corporation, 2005). Ten percent of the respondents using payday loans used the service more than once per month. This study also found that payday loan clients with lower income were more likely to use the service many times per year.

- Using payday loan exit interview survey of 419 people in Toronto and Vancouver, an ACORN Canada sponsored survey found that almost one-half of multiple borrowers (more than 10 payday loans in the last year) interviewed had incomes below $30,000 (Stratcom Strategic Communications 2005, p.3-7).

- An innovative study of clients of a credit counselling agency in Alberta compared clients under the Orderly Payment of Debts program who used payday loans versus those who did not use them (The Support Network and Credit Counselling Services of Alberta, 2005). They found payday loan "users appeared to be at greater risk of failing to complete the CCSA’s [Credit Counselling Services of Alberta] Orderly Payment of Debts program [than] other CCSA clients” (p.5). The report concluded that “…their [payday loan user
clients] success rate [with Orderly Payment of Debts] can be improved with additional counselling” (p.29).

Disallowing rollovers has addressed the issue of exponentially growing interest rates. But the frequency of repeat borrowers is not addressed by this. Based on the limited data available, over one-quarter of payday loan clients are frequent borrowers in Canada. In the US, evidence suggests this may be as high as one-half the clients are borrowing repeatedly. This suggests that, at least for the repeat borrowers, there is not a preference for the shorter-term less flexible character of payday loans as compared with credit cards and lines. Repetitive payday loans diminish the theoretical rationale for this type of expensive short-term loan (as compared with credit cards and lines). The attraction to payday loans must have more to do with other factors such as stagnating income and/or fewer financial service options.

i) Rollovers/Repeat Borrowing and Store Profit

Another controversy, closely related to the issue of rollover or repeat use of payday loans has to do with the connection between store profit & repeat borrowers. Some studies have found a positive relationship between the two. This suggests that profitable payday lenders have an incentive to maximize the number of customers who take out multiple loans. For instance, Stegman and Faris (2003) found that “the financial performance of the payday loan industry, at least in North Carolina, is significantly enhanced by the successful conversion of more occasional users into chronic borrowers” (p.25). Others dispute this finding. For instance, Flannery & Samolyk (2005) dispute this claim drawing on cost and revenue data at store-level for two payday lending companies in 2002-04. They do not find a positive relationship between store profits and the number of rollovers or repeat customers.

Analysis of the rollover/repeat loan–store profit relationship in Canada has relied particularly on a study sponsored by the CPLA and undertaken by Ernst and Young LLP (2004). An ACORN Canada report by Chris Robinson (2006) analyzes a related issue, payday loan profit as it relates to scale of operation.20 The Ernst and Young LLP study found that the firms with a lot of first-time customers have higher costs as compared with firms with a lot of repeat customers (Ernst and Young LLP, 2004, p.34-35). The report concludes that “Businesses that do not build up a repeat customer base will find it difficult to survive given that the costs of servicing repeat customers is substantially lower than for new or one-time customers” (Ernst and Young LLP, 2004, p.44).

While the link between store profit and repeat customers is less clear in the US, the evidence of a positive relationship in Canada is clearer. The industry association-sponsored report found the link between the two variables. What is concerning about this is that there is less of a rationale for repeat payday loans as compared with credit cards and lines as the payday loans are more expensive and less flexible. If stores are reliant on the repeat customer then, as Stegman points out, this might be an incentive to encourage consumers into chronic –and problematic– credit patterns.

c) Market Structure

Another controversial aspect of payday lending and its impact on consumers involves the level of competition in the industry. Neoclassical economic theory finds that the optimal market structure for consumers is a perfectly competitive market.21 This is a market where no player –consumer or

20 Analysis of both of these reports can be found in Buckland (2006, p.28-30).
21 On this topic in the context of fringe banking, see Buckland (2006, p.20-21 and p.54-55).
producer—can affect the market outcome. In this market, producers are ‘price-takers,’ that is they are informed what is the market price (for instance, the way farmers find out about the price for their grain) and the only decision the producer can make is, at that market price, how much should be produced. In this market, according to neoclassical economic theory, the consumers’ and producers’ interests are optimized.

However, many markets in North America, arguably including the payday loan market, are not perfectly competitive. These markets are imperfectly competitive. For instance a monopoly is a market with one producer. In these markets, consumers’ interests are not protected through competition and there is a greater need for government intervention. In imperfect competition, producers have some level of (market) power allowing them to manipulate the market in such a way as to raise producer benefits (called producer surplus) at the expense of the benefit to the consumer (called consumer surplus). For instance in an oligoplistic market—a market dominated by a few sellers—the dominant producers can tacitly collude to dictate the market price. The resulting higher price can generate excess profits and hurt consumers.

While there is some debate on the level of competition in the US payday loan market, there is evidence of imperfect competition. Flannery & Samolyk (2005) argue that imperfect competition is evidenced based on the payday lenders competing on geographic location as opposed to price (p.20-21). Specifically they suggest the US market shows evidence of being monopolistic competition, which involves many firms seeking to ‘differentiate’ their product from the others through such things as advertising. Mann & Hawkins (2007, p.882) support the view of imperfect competition by noting that payday lenders “almost universally charge the highest rate permissible in their jurisdiction.” Others disagree with this assessment of the market. Morgan (2007, p.19-21) argues the payday lending sector is competitive as it operates as economic theory predicts: payday loan fees decline when the concentration of payday lenders or pawnshops per capita rises.

5. Field Research on Payday Lending in Manitoba
   a) Overview of the Industry in Winnipeg

The field research for this project collected available data on payday loan firm and outlets. Since there are no authoritative sources for payday lender outlets this data relies on less formal methods (discussed below).

It is estimated that there are a total of 51 ‘bricks and mortar’ payday loan outlets representing 12 firms in Winnipeg (Appendix 3) and 18 retail outlets representing 8 firms in the rest of Manitoba (Appendix 4). In total these 69 retail outlets are owned by 17 firms. Rent Cash—owner of Instaloans and the Cash Store—operates 25 outlets (36 percent) while Money Mart has 18 outlets (26 percent). The remaining 38 percent of the outlets are owned by 14 firms that have between one and five outlets in the province. For the City of Winnipeg, Rent Cash is also the

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22 Some prominent types of imperfect competition include monopoly, spatial monopoly, oligolopoly, monopolistic competition. For discussion of these market structures in the context of fringe banks see Buckland (2006, p.20-21 and p.54-55).

23 For a description of producer and consumer surplus see Buckland (2006, p.54-55).

24 Caskey notes that, regardless of the nature of competition among payday lenders there is competition between payday lenders and pawnshops, as shown by the decline in pawnshop profit with growing competition from payday lenders in the US in the 1990s (Caskey, 2005, p.28-29; 2003, p.12).

25 We treat Instaloans and the Cash Store as separate entities in this description except in the discussion of market concentration.

26 Note that three firms, namely Money Mart, Instaloans and The Cash Store operate both in and outside of Winnipeg.
largest firm by outlets, having 18 (8 Instaloans and 10 the Cash Store outlets) outlets while Money Mart has 29 percent of the outlets with 15.

The number of payday lender/cheque casher firms and outlets in Winnipeg have increased over the past twenty years (Figure 6). Again, no authoritative sources exist but there records suggest that there were virtually no outlets in the early 1980s and no more than five outlets until the end of the 1990s. The numbers of outlets then rose rapidly. In Winnipeg by 2002 there were 33 payday loan outlets, controlled by 11 firms (Buckland et al., 2003). At that time Money Mart and Instaloans, controlled nine and eight outlets respectively, of the market. This represented one-half of the total outlets. In 2002 it was estimated that there are a total of eleven pay-day loan outlets in other parts on Manitoba.

Figure 6. The Number of Cheque-cashing Firms and Pay-day Lenders in Winnipeg, 1984-2003

![Figure 6](image)

Source: Buckland et al., 2003

Notes:


a. Data on numbers of pay-day loan and cheque-cashing outlets are approximations. During the period of data collections the numbers varied considerably with new ones opening up and some older ones closing down.

*Until 1990 Money Mart was the only firm in the cheque-cashing firm category in the telephone directory; for 2001 and 2002 Money Mart was listed under cheque-cashing services and loan categories (number of Money Mart outlets in 2001 were 7; in 2002 were 9). For 2003 in the Winnipeg Yellow Pages Telephone Directory [Online], Money Mart is no longer listed. This is not reflected in the figure above.

**The number of pay-day loan outlets is the sum of, number of firms offering pay-day loans in loan category in the telephone directory and, for 2003 the number of Money Mart outlets (as their outlets are not included in loan category in online directory).
***Pay-day loan and cheque-cashing firms are the number pay-day loan outlets plus the number of Money Mart outlets. In 2003 there is only one cheque-cashing outlet that does not offer pay-day loans.

Research on payday loan fees was conducted in 2002-03 across 11 payday lenders offering payday loans between $100 and $300 (Buckland et al., 2003). This research found that lump sum payday loan fees for a $300 loan varied across firms from $30 to $76, with an (weighted by firm) average fee of $63 (Table 2). Lump sum fees for a $200 loan varied from $20 to $50 with an (weighted by firm) average $33. Average (weighted by firm) APRs for a $200 loan amounted to 551% and average APRs for a $300 came in at 546%.

Table 2. Average Fees for Payday Loans among Winnipeg Firms in 2002-03

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Lump Sum Fee</th>
<th>Annual Percentage Rate, APR</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200</td>
<td>$33</td>
<td>551%</td>
</tr>
<tr>
<td>$300</td>
<td>$63</td>
<td>546%</td>
</tr>
</tbody>
</table>

Source: Buckland et al., 2003.

Across all 14 identified Winnipeg payday loan outlets, 12 disclosed information (8 offering data for $250 loan, 4 offering data on other sized loans). Currently, lump sum fees for a typical $250, 12-day loan ranged from $44 to $109 (Table 3). The annual percentage rate (APR) for $250 loans ranged from 535 to 1,321 percent with an average APR of 778 percent. Effective annual rates (EAR), which takes into account the time value of money, ranged from 13,753% to 5.8 million percent with an average of 1.1 million percent. Rates outside the perimeter, in other locations in Manitoba were available from thee firms (2 offering data on $250 loan and one offering data on a $165 loan). Lump sum fees for $250 loans ranged from $50 to $57, APRs ranged from 608 to 694 percent (averaging at 651 percent) and EARs ranged from 25,511 to 51,556 percent (averaging at 38,533 percent). Two web-based firms supplied information on a $250 loan. The lump sum fees ranged from $59 to $75, with APRs ranging from 718 and 913 percent (averaging at 815 percent) and EARs ranging from 63,084 to 292,165 percent (averaging at 177,624 percent).

The average APR for a $250 payday loan across 8 Winnipeg firms today amounted to 778%; the average APR for a $300 loan in 2002 was 546 percent. Average (weighted by firm) APRs have increased by 42.5 percent from 2002 to 2007.

Table 3. Payday Loan Fees by Firm in Manitoba, Based on Field Research August- September 2007*

<table>
<thead>
<tr>
<th>Firm</th>
<th>Loan Size</th>
<th>Total Repayment</th>
<th>Lump Sum Fee</th>
<th>Annual Percentage Rate, APR** (on 12 day loan)</th>
<th>Effective Annual Rate, EAR***(on 12 day loan)</th>
</tr>
</thead>
</table>

27 The time value of money, a form of opportunity cost of money, is factored into the EAR calculation. This factor takes into account that the payday loan fees could have been used in another use, e.g., deposited in a savings account to earn interest income.
<table>
<thead>
<tr>
<th>Winnipeg Firms</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$250</td>
<td>$295</td>
<td>$50</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>B</td>
<td>$250</td>
<td>$359</td>
<td>$109</td>
<td>132%</td>
<td>583%</td>
</tr>
<tr>
<td>C</td>
<td>$250</td>
<td>$348</td>
<td>$98</td>
<td>119%</td>
<td>237%</td>
</tr>
<tr>
<td>D</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>E</td>
<td>$250</td>
<td>$311</td>
<td>$61</td>
<td>742%</td>
<td>764%</td>
</tr>
<tr>
<td>F</td>
<td>$100</td>
<td>$124</td>
<td>$24</td>
<td>715%</td>
<td>613%</td>
</tr>
<tr>
<td>G</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>$200</td>
<td>$240</td>
<td>$40</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>I</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>J</td>
<td>$300</td>
<td>$360</td>
<td>$60</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>K</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>L</td>
<td>$200</td>
<td>$250</td>
<td>$50</td>
<td>760%</td>
<td>885%</td>
</tr>
<tr>
<td>M</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>$250</td>
<td>$294</td>
<td>$44</td>
<td>535%</td>
<td>13753%</td>
</tr>
<tr>
<td>Average Firms in Winnipeg $250****</td>
<td>8 firms @ $250</td>
<td>$64</td>
<td>778%</td>
<td>1049655%</td>
<td></td>
</tr>
<tr>
<td>Other Manitoba Firms Outside Winnipeg</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>$250</td>
<td>$307</td>
<td>$57</td>
<td>694%</td>
<td>51556%</td>
</tr>
<tr>
<td>B</td>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>608%</td>
<td>253%</td>
</tr>
<tr>
<td>C</td>
<td>$165</td>
<td>$206</td>
<td>$41</td>
<td>760%</td>
<td>885%</td>
</tr>
<tr>
<td>D</td>
<td>no data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Other Manitoba Firms Outside Winnipeg $250****</td>
<td>2 firms @ $250</td>
<td>$54</td>
<td>651%</td>
<td>38533%</td>
<td></td>
</tr>
<tr>
<td>Web-based Firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>$250</td>
<td>$309</td>
<td>$59</td>
<td>718%</td>
<td>63084%</td>
</tr>
<tr>
<td>B</td>
<td>$250</td>
<td>$325</td>
<td>$75</td>
<td>913%</td>
<td>292165%</td>
</tr>
<tr>
<td>Average Web-based Firms****</td>
<td>2 firms @ $250</td>
<td>$67</td>
<td>815%</td>
<td>177624%</td>
<td></td>
</tr>
</tbody>
</table>

*These data are based on telephone interviews with staff at all payday lender firms identified through this research. The lump sum fee is from responses to the question, “what is the total amount of fees and principal that will be owed on the payment date?”

**APR = (all loan fees/loan size)(365/12)

***EAR = (1 + all loan fees/loan size)^(365/12) - 1

****Weighted by firm

b) Winnipeg Payday Lender Mystery Shopping

i) Introduction

Mystery shopping is about, “the measurement of service quality.” The measurement is achieved through in-person observation and gathering of information by an anonymous consumer. This mystery shopper makes enquiries and/or engages services to examine different aspects of the quality of the service. For this project, mystery shoppers will visit payday lenders. They will be

seeking out basic information about the accessibility & understandability of information about services (such as fees, terms and conditions), and about staff’s conduct toward the customer.

In this study, observers conducted mystery shopping at payday lending outlets throughout Winnipeg. The goal of this method was to obtain qualitative insights into how each outlet – its information, services and staff – affect neighbourhood resident consumers. In all cases, the mystery shoppers behaved and appeared to be regular local customers and did not identify their research purpose behind the information gathering visits and accessing of services.

From the pool of payday lending outlets in Winnipeg (Appendix 3), twelve outlets were chosen (representing eleven different firms) for the mystery shopping to include a range of geographic locations (Table 4). Seven of the outlets are in the inner city, and three are not, while two others sit right on the boundary. A range of types –big, multi, single– were also chosen. Some payday lenders are members of the Canadian Payday Loan Association (CPLA) which monitors and enforces its members’ adherence to a Code of Best Business Practices (Appendix 5). Four of the outlets chosen for the mystery shopping are CPLA outlets and eight are non-CPLA outlets.

Each of the twelve outlets chosen in the study was visited once by a mystery shopper to gather basic information about payday loan services offered. At the end of each of these enquiries, the mystery shopper declined the service and departed. Return visits were made to four of the outlets (Outlets #5 through #8), during which the mystery shopper took out a payday loan at each. These four outlets were visited a third time during which the mystery shopper attempted to get an extension to the loan on the day it was due. This was possible at only three outlets, so a final visit was made to each of these on the final loan due date to pay off the extended loans.

After all the visits are complete the research team will inform the businesses in writing of the visits and provide them with project contact information.

Table 4. Descriptive Indicators of Payday Lenders Visited During Mystery Shopping

<table>
<thead>
<tr>
<th>Payday Lender*</th>
<th>Inner City CPLA</th>
<th>Non inner city CPLA</th>
<th>Big</th>
<th>Multi</th>
<th>Single</th>
<th>Info visit only</th>
<th>Info plus loan taken</th>
<th>Rollover or (Partial) Repeat Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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<td>5.</td>
<td>☑</td>
<td>Not disclosed**</td>
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<td>7.</td>
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<tr>
<td>8.</td>
<td>☑</td>
<td>Not disclosed**</td>
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<td>☑</td>
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<td>☑</td>
<td>☑</td>
</tr>
</tbody>
</table>

29 For an example of this type of research see, Clark, Adam & Alexander Forter with Faith Reynolds. 2005. “Banking the Unbanked – A Snapshot,” London: Toybee Hall.

30 According to the side of the street they are on, one is technically in the inner city, the other is not.

31 For this study ‘big’ represented the three largest payday loan firms that account for the majority of payday loan activity in Canada; ‘multi’ represented firms that are not nearly as large as the “Big 3”, but they do have multiple locations in Manitoba; and, ‘single’ represented firms that, from what we can gather, have only one location in Manitoba.
### ii) Methodological Limitations

In this study, there were concerns about the potential risks for the mystery shopping researchers who were to undertake the loan-taking visit. The initial plan was for all three mystery shoppers to be involved in this step of the research study, however, upon discussion of concerns only one shopper chose to undertake the loan-taking and loan extension stages of the research. As a result, there is only one mystery shopper’s loan-taking experience to include in the study.

The sample size of only twelve in this study does not allow for any conclusive generalizations to be drawn about payday loan industry. When this sample size becomes even smaller at the point of loan-taking, the findings can only be reported about each visit as a stand-alone example of that particular experience.

So little was known at the outset about what is involved in taking out a payday loan, that it was difficult to know what questions to ask until well into the mystery shopping. Determining and reporting on the degree of comprehensiveness of information was difficult except in hindsight. A consumer may feel as though they have received complete information about the loan at a point in time, but would not know for certain until further on in the process when additional information may come to light and prove that indeed the full information was not available at first. This occurs in this study between the first and second mystery shopping visits. After the enquiry visit, mystery shopper B was confident that she had received fairly complete information about what was required in order to qualify for a payday loan at each company she visited. Upon taking the loan, and being asked for a lot of additional information, the mystery shopper was able to determine that in fact she had not received comprehensive information at the first visit.

It was difficult to report on any details regarding terms and conditions in the event of non-payment of loans. Pressing for better explanations and asking too many questions about fees and rates after non-payment could make the lender suspect that the borrower may not be planning to repay on time. In order to not draw suspicion, in each case, the mystery shopper had to stop asking probing questions before a full understanding was reached on this matter.

### iii) Mystery Shopping Methodology: Enquiry Visit

Three mystery shoppers each undertook four in-person enquiry visits to different payday lender outlets in Winnipeg. Prior to beginning the mystery shopping each prepared a “shopper profile” of themselves and their fictional financial situation which had led them to seek out a payday loan. This was necessary to establish credibility so that the research purpose of the visit would not be discovered, thereby ensuring that the information and attention the observers received at each outlet would be comparable to what a regular customer would experience (Appendix 6).

Prior to entering a payday lending outlet for a mystery shopping enquiry visit, the observers made sure that the outlet was not busy at the time. If there was already a line-up of customers, the observer would walk away and return later when the outlet was not busy. This was to ensure that...
any insufficiency in information provided by a teller could not be attributed to the teller feeling rushed because of waiting clients.

During these enquiry visits each mystery shopper gathered information about payday loan services by taking note of posted information upon entering the outlet, taking copies of written materials, and speaking with a teller. After collecting the information, the observer would politely decline the service, exit the outlet and go somewhere nearby to make detailed written notes about the experience. These notes included observations about accessibility and comprehensiveness of the information, as well as about how polite, respectful and forthcoming the teller was in providing information.

Each mystery shopping enquiry visit consisted of two steps. Step one involved a general initial enquiry about how payday loans work. Step two involved probing questions to determine specifics about taking a payday loan.

(1) Enquiry Visit Step One: General Questions

The goal in step one of the enquiry visit was to determine what and how much information would be provided in response to a potential customer’s general enquiry about that company’s payday loan services. To accomplish this, the mystery shopper would approach the teller, explain that s/he had never taken a payday loan before, was thinking of getting one, but didn’t know what was involved. They then asked only two questions:

(1) “What is a payday loan…how does it all work?”

The mystery shopper would then listen intently to the answer, nodding occasionally, but otherwise give no indication through words, expressions or body-language as to whether s/he understood or not. At this point, the mystery shopper refrained from asking any clarifying questions or taking any notes. If asked whether s/he understood, the shopper was to answer “I think so” and immediate ask the teller to continue. When the teller finished the explanation, the mystery shopper then asked the second question:

(2) “Is that all there is to it? Is there anything else I need to know?”

If the teller provided more information, the shopper would then repeat the second question until the teller indicated that s/he was done the explanation. The mystery shopper would then thank the teller, and make a move to leave, then hesitate and say something like: “Maybe I should write some of that down.” This would move the shop into the second step.

(2) Enquiry Visit Step Two: Probing Questions

The goal in step two of the enquiry visit was to gather as many details as possible about the payday loan services through the use of probing questions. After having undertaken step one, the mystery shopper then pulled out a paper and pen to take notes. The mystery shopper then asked the teller to repeat some of the information so that s/he could write it down. The researcher tried to document as much information as possible during the conversation without raising suspicions. The mystery shopper took this opportunity to ask as many probing questions as necessary to get a full understanding of what is involved in taking a payday loan with that lender. The mystery shopper asked questions that would reflect a very limited level of knowledge on the subject. In the course of the conversation between the mystery shopper and the teller, answers to the following questions were elicited:
(3) How much will a payday loan cost me? (if the teller asked for an amount, the observer would reply “Oh, only a hundred dollars”)
(4) Is there a minimum I can borrow? Is there a maximum?
(5) What is the interest rate? What would that work out to be per year?
(6) How much are the (other) fees?
(7) When would I have to repay this?
(8) Can I pay it back in a couple of months’ time?
(9) What if I can’t pay it back when it’s due?
(10) What if I can pay only half when it’s due?
(11) What if I take a payday loan, and then change my mind about it the next day?
(12) What do I need to qualify?
(13) What do you need me to bring in? (What kind of documents?)
(14) Do you call my employer?
(15) Do you check my credit history?
(16) Does this show up on my credit record/rating?

When the mystery shopper felt that s/he had collected the information necessary, or when the teller seemed unwilling or uncomfortable with continuing, the mystery shopper asked one final question:

(17) Do you have any pamphlets or brochures about payday loans, or do you have a website with the information on it?

The mystery shopper gathered all relevant written materials at this point, then ended the visit by thanking the teller and indicating that s/he would be ‘shopping around’ some more, or going home to make a decision about taking a payday loan.

(3) Recording Information Gathered
In addition to the notes taken during the visit, immediately following the visit, the mystery shoppers wrote detailed notes about their experiences and observations. Specifically, they recorded the following:

- A brief description of the posted information related to payday loans, and its degree of comprehensiveness and understandability;
- A detailed and accurate account of the conversation in the order that it transpired;
- Any mannerisms/behaviours that gave an indication as to the teller’s openness, degree of politeness, impatience, unwillingness to reveal info, lack of knowledge, etc.;
- The visibility and availability of printed information such as brochures or leaflets;
- Details of how forthcoming the teller was with information;
- An assessment of how easy it was to understand the general information about the payday loan process (the steps involved) from the perspective of a first-time payday loan borrower;
- An assessment of how easy it was to understand the fees and the fee calculations as explained;
- An assessment of the level of knowledge of the teller;
- Any questions that the teller could not answer or did not answer to the mystery shopper’s satisfaction.

Because the payday lenders could not be informed prior to the mystery shopping without influencing the findings of the mystery shopping, informed consent could not be obtained beforehand. Instead, the businesses that were visited by mystery shoppers will be informed in writing, after the visit. In this letter they will be informed that they can be provided with a copy of the research report. This method is not excessively risky for the research subjects (the payday loan businesses) because the information collected is available to the public. Of course the usual ethical safeguards regarding anonymity of the research subject apply.

iv) Enquiry Visit: Findings

The purpose of the mystery shopping enquiry visits was to determine whether or not payday loan outlet customers are receiving sufficient information about the costs and procedures of taking a payday loan in a way that is understandable enough to enable them to make well-informed decisions about whether or not to take payday loans. To make this determination, the manner in which information is made available to the customer was observed and the actual information provided was collected.

The Mystery Shopping enquiry visits essentially yielded two sources of information: (1) visual information in the form of posters, brochures, or video; and (2) information provided verbally by tellers. The comprehensiveness and understandability of the content provided through these two sources of information is described and analyzed below. The accessibility of the information will be discussed in terms of the availability of written information and how forthcoming and knowledgeable the teller was in responding to general and specific questions. The information provided by the teller in response to a general enquiry for all necessary information in step one will be compared to the information provided by the teller in response to probing questions in step two.

The conduct of the staff of the payday lenders in dealing with customers and the general atmosphere and appearance of the outlet were also examined. Observations were made as to whether the behaviour and attitude of employees towards customers were respectful and polite and whether the outlet was welcoming or not.

(1) Description of Payday Loan Outlets

The majority of the payday loan outlets visited in the mystery shopping were bright and welcoming in appearance from the exterior, with professional-looking signage. The interiors of the outlets usually consisted of a one-room open waiting area with places for customers to sit. There were either plexi-glass windows for two to four tellers behind which was a closed office...
space, or else the outlets were open-concept with a counter in front to serve customers in the waiting area and desks behind the counter. Overall, these outlets were clean, well-maintained, and brightly lit with walls of big windows. Although the outlets with plexi-glass felt a bit more impersonal, the atmosphere in the outlets was professional, safe and welcoming.

There were exceptions to this, however. One small outlet in the inner city (#6) was a bit tattered and old looking, but still clean and bright, and certainly not intimidating. Another outlet (#1) was relatively inaccessible, with no signage at street level, and no directions inside for customers to the office on an upper floor. As the mystery shopper discovered, this was because that company dealt primarily with on-line enquiries for payday loans and did not often get walk-in business. Another notable exception was an outlet located inside a retail store (#12). There was a sign outside the store clearly indicating that payday loans were available, but once in the store, the mystery shopper had to find her way down crowded aisles of merchandise to an office in the back. This seemed to her to be confusing and could make some customers feel uncomfortable.

(2) Information Displayed

In most of the payday loan outlets visited, the information displayed for walk-in customers was either non-existent or very limited in scope. Five of the twelve outlets had no information about payday loans displayed at all. In the other seven outlets posters, pamphlets and/or videos advertised payday loan services, but did not provide enough details about fees, rates, information required, etc. for a first-time customer to make a fully informed decision about taking a payday loan. The displayed information generally only highlighted the convenience, ease and immediacy of accessing funds when unforeseen expenses arise.

Four of the businesses had written materials detailing what is required to qualify for a loan. Two businesses provided pamphlets about how the payday loan process works, yet this information only partially disclosed the costs of taking a loan. Some of the written material referred the reader to websites for more information; however, this information is not immediately accessible to walk-in customers.

Three businesses, two CPLA and one non-CPLA, had detailed information about a Code of Best Business Practices (the non-CPLA business’ poster was from the Canadian Association of Community Financial Service Providers; the other two had the CPLA’s code of best business practices). These codes were displayed as posters and/or were available as pamphlets. The information explains what a payday loan is, what its intended purpose is, and what types of business practices a customer should expect at these businesses. The pamphlets also provide credit counseling information for consumers. A couple of outlets had pamphlets that provided information specifically on financial counseling services.

One of these outlets also had a CPLA pamphlet entitled “Using Payday Loans: A Guide to Responsible Borrowing”. This pamphlet provides information about payday loans for the purpose of educating the consumer to “learn more about whether using a payday loan is the right choice for you”. Notably, it suggests that the customer read and understand the loan agreement in full, including the costs and terms of the loan, when it’s due and how to repay it.

v) Step One: General Enquiry

(1) Attitude of Tellers
In step one of the mystery shopping enquiry visits, the employees of the payday loan establishments were generally very polite, patient, respectful and personable. They were courteous, professional in appearance and demeanor, and some could even be described as “upbeat.”

There was one exception at this step of the visit, though. At one outlet (#11), the teller did not even greet the mystery shopper even though she was the only customer in the store - he simply looked at her and raised an eyebrow. When she asked him to explain payday loans, his reply was insufficient and curt: “They are cheaper than personal loans.” When she asked if that was all he could tell her, he said “yes.” That was the only teller that the mystery shoppers identified as being impolite.

(2) Type of Information provided by Tellers

The two questions asked by the mystery shoppers during step one were: (1) what is a payday loan? And, (2) is there anything else I need to know? The responses to these questions are summarized in Table 5. Only four of the outlet tellers provided any kind of definition for the term ‘payday loan’ or an explanation of the process/steps involved. At this point, only five tellers made mention of any costs or fees involved in taking a loan. Two of these tellers (#5 and #6) also used specific examples of amounts borrowed and the amount of fees that would be calculated, which aided in the mystery shopper’s understanding. In five of the outlets, tellers explained that the maximum amount they could borrow is calculated as a percentage of their net pay cheque, but only two mentioned a minimum loan amount.

The information offered most often (9 out of 12) at this step was the list of requirements to qualify for a payday loan. The repayment deadline –a key piece of information– was volunteered by only four of the twelve tellers. Two let the mystery shopper know when s/he would receive the funds and only one offered information about what form that disbursement would be in (whether in cash, cheque, direct deposit or debit card).

At this step in the enquiry visit, the information offered by tellers was generally very brief and simple and, therefore, seemed straightforward and easy to understand. Step one of each enquiry visit ended when the teller indicated that there was no further information that the Mystery Shopper needed to know about taking a payday loan.

However, any customer who would be satisfied at that point that they had all the information they needed to know to make a sound decision would have discovered later in the process that they were not fully informed of important details. For example, seven of the twelve tellers would have allowed the customer to leave the outlet without knowing anything about the loan fees and charges. Eight customers would have left not knowing that there is a minimum and maximum amount they could borrow. As becomes evident as this discussion of the mystery shopping progresses, even the information provided about requirements to qualify for a loan was often incomplete.

One teller (#6) stood out from the rest in the comprehensiveness of the information provided at step one. The teller took the time, even at this initial stage of enquiry, to go through step-by-step the list of documents required to qualify for a loan and even the reasons why each is required. This teller also mentioned that the customer’s employer would be called to verify employment. Associated charges were explained and examples of loan amounts and costs were given, which helped make it easier to understand. The teller mentioned minimum and maximum amounts that could be borrowed, when the loan would be due and how the loan could be paid back. Although
a great deal of information was provided, many of the details were given so quickly, and some of the explanations were so complex that a first-time customer likely would not have fully understood. The shopper experienced a true case of “information overload.”

Table 5. Type of Information Provided by Payday Lender Teller at Step One of Mystery Shopping

<table>
<thead>
<tr>
<th>Outlet Number</th>
<th>Information Provided</th>
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<tr>
<td></td>
<td>Required to qualify</td>
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<td>When loan $ available</td>
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<td>Max loan</td>
<td></td>
<td>Min loan</td>
<td></td>
<td>Form of disbursement</td>
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<td></td>
<td>Charges (fees, interest rates, etc)</td>
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<td>When due</td>
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<td>Explained process/ definition</td>
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</table>
| vi) Step Two: Probing Questions

Following the two general questions asked in step one of the enquiry visits, the mystery shoppers asked a number of specific probing questions intended to elicit details of what is involved in taking a payday loan. The tellers generally remained fairly professional, polite, and respectful throughout the interaction. Overall, they seemed to be fairly knowledgeable or would call upon another staff person for answers if needed. Several directed the mystery shopper to another source of information such as the company website, or provided a phone number for their company or their own outlet so the customers could call if they had more questions. This type of helpfulness did not occur in all cases, however.

In the one instance mentioned above in which the teller (#11) was very curt with the mystery shopper, that teller continued to be difficult throughout the second step of the enquiry visit as well. He provided only very basic information in response to the first couple of questions, and the mystery shopper found that he was not at all forthcoming with the information and had to be practically forced to give answers. He stopped answering questions altogether part way through, asked why the shopper didn’t just borrow money from a friend or get an overdraft from the bank, and then proceeded to give directions to another payday loan company that he said would be more suitable.

By the end of both steps of the enquiry mystery shops, in one-half of the cases, the mystery shoppers reported feeling comfortable with the overall interaction and felt they had received
adequate information in response to their questions. Among these, there were a few exceptional cases in which the mystery shoppers felt they had been given clear and comprehensive explanations about all aspects of the payday loan process, costs and terms. They left feeling fully informed. In the other one-half of the interactions, the mystery shoppers left feeling either that they were not given an adequate explanation of the entire payday loan process or that they were given incomplete information or unclear details about fees, rules, payment options, etc that were not easily understandable.

In one case (#4), the mystery shopper was not allowed to complete the second step of questions. As he was speaking with the teller, another staff member interrupted, politely told him that was all the information they could give him at that time (even though there were no other customers in the outlet), and told him that he could call back or come in to take a loan. This company has no website, brochures or posters as a source of additional information for the customer.

When asked specific probing questions, usually the tellers were forthcoming with an answer, but rarely would they volunteer any additional details that would aid in clarification or understanding. They politely provided bare-bones answers, but not anything beyond that. Less frequently it happened that, no matter how many different times and ways a question was asked, no clear answer was given to the mystery shopper at all.

Through the additional information gathered in this second step of the enquiry visit, it becomes even more evident that in many cases tellers had failed to offer information in step one that would be crucial for making informed decisions about taking out a payday loan. Even when specific pointed questions were posed, information was not always provided that would be important to know before taking a payday loan.

Take for instance the case of payday loan fees. When asked specifically about charges associated with the payday loan, nine of the twelve tellers provided answers that were either unclear or not complete enough for the mystery shoppers to feel they fully understood. At one outlet (#1) even though the mystery shopper was helped by two tellers, and despite his many attempts to find out how much it would cost him to take a loan, the mystery shopper was not provided any information about fees, interest rates, or pricing. The only response the tellers gave was that they didn’t know how much a loan would cost because they entered information into the computer and it did the calculations.

When asked about the interest rate and what it would work out to be on an annual basis, five of the twelve tellers gave a short-term interest rate (cents per day per hundred dollars or cents per week per hundred dollars), but only one teller (#8) was able to verbally provide an annual interest rate. One, however, said that their pamphlet had that information on it, as it did (#5). These annual rates, however, did not take into account all of the charges associated with taking a loan.

Two questions that one would expect a simple “yes” or “no” answer to were “Do you call my employer?” and “Do you check my credit history?” For each of these questions, nine tellers provided clear concise answers. In three cases, however, the teller either did not know or did not provide an answer. At one of these outlets (#12), the response given by the teller was that it was his business whether he checked those things or not, and he would do whatever he wanted to verify the loan. Note that despite this response, the mystery shopper did not feel that she was treated in a disrespectful or impolite manner, in fact she found him to be quite nice, just not forthcoming with information.
In five cases, the tellers were not clear or else provided incomplete answers regarding the minimum and maximum amount that could be borrowed. There were a half a dozen other instances in which the answers provided to pointed questions were not complete or clear. This occurred with the questions about when repayment was due, what would happen if the loan couldn’t be paid back on time, and whether only a part of it could be paid when due. This ambiguity seemed to occur at outlets where the teller suggested that there could be some flexibility with details around repayment if a customer was unable to pay on time or if there were special circumstances.

The only two questions asked by the mystery shoppers that received unambiguous and detailed answers in all twelve cases were “What do I need to qualify?” and “What do you need me to bring in?” (“What kind of documents?”). It is noteworthy that in these cases, it is important to the lender that this information be clearly understood by the customer so that the loan transaction can take place with efficiency.

It would seem, then, that a customer who does not ask pointed questions about specifics of taking a payday loan would not, in the majority of cases, have an adequate understanding of the process and fees to make a well-informed decision. As the second step of the mystery shopping enquiry visits seems to indicate, even when customers ask specific pointed questions they are not necessarily receiving the information they need to know. This suggests that many customers may be basing their decisions to take payday loans on incomplete or unclear information.

We do not know if this lack of information provision by tellers is a deliberate strategy on the part of certain payday loan companies to gain customers. Regardless of the reason behind it, the fact remains that people may be taking pay-day loans without having a full understanding of the process, the costs and the potential implications for their own financial well-being.

vii) Mystery Shopping Methodology: Loan-Taking

Four of the twelve payday loan outlets were visited a second time as part of the mystery shopping component of this research. Each of these return visits entailed the taking of a $100.00 loan by the mystery shopper. The outlets chosen for the second visit (#5, #6, #7 and #8) continued to include a range of types and locations. One mystery shopper (B) undertook all four of these loan-taking visits. The goal of these return visits was to discover what is actually entailed in taking a payday loan. This could then be compared with the enquiry visit to determine whether any additional information or aspects of the process such as terms or conditions were revealed at this stage that were not mentioned during the first visit.

The methodology for these four return visits was simple. The mystery shopper would enter the outlet and explain that she had decided to take a payday loan. The mystery shopper then provided the documents and information requested by the teller, signed the appropriate forms and followed the process of that lender in order to secure a loan. The mystery shopper requested copies of all forms and agreements signed. Upon completing the transaction, the mystery shopper would go somewhere nearby to make detailed written notes about the experience.

(1) Loan-Taking Visits: Findings

A significant finding of the loan-taking visits was that once the mystery shopper became committed to and engaged in the actual process of taking a loan, in each of the four cases the
lender requested a lot more information than the shopper had been told beforehand was required (Table 6).

Table 6. Information and Documents Required by Lender, Information Shared to Consumer Prior to Taking Loan Vs. Actual Requirements

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<tr>
<th></th>
<th>#5 prior *</th>
<th>#5 actual*</th>
<th>#6 prior</th>
<th>#6 actual</th>
<th>#7 prior</th>
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<td>√ calls done right then</td>
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</tr>
</tbody>
</table>

*“Prior” refers to the information the mystery shopper was told (during the enquiry visit) was required to take a loan. “Actual” is the information that the payday loan company actually required for the customer to take a loan.

The requirement by the lender of this additional information, much of which is personal, raised specific points of concern for the mystery shopper:

- All four of the lenders require the names and phone numbers of personal references, but only one lender disclosed this requirement prior to the loan-taking process. Not knowing of this requirement in advance means that the customer is not allowed the opportunity to
contact their references to ensure that sharing their name and phone number for such purposes is alright with them.

- Three of the four lenders require the customer’s social insurance number in order to process the loan. None of these lenders disclosed this beforehand. When the mystery shopper asked why they needed the number and whether it was absolutely necessary, each lender insisted that it was necessary and gave a vague answer about needing it as part of the customer’s employment information.\(^3\)

- Three of the four payday lenders also require the customer’s immediate supervisor’s name and phone number in order to verify employment and/or as an alternative way to contact the customer in the case of default. A customer may not wish their supervisor to be contacted, but if they want to get the loan, they have to provide this information. And again, they do not have the opportunity to get consent for this in advance.

- All four of the lenders took a digital photo or copy of photo-identification for their records. None of them had disclosed beforehand that this was required.

- One payday lender (#8) required an extraordinary amount of information above and beyond what they identified as necessary beforehand. In addition to those details mentioned above, this included the date of birth, spouse’s name, name and number of previous employer, credit card number, detailed information about vehicle owned, plus whether the customer’s residence is owned or rented, and monthly rent/mortgage (If rented, they also wanted the landlord’s name and number).

Perhaps a request for only one piece of this additional information would not be concerning for a customer, but because so much information—much of it personal—is required, it can contribute to a strong feeling of discomfort for the customer. Why does that company need so much information? What could they potentially do with all that information? How will they use it? Who will they share it with? Can it be stolen?

Questions such as these about confidentiality and privacy posed by the mystery shopper were not answered to any degree of satisfaction at any of the four payday lenders during the loan-taking visits. Verbal assurances were given that information would not be shared except when necessary, that verification and reference-check phone calls would not reveal the purpose of the calls, and that identity theft was extremely rare. On two of the four loan agreements requiring the customer’s signature, there are general statements about what the personal information will be used for, and that it will be shared with certain third parties only, and that the customer’s signature indicates permission to share the information. These statements, however, are vague.

\(^{3}\) This practice seems to contravene practices encouraged by the Government of Canada. According to Service Canada, “You must provide your SIN to benefit from some government programs, but legally, your employer is the only person to whom you must show your card” and anyone who has your SIN number could potentially use it to “gain access to a wide range of services and information in your name. …Sensitive personal information may be revealed to unauthorized people, which can lead to identity theft and other types of fraud,” See: http://www.servicecanada.gc.ca/en/about/reports/sin/cop/section2.shtml.
and broad and from the personal viewpoint of the mystery shopper, do not offer adequate assurance that the lender will protect the personal information supplied (Appendix 7).

In one case (#7), there are no assurances included on the loan agreement, but a pamphlet about the company’s privacy policy is provided that specifies who sees the information and under what circumstances. It also details the company’s safeguards for protecting personal information, and provides the company’s privacy officer’s contact information and the website for the Privacy Commissioner of Canada. This provides more concrete assurance and information than do any of the documents at the other three payday lenders.

During both visits to one of the payday loan outlet that has an open-office concept (#8), directly behind the customer service counter there were about half a dozen boxes of files with clearly visible and legible first and last names of what the mystery shopper presumed were customers. This calls into question any privacy assurances provided by that company.

In addition to the extra personal information requested by the lender in the course of taking a payday loan, lenders required customers to sign a number of forms. These are listed below:

Payday Lender #5:
- Acknowledgement of all costs of borrowing
- Payday Loan Agreement
- Terms and Conditions

Payday Lender #6:
- Loan Agreement
- Wage Assignment
- Broker Fee Agreement
- Pre-Authorization Agreement
- Consent to verify Employment

Payday Lender #7:
- Loan Agreement
- Customer Account Pre-Authorized Debit Authorization

Payday Lender #8:
- Loan Agreement
- Debit Card Agreement
- Debit Card PIN # waiver
- Consent to verify Employment
- Acknowledgement of all Costs of Borrowing
- Promissory Note
Some of these forms use a lot of legal jargon that most people would not find easy to understand. The very purpose of the forms was not always clearly explained by the tellers. When possible, the mystery shopper took time to read the forms prior to signing them. However, some forms consisted of two entire pages of small print, the reading of which was not possible, especially when there was a lineup of people forming. For example, the “Payday Loan Protection Plan,” provided by one firm, is an approximately 500 words in fine-print and was just one of 10 forms requiring signatures at lender #8. When asked about the content of the form, all that the teller explained was that it was for insurance on the loan. Upon closer examination afterwards, it was discovered that the insurance is optional and that there is an additional fee involved (which is listed on the receipt only as a “PPP fee”). Even upon reading this form a few times with close scrutiny, the actual purpose of the plan, how it works, what the benefits are and when it would apply are not clear.

At this stage, the information provided about the amount to be repaid and the repayment date was made explicit, as it was clearly stated on each of the loan agreements and the tellers explained these two pieces of information as well. But how the fees were actually calculated, and what each itemized charge was for remained vague. Even the explanations by the tellers, however helpful they tried to be, did not always make sense. Reading the agreements afterwards did not necessarily make this any clearer, either.

With payday lender #5, other than the additional information required to qualify for the loan, there seemed to be no surprises about the terms of repayment and the charges attached. The fees and interest rates were clearly explained and were consistent with what was revealed at the enquiry visit. Even the calculations seemed to add up as expected. The mystery shopper left the lender feeling fully confident that she fully understood exactly how fees and interest were calculated. However, upon closer scrutiny, and actual calculation, the amounts did not add up correctly. There was an additional $3.17 charged. It wasn’t until after a great deal of “playing with the numbers” that the formula was figured out. It did, in fact, correspond to what the written information states, but is calculated in a way that is very convoluted and could not easily be figured out by most people.

At payday lender #6, the mystery shopper found that the terms, conditions, fees and calculations were consistent with what she had been told during the enquiry visit. It had been explained well, and the amount to be repaid was the same as what the mystery shopper had been told previously (it was actually slightly less, as interest was charged on two fewer days than the actual period of the loan).

Payday lender #7 had previously stated an amount per $100 borrowed as the charge for borrowing, and that was indeed the amount that was calculated to be repaid on the next payday. The teller reiterated that there is no interest charge, yet also mentioned that if you pay it back before payday then the borrowing fee is reduced accordingly so that the sooner it is paid back, the less one has to pay.

From what the mystery shopper was told in first visit to payday lender #8, she calculated a repayment amount that turned out to be $12.66 less than what the contract listed as the repayment amount. The difference, it seemed was that one of the fees was added to the principal before the
interest and other fees (calculated as a percentage of the amount owing) were calculated. There was another fee that had not even been mentioned at any time prior to taking the loan. When this was taken into consideration in the calculations, it still added up to be $7.60 less than the repayment amount the lender had calculated. So then the shopper looked at the broker fee, and this revealed that the broker fee charged was actually 7% higher than the one provided to the mystery shopper at the time of enquiry. The amount of interest actually charged turned out to be one third more than the interest calculated on the principal using the interest rate stated during the enquiry visit. Even when the interest rate was calculated on the principal plus all the other fees it did not correspond. Fee calculations at this payday lender, despite the mystery shopper’s best efforts at trying to figure them out, still remain a mystery.

In the case of three of the lenders, the actual repayment date remained a bit unclear. The teller at each of these lenders explained that although there was a date given on which repayment was due, there could be flexibility in arrangements around repayment time, depending on the particular circumstances of each customer. These ‘grace periods’ seemed to be discretionary and not a firm company policy that would appear anywhere in writing.

Each of the contracts had a disclosure section (not always called that) in which the costs and annual rates of interest are ‘disclosed.’ It was here that two of the lenders (#7 and #8) disclosed an annual interest rate, but #5 only disclosed an ‘annual effective rate of interest,’ and #6 disclosed a ‘per annum interest rate’ (neither of which are annual percentage rate, APR). Upon closer reading (after the fact) of the disclosure forms, I discovered that in three of the four cases I had signed the form indicating that the full costs of borrowing had been explained to me and that I understood them. In fact, I felt that I understood how much I was obliged to pay back, but still did not fully understand the terms or the costs that would arise should there be a failure to pay back the loan on the specified date.

In all four cases, it remained unclear exactly what steps would be taken by the lender if the repayment day came and went without repayment, or if the cheque that had been left with the lender bounced. The charges associated with these scenarios were also not very clearly explained, even at this stage of the process. For example, when asked about a fee for default, none of the tellers could provide a clear answer as to exactly when default would be declared or what steps would be taken to secure repayment before and after default was declared. Although the tellers could tell the mystery shopper how much the default fee was and some tellers even mentioned that the interest rate they charged after non-payment was different than beforehand, they were unable to explain how the interest rate after non-repayment was calculated, or when it would begin.

For example, one firm’s ‘Optional Payment Plan’ form that the customer is required to sign for one lender reads as follows: “In the unlikely event that I am unable to meet my obligation for repayment of my loan with (name of lender), I , (name of customer), do hereby authorize (name of lender) to contact my employer to arrange for an Optional Payment Plan, for the outstanding amount of the loan and any administration costs incurred by my employer.” This statement left the mystery shopper with the following nagging questions:

- At what point is it decided, and who decides, that I am unable to meet my obligation for repayment of my loan? On the day after repayment is due? Two weeks later? A month later? Do I decide? Is it a joint decision?

- When and how would this Optional Payment Plan be arranged?

- What exactly is an Optional Payment Plan?
- What are the administration costs of the plan?

Three of the lenders provided copies of all forms that were signed by the mystery shopper, but the fourth (#6) only provided a copy of the loan agreement, with the explanation that the other forms were “copyrighted” and could not be shared “due to intellectual property rights.”

Once committed to and having begun the actual loan-taking process, although uncomfortable with the amount of personal information the lender required at this point and the number of forms to be signed, the mystery shopper did not stop the process. This begs the question: if customers were fully informed beforehand of all the information required by the lender and the many authorizations signed, and had the time to consider any possible risks of sharing that much information, would some customers decide against taking the loan altogether? Once committed to it and in the middle of the process, however, it seems less likely that most people would stop to consider potential implications or stop the transaction altogether.

viii) Mystery Shopping Methodology: Loan Extension visit

After having taken the loans, the mystery shopper returned for a third visit to each of the four payday loan outlets on the next payday. The intent of these visits was to determine whether each lender would charge a fee to extend the loan or would advance a new loan to repay the existing loan. This practice is referred to as a “rollover” or re-loan. During this third visit, in each case the tellers were as polite, helpful, patient and respectful as during the other visits.

In this visit the mystery shopper explained that she had taken a payday loan, and that she was supposed to repay it that day, but wasn’t able to. The mystery shopper then asked questions to try for various types of extensions. In the following order she asked:

- Whether she could extend the loan,
- Whether she could pay just the interest and fees,
- Whether she could pay half of the amount owing,
- Whether she could pay it back completely and then immediately re-borrow it again.

She asked the questions in the order listed and at the point when the teller said yes, the mystery shopper did not continue with the questions, but took advantage of the opportunity to extend the loan at that point.

During the initial enquiry visits of the mystery shopping, probing questions were asked to determine whether the company allowed rollovers. The following describes and compares what was learned at each of the four payday lenders during the enquiry visits and the actual experience in trying to get an extension.

(1) Rollover/Repeat Loan Experience with Payday Lender #5

During the initial enquiry visit, the following information was provided by the lender in response to questions about possibly extending the loan:
The entire amount due must be paid on or before the due date. No exceptions. No extensions. No partial payments accepted. A customer may pay off the loan in full in cash and then immediately re-borrow, but payday loans are only offered until the next payday.

When the mystery shopper returned to the outlet on the next payday and explained that she could not pay the loan back, the teller informed the shopper that the cheque she had left with them had been sent to the bank to be cleared first thing that morning. The mystery shopper then explained that there was not enough money in her bank account, so the cheque would bounce. She asked whether she could take another loan so she could deposit the money in the account and the cheque wouldn’t bounce. The teller replied that the shopper could not take another loan until the cheque had cleared, or if the cheque bounced, then the loan would have to be repaid first. The teller added that once the cheque is returned to the outlet, they would call and set up payment arrangements.

(2) Rollover/Repeat Loan Experience with Payday Lender #6

During the initial enquiry visit, the following information was provided by the lender in response to questions about possibly extending the loan:

- Technically, the borrower is supposed to pay off the loan in full on or before the next payday. But, if you (the borrower) are unable to do so, then you can “just pay the interest and the fee, and then it’s the same as if you’d paid it off and re-borrowed the same amount. You just have to sign a new contract.” The teller explained that this could go on indefinitely, but that the company encourages people to pay an amount toward their principal each time so they will eventually pay it off.

When the mystery shopper returned to the outlet on payday and explained that she could not pay the loan back, the teller found the shopper’s file, took a quick look at the contents, then said “okay, no problem.” The teller explained that the shopper could pay the fee and interest only, and then they would write up a new contract “so it’s the same as if you repaid and then re-borrowed.” The mystery shopper agreed to do that, paid, and then signed a new broker form, pre-authorization agreement, and contract for the same total amount.

The teller did not ask to see a bank statement or recent pay stub again. She did not return the two blank cheques that were provided on the loan-taking visit (these were signed and made out to the lender but were otherwise blank). The teller offered to explain terms, conditions and costs again, but the mystery shopper declined. The teller provided a receipt for the full amount of the first contract, and stated that if the shopper needed to do the same thing again next time, that was fine, that there is no need to feel bad. In fact, the process could be repeated indefinitely, but that attempts should be made to pay it down, even if it’s as little as $10 each time towards the principal.

The teller also commented that she had to explain all the forms and give all the information again each time someone took a loan, and that the mystery shopper was the only one in the last two weeks who had asked questions or paid attention: “they [the consumer] always glaze over, but I have to tell everyone all the details anyways. You can tell they’re thinking ‘Just give me the money, I don’t care.’”

(3) Rollover/Repeat Loan Experience with Payday Lender #7
During the initial enquiry visits, the following information was provided by the lender in response to questions about possibly extending the loan:

- The teller explained that the customer has to pay the loan off in full on the next payday or, in this case, because it is due on the Friday of the long weekend, paying it anytime before the following Tuesday was fine. Partial payments are not accepted, the loan must be paid in its entirety, including all fees, when it is due.

When the mystery shopper returned to the outlet on payday and explained that she could not pay the loan back, the teller reminded the mystery shopper that she had until the end of business on Monday to pay it back. The mystery shopper replied that she would not have enough money until the following payday, and asked if she could pay only the interest and fees at this time. The teller said “no”, and the mystery shopper asked if she could pay half of the amount owing. The teller replied “No, it must be paid in full”.

The shopper then stopped and thought for a second and said, “Well, I have enough cash with me now, but I will need it tonight. Could I pay the loan off and then take out another loan right away?” To this the teller replied that yes, that would be fine, but she would have to see the most recent pay stub. So the mystery shopper showed the pay stub, paid the full amount owing in cash, then signed a new contract for the same amount owing. The teller provided a copy of the new contract, a receipt for the full amount, and returned the original cheque in exchange for a new one which was made out to the lender for the full amount and post-dated for the next payday. The cash was given back to the mystery shopper.

(4) Rollover/Repeat Loan Experience with Payday Lender #8

During the initial enquiry visits, the following information was provided by the lender in response to questions about possibly extending the loan:

- If the borrower pays back the full amount in cash on the due date, the borrower can take another loan right away. In response to the question, “What if I paid only the interest and fee, or only half the loan?” the teller’s reply was “No, we can’t do that. That’s called a rollover and we used to do those, but had to stop because people would get caught up in a cycle and never actually pay off the loan.”

The mystery shopper returned to the outlet on payday and spoke with a different teller, explaining that she could not pay the loan back. The teller said they could give some extra days to pay it back. The shopper explained that she wouldn’t have enough money to pay it off until the following payday, and asked if they would accept payment of just the fees and interest. The teller hesitated and shook his head.

The mystery shopper then asked if they would accept partial payment. The teller asked “Could you pay half?” The shopper answered “yes”, and the teller made out a receipt for half of the total owed. The mystery shopper paid this in cash, and then the teller asked how much the shopper wanted to borrow. The mystery shopper signed a new receipt for a total owing due on the next payday. The teller had stated the final amount due and the date it was due, but did not offer any explanations as to how that total was calculated, or what fees it included. The mystery shopper left the store not understanding anything about the fees and calculations.  

33 As a postscript to this loan, when the mystery shopper conducted the final visit in which she repaid the full amount owing on the loans, she took the opportunity to question lender #8 about how they calculated the fees on the “re-loan” undertaken during the extension visit. She learned two important things about the fee calculation at this institution: (1) another fee (of $3.25) had been added to the “re-loan” that had not been included in the initial loan-taking which seemed to be a duplication of an existing fee. This fee was not itemized in the receipt, or mentioned to the shopper, but was added into the amount of principal; (2) it turned out that the broker’s fee that was mentioned in
was not asked to sign a disclosure statement or any of the other forms signed during the loan-taking visit, other than the receipt.

ix) Loan Extension Visits: Findings

In only one of the four loan extension visits (#6) was the mystery shopper successful in requesting and receiving an extension that required no repayment of principal owed. The only payment made at that outlet during the extension visit was for the charges of taking the loan. This was consistent with what the teller had explained in the initial enquiry visit.

At another outlet (#8) the mystery shopper was successful in being allowed to repay only half of the amount owing, and then take another loan to cover the unpaid half of the loan plus an additional ‘top-up’ amount. This was not consistent with the information that had been provided during the enquiry visit during which the teller had explicitly stated that the only payment they would accept was full payment.

As had been stated in the initial enquiry visit, at outlet #7 the mystery shopper did indeed have to pay back the entire amount owed at that time. The shopper was then immediately allowed to take out another loan for the same amount. Also as stated in the initial enquiry visit, outlet #5 would not allow the payment of charges only or half-payment. This outlet would also not re-lend immediately because payment for the first loan had not yet been processed.

Three of the four loans could be extended or repeated and in two of these cases the charges of extending the loan, in whichever manner, were the same as the charges associated with taking the loan initially. With the third outlet, it is not possible to determine whether the charges were the same as with the initial loan because the calculations of the initial loan charges and those of the extension are not fully understood. The best that can be said is that they seem to have been calculated in roughly the same way.

In the four mystery shopping loans, three were for $100 and one was for $120, averaging $105 (Table 7). The total fees ranged from $20 to $48 with an average of $29. This led to an APR ranging from 604 to 1,469 percent, averaging at 845%. The average EAR for these loans was 4,039,046 percent. In three of the four outlets the mystery shopper was able to get some type of rollover or repeat loan. In two locations, the loan size, total fees and loan period were the same as the original loan so that the APR and EAR will remain the same. For the partial repeat loan (#8) the calculations were very difficult for the research team to interpret and the calculation is not reported here.

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the enquiry visit was the same as what was actually charged, but seems to be more than quoted because it is calculated as a percentage of the amount to be repaid, not as a percentage of the fees and principal added together; and (3) the teller did not know how to calculate the interest, and therefore could not explain how the amount of interest charged.
Table 7. Payday Loan Fees for Mystery Shopper’s Loans by Firm in Manitoba, September 2007

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<th>Firm</th>
<th>Loan Size</th>
<th>Total Repayment</th>
<th>Lump Sum Fee</th>
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<th>Effective Annual Rate, EAR**</th>
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<td>5</td>
<td>$120</td>
<td>$144</td>
<td>$24</td>
<td>604%</td>
<td>24607%</td>
<td>Not applicable</td>
</tr>
<tr>
<td>6</td>
<td>$100</td>
<td>$123</td>
<td>$23</td>
<td>698%</td>
<td>53642%</td>
<td>698%</td>
</tr>
<tr>
<td>7</td>
<td>$100</td>
<td>$120</td>
<td>$20</td>
<td>608%</td>
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<td>608%</td>
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<tr>
<td>8</td>
<td>$100</td>
<td>$148</td>
<td>$48</td>
<td>1469%</td>
<td>16052425%</td>
<td>Unknown</td>
</tr>
<tr>
<td>Average</td>
<td>$105</td>
<td>$134</td>
<td>$29</td>
<td>845%</td>
<td>4039046%</td>
<td>653%</td>
</tr>
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</table>

x) Summary

Mystery shopping conducted at twelve payday loan outlets in Winnipeg provided insights into the customer experience of enquiring about, taking and then extending payday loans. Generally payday loan outlets are clean, bright and welcoming in appearance. With only one exception, the staff at the outlets were polite, respectful and personable at all stages of the mystery shopping experience. Only seven of the outlets visited had information about their companies’ payday loan services available (brochures, posters or videos). In all of these cases it was for the purposes of advertisement and, therefore, was of a general nature lacking specifics. In three outlets information was made available to educate the consumer about payday loans in general.

During the initial step of the enquiry visits by the three mystery shoppers in which they simply asked about what was involved in taking a payday loan, in the majority of cases very little information was revealed by the tellers. Many tellers neglected to mention anything about the steps involved in taking a loan, the cost to the borrower, or other terms and conditions that would be necessary in order for a customer to be able to make an informed decision.

Even during the second step of the enquiry visits, during which the mystery shoppers asked probing questions to elicit specific details about payday loans, the answers provided by the tellers were often less than adequate. In some instances, tellers’ replies to questions were that they didn’t know, even in the case of basics such as the fees and interest the customer would have to pay. In other instances, despite numerous attempts by the mystery shopper to get an answer, none was given at all. In two cases, tellers simply stopped answering questions.

In most cases, however, the tellers were knowledgeable, but rarely would they volunteer any additional details that would aid in clarification or understanding. In general there was a lack of transparency, as not all the information on various fees and charges was readily available or forthcoming and many consumers may feel there is not full disclosure of all that a potential consumer needs to know to assess costs and ramifications of taking a loan. Nor can they make accurate comparisons to the other outlets. It’s interesting to note, however, that the majority of the payday loan tellers made a point of telling the mystery shoppers when the loan would be due and what was required of the customer in order to qualify – information that would be important for the lender to convey to ensure a quick transaction.

During the second visit, however, it quickly became apparent that even the information provided about what was required to qualify was incomplete. This loan-taking visit was undertaken at four different payday lenders, and each one of them not only required a great deal more personal
information than they had initially stated at the enquiry visit, but also required the signing of numerous forms that were not clearly understandable by the mystery shopper. Explanations provided by tellers about the purposes of the forms were vague, and assurances of confidentiality of information did not inspire confidence. However, it may be that some customers would not stop the process, despite any discomfort they might feel about their lack of understanding, the excessive amount of information they have provided, or any lack of confidence in confidentiality they may have. The customer has invested time and effort into the process already.

In all four loan-taking visits, the mystery shopper left the outlet feeling that, if nothing else, she understood how much she owed and when it was due. She even felt confident in her understanding of how the fees and interest were calculated. In two cases, however, based on calculations she did after the visit, the mystery shopper arrived at an amount owing that was less than what the lender had calculated. In one case, it took several attempts before the mystery shopper understood the rather complex formula actually used by the lender. In the other case, additional fees were added and higher broker charges were used than were explained in the enquiry visit. Even taking these into account, the mystery shopper could not understand how the lender had calculated the amount to be repaid.

The third mystery shopping visits to the four payday lenders were to determine if extensions on the loans were available. The mystery shopper was successful in “re-borrowing” (one rollover, one full repeat loan and one partial repeat loan) at three outlets. At two of these outlets, the charges were the same as at the loan-taking visit. At the third outlet this may also have been the case, but again, the mystery shopper could not understand the calculations.

Once all the enquiries had been made, the loans had been taken, and extensions completed, what was the mystery shopper’s impression of the entire cumulative experience? It is difficult to generalize as each stage left a different impression than the one before, each lender had a different approach, each piece of information provided new insights, and each piece of personal information provided to the lenders led to an increased sense of unease. The following list is an attempt to cover the range of feeling and thoughts experienced by the mystery shopper who undertook all three types of visits. Not all outlets evoked each one of the following, nor did the mystery shopper experience each in the same way or to the same degree each time. However, when combined, all of the mystery shopping experiences put together left the shopper feeling:

- Misled - because of the omission of important pieces of information.
- Grateful - for being treated with great courtesy and respect, and in the role of a customer in a desperate financial situation, grateful for being helped through a tight financial situation.
- Misinformed - because charges quoted during the first visit turned out to be higher when the loan was taken.
- Lacking confidence - in assurances of confidentiality provided by the lenders
- Appreciative - that if I couldn’t return to repay on the day required, some of the lenders were flexible and would make accommodations for special circumstances
- Nervous - that identity theft could occur or a form signed but not fully understood could be used for unacceptable purposes in future
- Insecure - about financial implications if I could not repay on time
- Confused - about how final repayment amounts are calculated
- Relieved - at the outset, the taking of the loans was a simple, quick, convenient procedures with no questions asked and no ‘eyebrows raised’.
- Overcharged - The charges associated with taking each payday loan, even prior to extension seemed high.

Finally, the entire process of payday loan borrowing is so complicated and so different from outlet to outlet and from mainstream financial institutions that a person of any educational level will face significant challenge. Understanding terms, conditions and fees of borrowing from these businesses is difficult. The amount of information required by some firms seems excessive and consumers run the risk of identity theft and invasion of privacy in providing it.

c) Payday Lender Outlet Mapping
i) Introduction

Mapping the locations of payday lenders was a major component of the field research for this study. The examination of the industry’s spatial patterns, within both the Manitoba and City of Winnipeg contexts provides the opportunity to analyze the relationship between some key variables. Certain spatial trends are occurring within the industry as they relate to general clustering/dispersion, relationship to bank and credit union outlet closures, and socio-economic characteristics of Winnipeg’s inner city and suburban neighbourhoods.

Throughout this section there will be reference to two geographic regions in Winnipeg: inner city and suburban neighborhoods. These regions are based on the Core Area Initiative boundary that was prepared in the late 1970s through a process of public participation and statistical analysis. It has been slightly modified over the years. The boundary was established to target programs to those neighbourhoods characterized by urban decline and containing large percentages of low-income households. The inner-city contains approximately one-fifth of the City of Winnipeg’s total population.

The area is also characterized by private sector disinvestment and experiences social challenges that include: lower incomes, lower levels of education, and high concentrations of aboriginal people and visible minorities. Suburban neighbourhoods, on the other hand, are more likely to be home to middle-income and upper-income households, especially in the southern and western parts of Winnipeg. The suburbs are not homogenously “better off” than the inner city, since some suburban neighbourhoods exhibit socio-economic traits similar to those found in the inner city.

This geographic context is an important factor for considering the location of payday loan outlets. This two-region geography of the city will serve as the primary analytical method used to examine payday lender outlet location in the city. This analysis seeks to test whether payday lenders are largely operating in low-income neighborhoods composed of socially and economically vulnerable residents. This hypothesis does not contend that payday lenders are only targeting the vulnerable but that low-income households are a key client and payday lenders want to attract these clients by convenient locations. This research recognizes the importance of basic economic geography tenants that include centrality, accessibility, and many other factors that

34 All maps of Winnipeg have the boundary between the inner city and suburbs marked and labeled in the legend.
35 We used data from the 2001 Census for the region identified in this report as inner-city and suburbs. The inner city has a population of 120,000 and the whole city has a population of 610,000. Thus, the inner city composes only 19.7% of the city’s population (18.2% of the Winnipeg CMA population).
firms consider when selecting where they will locate. The main objective is to determine simple spatial relationships between the disadvantaged neighborhoods and payday loan outlets that could negatively affect populations that are at risk of falling into debt traps, and other negative influences, that payday loan critics attribute to the industry.

ii) Methodology

Currently, there is no official listing of all payday loan companies operating within the province of Manitoba. Therefore, a variety of resources were used to obtain as full and comprehensive a list of payday loan companies as possible, complete with their locations. This same process was used for both Winnipeg and rural Manitoba payday loan companies. The entire database used for this study is located in the appendices (1 and 2).

The most valuable source of payday loan companies was the Yellow Pages, both the online and book versions. The “Loans” section was searched and all companies that appeared to be involved in payday loans, either by name and/or advertising, were included. All companies were later called in the Fee Gathering part of the project. This aided in the verification process since some companies listed in the Yellow Pages were no longer active at the advertised location or phone number. Another source of information was the CPLA (Canadian Payday Loans Association) website. It was consulted for association members that may not have been included in the Yellow Pages. Finally, the websites of major firms with multiple Winnipeg outlets were used to find additional store locations.

In addition to “bricks and mortar” (retail outlet for walk-in consumers) payday loan locations, there are also numerous online payday loan companies available and some are listed in the Yellow Pages. Since there is no geographic location issue to where these firms operate, they have not been mapped, nor has there been any attempt to create a database of all online payday loan providers available to Manitobans. Some payday loan firms in Winnipeg appear to operate in a “call centre” manner. They have offices in Winnipeg, with addresses available in the Yellow Pages. However, their business is not geared towards walk-in customers. They conduct their business via phone, internet, and fax. Given this method of operating, geographic location in relation to (potential) customers would not seem to be an important matter, and therefore these firms are not depicted in maps.

Once the database of payday lender locations was created, the results were used to prepare a series of maps on two scales: Manitoba as a whole and the City of Winnipeg. In-depth data from the 2001 Census was used to show various socio-economic indicators at the City of Winnipeg Neighbourhood Profile level. Three broad socio-economic categories were mapped at the neighbourhood level. Income had three variables mapped: median household income, incidence of low income, and households spending greater than 30% of income on shelter costs. Education was mapped by rate of less than grade 12 level achieved. Two ethnicity factors were chosen: aboriginal and visible minority concentrations. Finally, an example of frequent use customer was mapped by using the population aged 15-34 variable. The Manitoba maps do not include any socio-economic information about the towns. The purpose of these maps is to show the provincial distribution of payday lenders.

36 See Google search reference at the bottom of appendix 2.
All maps use Jenks Natural Breaks to determine the ranges found in the legends of all choropleth maps that depict neighbourhood socio-economic data. It was decided that using Jenks Natural Breaks would be the most impartial way to show the values (colour of the neighbourhood) of each neighbourhood since the mapmaker cannot use human bias to manipulate what neighbourhoods will be valued and where those breaks will occur. In other words, there are five values (yellow through dark red) in every map. All of these values, and where they begin and end, are determined by the purely mathematical Jenks Natural Breaks method.

Another issue regarding the mapped data was whether to use percentage or absolute numbers of the population. In some cases, only one option existed. For instance, median income is mapped as dollar amounts. However, when mapping most factors, the choice was made to map by percentage of neighbourhood population. By showing the percentage of vulnerable residents in a given area, the overall possible effect of the payday loan industry on those neighbourhoods can be weighed. However, we understand that for-profit businesses seek out locations that are convenient to large numbers of their clients. For this reason, we also consider the total number of people for certain variables.

Various criteria could be used to map payday lenders themselves. It was decided to use two variables for mapping them. Firms would be separated into size by the following two categories: (a) the three large firms that form over 50% of the Canadian market – Money Mart, The Cash Store, and Instaloans (the latter two companies are part of the same parent company called Rent Cash) – and (b) all other payday lenders. Furthermore, firms would be depicted as either being CPLA members or not in all maps. Thus, four groups of payday lenders emerged for identification on all maps: (1) CPLA members in the Big 3 – Money Mart; (2) CPLA non-members in the Big 3 – The Cash Store & Instaloans; (3) CPLA members not in the Big 3 – CPLA members other than Money Mart; (4) CPLA non-members not in the Big 3 – all non-CPLA members other The Cash Store & Instaloans.

All maps were created using ESRI’s ArcGIS version 9.1. Base map data was supplied by DMTI Spatial. The Winnipeg neighbourhood shape files are supplied courtesy of the City of Winnipeg. The Measure tool on the Data View toolbar was used to calculate the 400 metre distance used in sub-section G.

(1) Methodological Limitations

Some limitations exist in the methodology for the mapping component of this exercise. First of all, that there is no authoritative list of payday loans firms and outlets means that the list of firms mapped cannot be guaranteed to be exhaustive. It is believed that the maps do show the distribution of the majority of payday lenders in Manitoba. However, firms, or outlets of larger firms, not advertising in the Yellow Pages or on major firms’ websites are not included for analysis in the mapping section. It is also possible that one or more of the larger firms’ outlets may have relocated or no longer exists if the Yellow Pages and/or company website has not been updated.

38 Jenks’ natural breaks classification determines the best arrangement of values into classes by comparing the sum of squared differences of values from the means of their classes. See: http://www.terraseer.com/products/stis/help/interface/map/classify/About_natural_breaks.htm

39 A choropleth map is one that shows differences between geographic regions by use of shading and/or colour differences. In this study, all neighbourhood socio-economic data maps are choropleth maps.
Further to this, the Yellow Pages “Loans” section, of both the online and book versions, contains more than just payday lenders. Firms were chosen for mapping based somewhat on the name. For instance, a firm with the word “payday”, “cash”, etc. in it was always chosen. Phone calls made in the fee collection part of the project were able to corroborate whether or not these firms offer payday loan services. Not all firms listed in the “Loans” section were phoned and some payday lenders may have been excluded from the payday lender database created for all project field work. Generally, mortgage firm companies and others with large advertisements that did not include payday lending as a service offered were not contacted or included. This may have resulted in payday lender(s) being unintentionally excluded from the study. The creation of an updated, inclusive database of payday loan vendors operating across Manitoba – including online/phone/fax operating firms – would be a useful tool in monitoring the industry.

Thirdly, statistical analysis of the correlation between variables has not been undertaken. The following sub-sections contain percentages and simple quantitative descriptions, but there has been no analysis performed detailing the scientific significance of relationships. Other factors, such as centrality and accessibility, play important roles in firm location, but there were no attempts to determine what role these variables play in payday loan outlet location.

iii) Results

(1) Provincial Distribution of Payday Lenders

69 payday lender outlets representing 16 different “bricks & mortar” firms are located throughout the Province of Manitoba (Appendix 8, Figure 1). Winnipeg has the largest number and highest concentration of firms in the province, with 51 mapped locations. Brandon is next with five active outlets, and Portage la Prairie follows with three. Overall, in Manitoba outside Winnipeg 18 payday loan outlets were identified, 8 are CPLA members and 10 are non-members. Ten of these outlets are large firm outlets that are part of “the Big 3,” while 8 are smaller firm branches.

Brandon has a mix of smaller and larger firms, but Portage la Prairie’s payday loans market seems to be served only by the three major firms of Money Mart, The Cash Store, and Instaloans. Other Manitoba centres such as Steinbach, Winkler, Selkirk, Russell, Dauphin, Swan River, Flin Flon, and Thompson all have one or two payday loan outlets, which do include outlets from the big three firms in some cases. However, smaller firms compose more than 50% of lending outlets outside of Winnipeg, Brandon, and Portage. The Fast Cash Company is a significant player in rural Manitoba, with four total locations: one in each of Brandon, Dauphin, Steinbach, and Winkler. This represents 22.2% of all rural payday loan outlets, but the Fast Cash Company has no presence in Winnipeg.

(2) City of Winnipeg Distribution of Payday Lenders

There are a disproportionate number of payday lenders in the inner city of Winnipeg (Appendix 8, Figure 2). Slightly over half (27 out of 51, which is 52.9%) are located either within or on the inner city boundary line. This can be partially explained by firms desiring to maximize accessibility. The centrality offered by inner city locations can provide substantial locational benefit for firms to locate there. The remaining lender outlets, just less than one-half are located in the suburbs. There is a high likelihood of payday loan firms locating on major routes in Winnipeg, whether they are found in inner city or suburban areas. Clusters also emerge at major nodal areas like St. Vital, Polo Park and Kildonan Place shopping centres.
Thirty-three of Winnipeg’s 51 payday loan outlets (64.7%) belong to one of the big three national firms (Money Mart, The Cash Store, and Instaloans). This leaves other firms with 18 out of 51 outlets (35.3%). Figure 2 illustrates that “The Big 3” players have begun to disperse themselves throughout the city. 19 out of 33 (57.6%) are located outside of the inner city. Smaller firms demonstrate the most inner city concentration. 13 out of 18 (72.2%) non-“Big 3” firms can be found on or within the inner city boundary.

CPLA membership, based on total number of outlets in the City of Winnipeg appears to be running at 43.1%, which represents 22 out of 51 outlets. Thus, the majority of outlets operating in Winnipeg do not belong to the major self-governing payday loan body: 29 out of 51, or 56.9%. Neither CPLA members nor non-members appear to show any preference for inner city locations compared to the other, as both have just over half their number of outlets in inner city areas. 12 out of 22 (54.5%) CPLA member outlets are found in the inner city and 15 out of 29 (51.7%) non-CPLA outlets. Thus, it would seem that size of firm appears to be the more important consideration for firms choosing between the inner city and suburbs to locate, regardless of CPLA affiliation.

What does all of this mean for the City of Winnipeg? Winnipeg’s inner city economy has been changing in recent years.40 The impact of these changes on inner city residents, businesses, and industries located there as a whole has been quite dramatic. The decline of traditional “working class jobs,” the concentrating of poverty and low income to core areas, and relocation of businesses to suburban areas have had marked impact. Inner city areas have been subject to decay. This would suggest that there are other factors involved in analyzing payday lender firm location than merely accessibility and centrality. What is drawing payday lenders to inner city locations? What other factors are at play in the agglomeration of payday lenders in core areas of the city? What impact do these payday loan firms have on the city? Various neighbourhood profile data will be discussed below to provide some “food for thought” on these matters. However, this clustering of payday lenders in the inner city would indicate that the area’s concentration of socially and economically vulnerable citizens could be additionally burdened by the wide availability of payday loan credit, as characterized in other parts of this report.

(3) Winnipeg Bank Closures from 2002 – 2007

Since 2002, bank branch closures have been collected into a central database41 at the Financial Consumer Agency of Canada (FCAC). During this time, 22 branch closures have occurred in Winnipeg. Figure 3 (Appendix 8) maps the location of these closures relative to the spatial distribution of payday lenders in Winnipeg. There appears to be a correlation between bank branches closures and the existence of payday loan outlets and this phenomenon appears to be most pronounced in the inner city.

Vulnerable inner city residents, therefore, have experienced a significant reduction in traditional banking sector options, while payday loan operators have moved into the area to service the area. Unfortunately, no timeline database exists for when these payday loan outlets opened. We do know that many payday loan outlets opened within the past five years due to the corresponding,

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recent growth that has occurred within the payday industry, which would coincide with the mapped bank branch closures.

(4) Payday Loan Outlet Location & Winnipeg Neighborhood Characteristics

Payday loan outlet locations have thus far been examined in an inner city versus suburban context. By incorporating 2001 City of Winnipeg Census data from Statistics Canada, a finer layer of analysis can be added to the discussion. The main purpose of this mapping exercise is to illustrate the positioning of payday lenders relative to certain vulnerable populations. This is not to argue that payday loan companies are only targeting certain types of neighbourhoods. In analyzing the following maps, questions will arise about spatial patterns that tend to repeat themselves like, what is the (potential) impact on these neighbourhoods? And what is the cause and effect relationship between payday lender locations and vulnerable socio-economic groups?

Figure 4 (Appendix 8) shows payday loan outlet location with a median household income by neighbourhood backdrop. Strong trends are evident. The inner city is striking in its prevalence of lower household incomes, and has been stated before, many payday lenders have chosen the inner city in which to locate. All inner city payday lenders are located in or on borders of the bottom two median income group ranges of the legend.

Suburban neighbourhoods have higher median incomes than inner city counterparts, and as stated previously, payday loan locations are roughly split half and half between inner city and suburbs. However, the location of payday lenders in the suburbs also follows median income patterns. Of the 24 suburban locations, only six (25%) of them are not found inside or bordering one of the bottom two median neighbourhood income ranges. Not a single payday lender borders any highest range of neighbourhood median income, and only six suburban payday lender locations are located in or within 400 metres of second highest median income ranged neighbourhoods. Again, this is 25% of suburban payday outlets, and only 11.8% of all Winnipeg payday lender outlets. Conversely, 25 of the 51 payday lenders are located in or border the lowest (yellow) range of neighbourhood median household income. Clearly, there is bias towards payday lenders locating in proximity to areas with lower median household incomes.

Low-income incidence by neighbourhood is depicted in Figure 5 (Appendix 8). The neighbourhood trend for this variable also shows high concentration in the inner city, where more than half of all city-wide payday lenders are located. Twenty-five out of 27 (92.6%) inner city payday lenders are located in or border the worst two ranges of low income incidence. This is significant since the incidence rate in these worst two ranges is 32% and higher. City-wide, 28 out of 51 (54.9%) payday loan outlets are found in or border neighbourhoods in these worst two ranges. This means that suburban areas do not experience low-income incidence as often, and those that do are not necessarily where payday lenders locate. Nevertheless, only 2 out of 51 outlets (3.9%) are located in or within 400 metres of neighbourhoods valued with the lowest (yellow) incidence rate of 0 – 8.4%. Relatively affluent neighbourhoods are avoided in favour of areas whose residents are at greater risk of experiencing poverty.

Another indicator that suggests a neighbourhood’s financial vulnerability is the proportion of households that spend 30% or more of income on shelter costs. Spending this much or more

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42 At the time this research was undertaken 2001 census data was the most recent data available at the neighborhood level. Data from the 2006 census is only available for larger agglomerations.

43 Therefore, for all 51 mapped payday lenders, only 11.8% (6 out of 51) are not found within or on borders of bottom two range median neighbourhood household incomes.

44 Shelter costs include rent or mortgage, heat, water, etc.
leaves less disposable income for households. The pattern of neighbourhoods exhibiting high rates for this indicator, as shown in Figure 6 (Appendix 8), follows those of the previous indicators. Concentrations are found in the inner city with clusters of payday lenders. Suburban payday loan outlets also tend to locate in or border neighbourhoods whose values are found at the negative end of the spectrum. As with other indicators, there are notable exceptions, but the overall trend is that payday lenders are disproportionately located in economically disadvantaged and vulnerable areas of the city.

Figure 7 (Appendix 8) illustrates similar trends for highest education levels achieved. The variable chosen for this exercise is percent of population 20 years of age and older that has not completed grade 12 (or equivalent high school diploma level). The concern is that concentrations of people without high school diplomas exist in certain areas, and that these concentrations are economically more vulnerable. Winnipeg’s North End contains the main cluster of population not achieving grade 12. The southern portions of the inner city are better off than areas north of Portage Avenue, unlike the previously analyzed income indicators. While the correlation appears to be not as strong as income, payday loan firms do seem to locate in areas with lower incidence of grade 12 completion. It can be seen that fewer outlets are found in yellow and light orange areas than are located in neighbourhoods at the dark orange/red end of the spectrum.

The population of aboriginal people in Winnipeg is growing and they represent a vulnerable group in Winnipeg. Figure 8 (Appendix 8) shows the concentration of self-identified aboriginal people within the inner city. Once again, referring to the greater than 50% of payday lenders locating in the inner city (or on its boundary), it becomes apparent that the location of payday lenders is correlated with a higher density of aboriginal people. This is already a marginalized group that is concentrated in areas of many recent bank branch closures, as depicted in Figure 3 (Appendix 8). With these limits to traditional credit/banking services, the aboriginal population could be particularly susceptible to payday lender fees.

Another ethnicity indicator is illustrated in Figure 9 (Appendix 8). Visible minorities compose high percentages of neighbourhood population in inner city areas, as well as areas in the northwestern suburbs. The distribution of absolute numbers of visible minorities follows a similar trend. The pattern of payday lender location does not follow the neighbourhood visible minority rates as closely as other factors, but the overall trend still remains as follows: there is a greater likelihood of payday lenders being in neighbourhoods with more visible minority members.

Young working adults are one such prime demographic for payday lenders. Figure 10 (Appendix 8) illustrates the absolute number of adults aged 15-34 in each neighbourhood. There does, indeed, appear to be a correlation between this age group and payday lender outlets. Certain neighbourhoods in the city’s north contain large numbers of 15-34 people, and clusters of payday lenders can be found in or bordering them. The same trend exists for southern and western portions of the inner city (e.g., Wolseley). Further out in the southern and western suburbs, the correlation seems to occur in some areas but not in others. However, when percentage of residents aged 15-34 is considered in Figure 11 (Appendix 8), those areas with lower absolute numbers in the 15-34 demographic cohort tend to still have moderate to higher rates as percentage of total neighbourhood population. Demographics do seem to play an important role in payday lender location.

iv) Summary
The mapping of the payday loan industry’s spatial patterns in Manitoba provides geographic context to complement findings in other sections of this report. Payday loans are found in many
rural areas of Manitoba, but are concentrated in Winnipeg. Within Winnipeg, trends seem to exist on the city’s spatial landscape. Many factors contribute to firm location in an urban environment, but the purpose of this mapping exercise was to explore the relationship between payday lender outlet location and concentrations of vulnerable citizens.

Limitations do exist within this analytic method. An important limitation is that no statistical analysis has been performed to test the strength of the correlation of payday lender outlet locations to the location of low income and disadvantaged areas. Payday loan outlet location is correlated with a number of factors and low-income is one of them. This is evident in the population aged 15-34 demographic, who are not necessarily disadvantaged, but rather, a frequent user of payday loan services. Centrality, accessibility, rental rates, and many other variables influence firm/outlet location. However, the findings do indicate spatial trends that could have substantial impacts on Winnipeg’s socio-economic fabric.

In the introduction, the hypothesis was raised that payday loan firms are opening outlets in disadvantaged neighbourhoods at a disproportionate rate. The findings from the mapping exercise suggest that this hypothesis proves to be true in Winnipeg. Three income-based variables were mapped: median household income, incidence of low income, and households spending greater than 30% of income on shelter costs. All three showed strong preference for payday lenders to locate in areas that display the most economic vulnerability. Furthermore, payday loan outlets tend to be found in areas where lower education levels have been reached, as indicated by the mapped variable of households with high rates of less than grade 12 level achieved. Certain ethnic groups have proven to be socio-economically vulnerable within Winnipeg. Aboriginal people and visible minority concentrations in certain neighbourhoods seem to be areas where payday loan outlets disproportionately locate. The impact, and potential impact, of these spatial relationships should be considered in the debate about payday loan industry regulation in Manitoba.

d) Fee Collection Method

i) Introduction

Field research methods were used to gather data on fees charged by payday lenders operating throughout Manitoba. The main purpose was to gather fee data to understand the range and average levels charged for payday loans. These data would be used in various ways including to inform our analysis of payday loan cost structures. This method was also useful to determine the accessibility and understandability of fee information. In addition to achieving these goals, this method yielded many qualitative findings about payday loan fees.

ii) Methodology

This method relied on telephone conversation to obtain information about the fees. Because of time constraints it was decided that the researcher would contact a representative in all pay-day loan firms in Manitoba posing as a client.

At minimum, one staff member at one outlet for each payday lending firm in Winnipeg and Manitoba was called. Occasionally, if the firm had multiple outlets, more than one location was called. This was only done if insufficient data were collected from the first phone call. The large firms were called first to develop the researcher’s methods and skills in collecting the fee data. Calls proceeded from multiple outlets to single outlet firms. Eventually, this included web-based
pay-day loan firms found in the online Yellow Pages, as well as the three “call centre” payday lenders based in Winnipeg that were not included in the mapping section. All firms were called during regular morning or afternoon business hours in late August.

The researcher created his own shopper profile to use during the phone calls. In this method the researcher was to find about all types of fees. Therefore, the researcher posing as a potential payday loan customer had to have a story to account for his current level of knowledge about the industry. This is the fee calling profile used by the researcher:

**Researcher-shopper’s Profile**
- I am a single white male. I work for my uncle’s construction company. I clear about $1000 every 2 weeks on my pay stub. I have car troubles, my car has been given an estimate and I am trying to get it into a mechanic for repairs. I am uncertain as to when I will get it in to the outlet and how much money I will need because of some uncertainty in the estimate. Therefore, I need to ask about various sized loans over various time periods to see what will best fit my situation when I hear from my mechanic. I used the name ‘John Anderson’ if they ask for a full name and for rural areas who ask what firm I work for, I said it is a small construction firm owned by my uncle, located just outside of town. I have had previous experience with payday loans when I lived in Ontario. I never had experience with the firm I am calling and I pick them out of the Yellow Pages because they were located close to where I live. Because of my previous experience, I probe more deeply into fees because I do not want “surprises like I had with my payday loan company in Ontario.” This includes default fees, extensions, etc. and also how these processes work.

The actual questions asked during the telephone interviews were drawn from a backgrounder prepared by Chris Robinson (Appendix 1). The guide used for this exercise was not followed precisely in every case, but it did serve as the basis for every telephone conversation. The “script” was followed loosely, with various references to the researcher’s shopper profile:

**Researcher-shopper’s Script**

1. Researcher: “I am thinking about taking out a $250 pay-day loan, can you tell me how much it will cost?”
2. Determine what type of fee formula applies (see table below)
3. Then ask probing questions about that fee formula
   a. This requires detailed questions. If its combination fees (type 5), determine all possible fees involved
4. Then ask if the stated fee applies to other sizes of loans
   a. smaller loan, $100
   b. larger loan, $750
   c. In the case where the fees vary by size of the loan then you can decide if it is expedient to ask about those fees in this conversation (or call another outlet about them later)
5. What are the fees if you are late repaying (see table below)
6. Researcher: “If I have a problem, can I get an extension on the loan?”
a. If yes, ask what are the various fees involved

7. Researcher: “Is ‘re-loan,’ ‘repeat loan,’ ‘re-borrow’ an option?”
   a. If yes, ask if the fees are different from fees for the first loan
   b. If the fees are different, ask how they are different.

8. Try to determine if the fees change with subsequent loans (when you become a long-term customer and have a good payment record), or if the amount you can borrow as a percentage of your pay changes with subsequent loans. (is the amount calculated on net or gross pay?)

All information gathered during the conversation was recorded in the Phone Calling Fee Collection Instrument (Appendix 2), a summary of Dr. Chris Robinson’s ‘How do Payday Lenders Charge Their Customers? A Note for the Manitoba Public Utilities Board Research’.

(1) Methodological Limitations

The primary limitation to this methodology was gathering adequate information to determine pricing formulas. Some outlets/tellers were very forthcoming and some outlets/tellers were less forthcoming. The researcher did improve his skills at extracting information from tellers. However, some firms/tellers/outlets simply would not provide data over the phone. This leads to a second limitation. Oftentimes, only one phone call was made to a particular outlet. From this one conversation, it is impossible to know why inadequate information was gained. Is it the policy of the payday loan firm to not give out information? Is it just this particular outlet that does not offer information? Would a different teller have been more forthcoming? Was the teller being abrupt with the researcher because the store location was busy with in-person customers at the moment? Was the researcher consistent in his conversations with all tellers and able to adapt the script adequately to the teller feedback? There are many questions that cannot be answered. With larger firms, a second phone call to another outlet could provide more information. This option was not available with single outlet firms.

iii) Qualitative Discussion on Fee Gathering Phone Calls

Besides providing data on payday loan fees, these telephone conversations provided insights into other qualitative aspects of payday lenders. Here are some of the general observations.

- In Manitoba, there are 7 firms with three or more province-wide outlets. 6 in Winnipeg and one in rural Manitoba. These larger firms, in general, offered greater amounts of fee information and the presentations were more professional.

- Smaller firms seem to be more variable in terms of the type of information given by phone: information could be very comprehensive, partial, or nothing at all.

- Winnipeg outlets never asked where the researcher worked, but quite often, rural firms would ask where the researcher worked – the specific name of company would be asked early in the phone call. (That is why the researcher would say “At my uncle’s construction company just outside of town”.)

- Most phone calls to retail outlets were treated as basic information gathering sessions by the teller. However, online, “call centre”, and the occasional “bricks and mortar” outlet would recommend that I start the application process with them right then on the phone. The
researcher occasionally felt mildly pressured to do so, but could decline and have his decision respected by the teller. The researcher would then be pointed to a website where an online application process could be used.

- In most cases, the more cordial the teller was to the researcher on the phone, the greater information that the researcher was able to gain. There seems to be a high correlation between politeness/friendliness of teller and potential customers’ abilities to access information in the pre-loan stage. The researcher could have felt less ambitious in probing ‘curt’ tellers, but this would likely be the case for an average payday loan user as well.

- From the researcher’s experiences with phone calls, CPLA member-firms are not engaging in roll-overs. Some calls to these firms resulted in warnings against such practices from either a quasi-credit counselling position or that the government has already intervened to disallow such practices.

- Some non-CPLA member-firms are offering roll-overs. This can either be in the form of full principle roll-overs, which means that only original loan fees are paid, or in the form of partial principle roll-overs, whereby a portion of the original principle is repaid and a portion is rolled over.

- When the researcher asked questions about repeat loans and roll-overs, many tellers indicated that they were relatively easy to obtain. In only two instances was the researcher cautioned against becoming dependant on payday loans. The researcher was often told that obtaining a re-loan was quite easy and this was before he even made his first loan. Occasionally, the researcher was told that a one or more day delay would be necessary before re-loaning could be done. From this the researcher concluded that, in general, re-loans were commonly available. There seems to be no limit to re-loans except for a few firms who make customers wait 1 – 4 days before re-borrowing.

- Some firms have strict rules about what happens when payment is due on the next payday. Other firms have more open policies (e.g., “Phone and we can work something out”). This may indicate a possibility of getting a roll-over on the payday loan due date. In some cases tellers called this flexibility a roll-over. At other times, specifics were not given. In some cases, it seemed like a few days grace period of not repaying the loan might be granted. In other cases, it was left totally open and vague. What these vague responses would actually translate into in reality versus the hypothetical is not known, but it is not out of the question that (partial) roll-overs could be involved.

- Both online firms that were contacted were very up front about the ease of getting roll-overs with them. If this is the regular case for online payday loan firms, there could be additional implications for regulating the industry.

iv) Summary
The main purpose of the fee collection exercise was to collect fee information from all payday lenders in Manitoba. These data would give researchers enough information about firm fee structures to calculate the range and average levels charged for payday loans. This information was more accessible to the telephone researcher at larger firms. Some smaller firms did provide fee information of a similar standard to the larger firms, but others either provided partial information or refused to give any information at all.

45 Again, this is based on number of outlets in Manitoba, which may or may not correspond with market share or profitability.
While it is true that larger firms offered better information, this is not to say that the fee structures were easily understandable, or that the information was readily given. Most firms would say how much a given size of loan would cost (e.g., $100), either by specifically calculating the cost or at least giving an estimate. Breaking down this cost into various fee types (e.g. interest, processing fees, etc.) was much more difficult to understand. Rarely were the fees provided in an annualized interest rate for such as annual percentage rate or effective annual rate. Oftentimes, the researcher had to repeat questions using different wording or give a lot of personal information from his shopper profile. In most cases responses from the tellers were basic with little additional information provided. Only the occasional teller would offer more information.

Information concerning repayment options (re-loans, roll-overs, default situations etc.) was less readily available than information about fees. CPLA member-firms declined roll-over requests, but many non-CPLA member-firms reported roll-overs were available. All firms offer re-loans once the original loan is repaid. Few barriers to accessing the re-loans exist beyond some firms requiring a 1 or more day waiting period.

Based on these results one wonders how much do first-time, or even regular, payday loan customers know about their loan costs before the transactions occurs? If a trained researcher calling a representative of every (identified) firm in Manitoba has difficulty accessing information, how much information could a member of the general public obtain? The variability in accessible, understandable payday loan fee information is concerning. The lack of limitations on roll-overs and re-loaning may raise a concern that insufficient safeguards exist for preventing Manitoba payday loan consumers from falling into debt trap cycles. It would be prudent to consider these factors in the current regulation debate occurring in Manitoba.
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Appendices

Appendix 1. How do Payday Lenders Charge Their Customers? A Note for the Manitoba Public Utilities Board Research

By Chris Robinson

(2007)

Payday lenders do not follow the traditional lending model of charging a defined interest rate, compounded monthly or annually, or perhaps some other specified frequency. Indeed, many lenders do not follow this model strictly any more, particularly in the consumer lending field, attaching various fees and charges to their loans, in addition to interest calculated on a time basis. For example, if you go overdrawn on your bank account, the bank will charge interest on the amount overdrawn, but it will also charge a fixed “overdraft fee” that is not dependent on the length of time you are in an overdraft, each time it happens. The total cost of the loan is more than just the interest charge, and thus the effective rate of interest is higher than the stated rate of interest, regardless of how you compound it.

Understanding why certain fee patterns are seen requires understanding the basic cost structure of a payday lender. Almost all costs are fixed. The occupancy cost and staffing are not changed much by the volume of business, since payday lending outlets are quite small. They are not like a bank branch with thousands of customers and tens of millions of dollars in assets and transactions per year. They will normally have only one or two staff members on the premises at any time. The capital cost of supporting the loan balances is a very small part of the cost of the business because the money turns over so quickly and the balance outstanding at any time is small. The cost of bad debts is more significant, but still much less than the cost of operating the store, which is about 80% of all costs. Most loans are repeat loans to an existing customer, by a ratio of 15:1.

These facts lead to two very important characteristics of the business model:

1. The lender spends much more to set up a new customer. The clerk must get name and address, evidence of regular employment or government transfer payments, and explain the stores rules and fees. As far as I know, all stores record this data on a computer file and so subsequent loans require much less time to process. All the clerk has to do is confirm that the data is still valid. Subsequent loans also face lower risk of default, since the customer now has demonstrated that s/he will repay.

2. The time to maturity of the loan and the size of the principal have almost no effect on the cost to the payday lender. It takes the same amount of clerical time for any loan, and the default costs and cost of capital are quite small relative to the operating costs of the business.

Payday lenders do not follow a consistent pattern of fees and so each one’s fees must be carefully documented to determine the cost to consumers and how to regulate the fees. We need to know the details of how each charge is calculated, not just examples of fees for specific loans. In the following sections I explain every form of payday lending charge that I have encountered so far in my work. Different lenders use different combinations of these fees, which has the unintended consequence of making comparisons between them even more difficult for consumers.
I have done my work mostly from websites, and few companies provide the formula in full detail on their websites, Money Mart being a notable exception. Phone calls have proven confusing and confrontational in some situations and helpful in others. I have not yet determined to my own satisfaction what the formula for the Cash Store is, and that is particularly important, because it is the second largest payday lender in Canada.

I think you need to get a copy of a loan agreement from every store, because I think that is the only reliable way of getting the exact terms. But I am not sure this will work. I am not an expert on how detailed a loan agreement must be. If you go to:

https://www.moneymart.ca/paydayloans/PaydayLoanAgreementNov2007.pdf you will see the Money Mart agreement does provide all the details needed. If you can get the same document for every company, that would be great.

I have broken the fees into two categories – normal, and default for loans that are not repaid on time.

Regular Loan Charges

Fixed percentage of principal

Many smaller lenders charge a fixed percentage of the principal, regardless of the size of the loan and time to maturity. This is the easiest calculation method and everyone understands it. Thus, a $300 loan at 20% maturing in 11 days requires a postdated cheque of $360. Cash Money is the largest operator using this method and it charges 20%.

One variant is a sliding percentage. The lender charges a higher rate on the first $x of principal, and a lower rate on the remainder above that rate. This is a logical way to charge, because the costs for the loan are mostly invariant to the size, and hence a larger loan should be charged a relatively lower amount per dollar of principal. I have not observed Canadian companies charging in this fashion, but the state of Indiana regulates payday lenders as follows: 15% on first $250 + 13% on next $150 plus 10% on remainder.

Another variant is to lend only specific amounts rather than the customer’s choice, and to charge a fixed dollar amount, which is equivalent to a fixed but sliding percentage. The only company I have observed doing this is Unicash in Ontario around the Golden Horseshoe, and it lends two specific amounts and charges as follows: $21 on $100; or, $22.35 on $152.65 (=14.6% of principal).

Another variant is a fixed percentage of principal, regardless of how large the loan is or how long it lasts, but the percentage is reduced for repeat customers. Mogo, which is new name for a company previously called Payroll Loans, now charges 20% of principal for the first six loans, and 15% for subsequent loans to the same customer. This is also a logical fee structure, because of the greater cost and risk of the first loan. I suspect that the extension of the higher rate to the first six loans rather than just the first loan is a type of loyalty reward program rather than a strict matching of costs to price.

The remaining types of fees are all used in combinations rather than alone as the fixed percentage of principal.

Interest is charged at a rate that is always claimed to be less than the Criminal Code limit of 60%. Money Mart charges 0.89% per week, and this compounds to an effective annual rate (EAR) of
58.5% and an annual percentage rate (APR) of 46.4%. In my professional opinion, the EAR is the appropriate method for comparing interest rates. The prevailing public disclosures use the APR. I have included an appendix from the ACORN report explaining EAR and APR. Everyone else that I have checked uses a daily rate that ends up with an APR that is 59%, but the EAR is higher. I note this because I want you to find out what the actual rate being charged is, but in the larger scheme it won’t matter a lot, since what the payday lenders call “interest” is a tiny portion of the total fees charged.

Brokerage fee is a fixed percentage of the principal that the payday lender charges to find a lender for the customer. There actually is separate lender somewhere hidden in the background, but of course the effect on the customer is the same as if the payday lender were lending the money and charging a fixed percentage of principal plus an interest charge. The Cash Store charges a brokerage fee, and I don’t know for sure what it actually charges. The annual report says one thing. The website at one time said another. When I called a couple of stores I got conflicting reports, including one suggestion that perhaps they charged less for someone who had borrowed previously, but the clerk speaking to me wasn’t sure. You will have to bear down on the Cash Store to get this story straight.

Loan insurance can be seen as an attempt to evade the application of Section 347, and a court has struck it down. One Ontario company (I forget the name) charged 59% APR plus a large insurance fee. The court ordered it to cease doing so, because it was not licensed to sell insurance.

Fixed fee regardless of size of loan or time to maturity. These fees are sometimes called processing fees. Every Money Mart loan comes due the day before the person’s payday. If the person repays the loan on time, the only charge is the 59% interest, which is peanuts. If the person fails to repay, then Money Mart deposits the cheque left as security. This cheque includes third party cheque cashing fees (Money Mart’s original business was cheque cashing; payday lending is a more recent addition to the fringe banking field). A fixed fee is also a logical part of the fee because, as already noted, most of the costs of making a payday loan are fixed regardless of the size and time to maturity. Since payday loans are so small, the fixed fee is a very large part of the total fee. I will not give a separate example, because all the fixed fees are part of a package of fees.

Initial fee for a debit card or a card with a balance that can be retrieved from an ATM. Some of the large firms are now issuing their own debit and credit cards. You get your loan from the company as a prepaid balance on the card, and then use it. Money Mart and The Cash Store have both followed this route. There is a big difference between the two, though, and you need to check this out for me, too, because I am not sure I have all the details. Money Mart says it costs you nothing for the credit card or debit card, except of course that you have to prepay the amount on the card immediately. It does provide a credit card for those who can’t get one. It is possible that Money Mart makes money from the merchant fees, and it is getting money up front without paying interest for it. It could also make money on a payday loan that provides the cash to load the card. I want this verified.

The Cash Store charges $8 for its debit card, one time only. Thus, a first time borrower has a fixed fee of $8. You cannot get cash from The Cash Store, you must buy the card. This is a

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46 Work this backwards to a daily rate and check some examples on the Money Mart calculator on the website. You will find that the actual daily rate they use compounds correctly to 59% EAR. I have not found any other payday lender who is this careful – I am not sure most of them even understand the difference.
really neat device, since it also reduces the cash float each store has to carry, and reduces employee theft.

Transaction fee for using a debit card. All debit cards have usage fees (I think this applies universally, but I don’t know, since I shun debit cards in favour of a credit card). This generates fees for any company issuing them, but of course there are also costs involved with the operation of the debit card system, and these will be hard to disentangle from payday lending costs. However, since The Cash Store requires the borrower to use its debit card, it has a guaranteed extra source of income, and the fee is $6 per usage. As the clerk told me, that means every borrower goes to the nearest ATM and withdraws the entire payday loan immediately, since the fee of $6 is for every use.

Let me now put together the two most complicated fee structures that use multiple forms of fees.

Money Mart

Money Mart has changed its fee structures since I first started working on payday loans, but the current structure is the same as the one in force when I wrote the ACORN report. If the customer can repay before payday, then all the cheque-cashing fees are avoided and only interest is payable. I suspect this early repayment almost never happens if the customer has no other source of cash. Therefore, I consider this to be the Money Mart fee:

$2.49 (third party cheque cashing) + interest at 59% EAR + 13.99% of [principal loaned plus interest].

For your interest, the change from the previous fee schedule, which had the same format but different numbers, had the effect of making quite small loans a bit cheaper, and average and bigger loans more expensive. The overall effect increased Money Mart’s total revenue.

The Cash Store fee is:

For a first time loan:

$8 (debit card) + $6 (ATM withdrawal fee) + brokerage fee at a rate of 20 – 26% + 59% interest charged at APR.

For a subsequent loan:

$6 (ATM withdrawal fee) + brokerage fee at a rate of 20 – 26% + 59% interest charged at APR.

The Cash Store website says the brokerage fee averages 20%, but I am not sure. It was originally 22.5%, but it bought Instaloans which charged 25%. I have also been quoted 26%. One possible scenario is that they charge 26% for the first loan and 20% thereafter. Another scenario is that the higher rate for the first loan includes the $8 card fee. But the mystery shoppers are going to have to sort this one out.
Default Fees
I do not have a good handle on this. Some payday lenders are really hitting defaulters hard. Of course, they won’t recover these fees all the time.

*NSF charge.* Banks charge the payee for every NSF cheque deposited, as well as charging their own customer for issuing the cheque. Most businesses ask for more than the NSF fee because of the extra work entailed. Money Mart charges $35. I don’t know what anyone else charges, but you should find out.

*Default fee.* I am told that some small lenders also charge a default fee in addition to the NSF fee.

*Interest while in default.* Money Mart originally told me they stopped the interest clock on defaults and put them into collection. The loan agreement I referred to earlier now says they lower the interest rate to 26% APR for loans in default.

*Rewrites/Rollovers/Extension fees.* This practice is banned by the CPLA, and we will likewise recommend it be barred. Money Mart and the Cash Store do not do it, but some small companies do rollovers, usually one store operations. Essentially, it means that if you can’t repay the loan, the lender charges the full fee over again to allow you more time to pay. You can imagine what a debt trap that is. Find out if the company you are checking does it, but I wouldn’t worry about Money Mart or the Cash Store on this one.

How Much Can I Borrow?
Find out. This isn’t a key issue, but it is relevant. Can you imagine how someone can manage to give up 72% of his or her paycheque? That is a loan at 60% of the previous paycheque plus 20% fee.
## Appendix 2. Phone Calling Fee Collection Instrument

<table>
<thead>
<tr>
<th>Formula Type</th>
<th>Company Name</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Fixed percentage of principal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Sliding percentage by loan number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Sliding percentage by loan size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Fixed size of loan, e.g., $200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Fee combinations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Brokerage fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Loan insurance fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Fixed fee (‘processing,’ ‘administrative’)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Debit card fee (may include start-up, per debit and monthly fees)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Default Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Default fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ NSF fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Interest while in default</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Repeat Loan Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Rollover Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Amount that my $250 PDL costs next payday</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Loan Size: $100 or $750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Good Customer Fees (ex. VIP customer rate)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Return Customer Maximum</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 3. Payday Lenders in Winnipeg, August-September 2007

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Address</th>
<th>Postal Code</th>
<th>Type</th>
<th>CPLA or Not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attic Furniture Ltd.</td>
<td>783-5213</td>
<td>216 Sherbrook</td>
<td>R3C 2B6</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Can Cash Ltd</td>
<td>253-2274</td>
<td>5-208 Marion Street</td>
<td>R2H 0T6</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Cash Money Cheque Cashing</td>
<td>334-9656</td>
<td>1353 McPhillips St. Unit</td>
<td>R2X 3A6</td>
<td>2</td>
<td>CPLA</td>
</tr>
<tr>
<td>Cash Money Cheque Cashing</td>
<td>222-2274</td>
<td>311 Henderson Hwy</td>
<td>R2L 1M4</td>
<td>2</td>
<td>CPLA</td>
</tr>
<tr>
<td>Cash Money Cheque Cashing</td>
<td>452-2274</td>
<td>890 St. James St.</td>
<td>R3G 3J7</td>
<td>2</td>
<td>CPLA</td>
</tr>
<tr>
<td>Cash Money Cheque Cashing</td>
<td>255-2274</td>
<td>1321 Archibald St</td>
<td>R2J 3A4</td>
<td>2</td>
<td>CPLA</td>
</tr>
<tr>
<td>Cash -Money Cheque Cashing</td>
<td>275-2274</td>
<td>647 Portage Ave.</td>
<td>R3B 2G4</td>
<td>2</td>
<td>CPLA</td>
</tr>
<tr>
<td>Cash-X Payday Loans**</td>
<td>949-3617</td>
<td>333 St. Mary Avenue in City Place Mall</td>
<td>N/A</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Cheque Stop Cash Centre Corp</td>
<td>985-5626</td>
<td>443 McPhillips Street</td>
<td>N/A</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Cheque Stop Cash Centre Corp</td>
<td>985-5626</td>
<td>431 Graham Avenue</td>
<td>N/A</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Cheque Stop Cash Centre Corp</td>
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<td>1094 Nairn Avenue</td>
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<td>No</td>
</tr>
<tr>
<td>Instaloans (Not in-store)</td>
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<td>1594 St Mary's Road</td>
<td>R2M 3W4</td>
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<td>No</td>
</tr>
<tr>
<td>Instaloans</td>
<td>697-7710</td>
<td>1155 Main Street</td>
<td>R2W 3S4</td>
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<td>No</td>
</tr>
<tr>
<td>Instaloans</td>
<td>975-5077</td>
<td>859 Portage Avenue</td>
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<td>Instaloans</td>
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<td>B-1417 Henderson N Kld</td>
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<tr>
<td>Instaloans</td>
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<td>120-2855 Pembina Ft Gry</td>
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<td>Instaloans</td>
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<td>Instaloans</td>
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<td>1A-1565 Regent W Trans</td>
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<td>1</td>
<td>No</td>
</tr>
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<td>Instaloans</td>
<td>478-1169</td>
<td>1235 Pembina Hwy</td>
<td>R3T 2A9</td>
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<td>No</td>
</tr>
<tr>
<td>Mogo</td>
<td>6646-9000</td>
<td>203-414 Graham Avenue</td>
<td>N/A</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Money Mart</td>
<td>982-3754</td>
<td>1-620 Dakota Street</td>
<td>R2M 3K1</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>632-9346</td>
<td>24-2188 McPhillips Street</td>
<td>R2V 3C8</td>
<td>1</td>
<td>CPLA</td>
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<tr>
<td>Money Mart</td>
<td>982-3714</td>
<td>215 Henderson Highway</td>
<td>R2L 1M1</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>943-6001</td>
<td>102-294 Portage Avenue</td>
<td>R3C 0B9</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>982-4181</td>
<td>253 Osborne Street</td>
<td>R3L 1Z6</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>982-3724</td>
<td>413 Selkirk Avenue</td>
<td>R2W 2M4</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>982-3727</td>
<td>879 Portage Avenue</td>
<td>R3G 0N8</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>943-9761</td>
<td>101-379 Broadway</td>
<td>R3C 0T9</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>261-5708</td>
<td>1740 Pembina Ft Gry</td>
<td>R3T 2G2</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>982-3700</td>
<td>B-405 Ellice</td>
<td>R3B 1Y8</td>
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<td>CPLA</td>
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<tr>
<td>Money Mart</td>
<td>786-1525</td>
<td>2-666 St James Street</td>
<td>R3G 3J6</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>832-9161</td>
<td>2545 Portage Avenue</td>
<td>R3J 0P1</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>663-0600</td>
<td>103-1601 Regent W Trans</td>
<td>N/A</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>633-3311</td>
<td>95 Oak Point Highway</td>
<td>N/A</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Mart</td>
<td>667-4941</td>
<td>801 McLeod Ave</td>
<td>N/A</td>
<td>1</td>
<td>CPLA</td>
</tr>
<tr>
<td>Money Tree Payday Loans Inc.</td>
<td>632-8733</td>
<td>1376 McPhillips Street</td>
<td>R2X 2M4</td>
<td>3</td>
<td>CPLA</td>
</tr>
<tr>
<td>Moneymax Canada Ltd</td>
<td>944-4999</td>
<td>990 Portage Ave.</td>
<td>N/A</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Payday Loans Cash Now Inc**</td>
<td>784-2274</td>
<td>216-819 Sargent Avenue</td>
<td>R3E 0B9</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Sorensen's Loans'Til Payday Inc</td>
<td>777-2274</td>
<td>313 Day Street</td>
<td>R2C 1B1</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Sorensen's Loans'Til Payday Inc</td>
<td>779-2274</td>
<td>6-510 Sargent Avenue</td>
<td>R3B 1V8</td>
<td>2</td>
<td>No</td>
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<tr>
<td>Name</td>
<td>Phone</td>
<td>Address</td>
<td>Postal Code</td>
<td>Type</td>
<td>Notes</td>
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<tr>
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<td>--------</td>
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<td>-------------</td>
<td>------</td>
<td>-------</td>
</tr>
<tr>
<td>Sorensen's Loans 'Til Payday Inc</td>
<td>586-2274</td>
<td>551 Selkirk Avenue</td>
<td>R2W 2M8</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>586-4729</td>
<td>989 McPhillips Street</td>
<td>R2X 2K3</td>
<td>1</td>
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<tr>
<td>The Cash Store</td>
<td>663-4729</td>
<td>176 Henderson Highway</td>
<td>R2L 1L6</td>
<td>1</td>
<td>No</td>
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<tr>
<td>The Cash Store</td>
<td>786-4729</td>
<td>912 Portage Avenue</td>
<td>R3G 0P5</td>
<td>1</td>
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</tr>
<tr>
<td>The Cash Store</td>
<td>262-2410</td>
<td>584 Pembina</td>
<td>R3M 3X7</td>
<td>1</td>
<td>No</td>
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<tr>
<td>The Cash Store</td>
<td>668-5657</td>
<td>1000 Nairn Avenue</td>
<td>R2L 0Y2</td>
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<td>The Cash Store</td>
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<td>279 Portage Avenue</td>
<td>R3B 2B4</td>
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<td>The Cash Store</td>
<td>774-2292</td>
<td>922 St James Street</td>
<td>R3H 0K3</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>231-3149</td>
<td>25 Marion Street</td>
<td>N/A</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>222-2890</td>
<td>101 Regent Avenue East</td>
<td>N/A</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>632-4463</td>
<td>1020-1030 Keewatin Street</td>
<td>R2R 2E2</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>Xtra Cash Ltd</td>
<td>772-1177</td>
<td>741 Portage Avenue</td>
<td>R3G 0N1</td>
<td>2</td>
<td>CPLA</td>
</tr>
</tbody>
</table>

Sources: Online: Manitoba Yellow Pages, “Loans” section, Manitoba Yellow Pages “Loans” section, CPLA (Canadian Payday Loan Association) website [http://www.cpla-acps.ca/](http://www.cpla-acps.ca/) and some individual payday loan firm websites.

*Type: Big: This means that the firm is one of the three largest payday loan firms that account for the majority of payday loan activity in Canada: Money Mart, Instaloans, and The Cash Store (the last two have the same parent company); Multi: These firms are not nearly as large as the “Big 3”, but they do have multiple locations in Manitoba; Single: These firms have only one location in Manitoba.

**Not included in the counts of ‘bricks and mortar’ firm or outlet as it operates as a call centre.
Appendix 4. Payday Loan Outlets in Other (than Winnipeg) Manitoba Locations, August-September 2007

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Address</th>
<th>Town / City</th>
<th>Big 3 or Not</th>
<th>CPLA or Non</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Cash Store</td>
<td>571-4729</td>
<td>1-2637 Victoria Avenue</td>
<td>Brandon</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>City Cash Company</td>
<td>571-1230</td>
<td>H-435 Rosser Avenue</td>
<td>Brandon</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>The Fastcash Company</td>
<td>725-5208</td>
<td>840 McTavish Avenue</td>
<td>Brandon</td>
<td>No</td>
<td>CPLA</td>
</tr>
<tr>
<td>Instaloans</td>
<td>571-4140</td>
<td>759 1st Street</td>
<td>Brandon</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Money Mart</td>
<td>571-6218</td>
<td>750B Victoria Ave.</td>
<td>Brandon</td>
<td>Yes</td>
<td>CPLA</td>
</tr>
<tr>
<td>(The) Fast Cash Company</td>
<td>638-1500</td>
<td>19 1st Avenue SW</td>
<td>Dauphin</td>
<td>No</td>
<td>CPLA</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>638-4149</td>
<td>210 Main Street North</td>
<td>Dauphin</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Dash Into Cash Ltd</td>
<td>687-4989</td>
<td>41 Main Street</td>
<td>Flin Flon</td>
<td>No</td>
<td>CPLA</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>239-1849</td>
<td>1101 Saskatchewan Avenue West</td>
<td>Portage</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Instaloans</td>
<td>856-2550</td>
<td>50 24th St NW</td>
<td>Portage</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Money Mart</td>
<td>239-4171</td>
<td>10 Saskatchewan Ave. East</td>
<td>Portage</td>
<td>Yes</td>
<td>CPLA</td>
</tr>
<tr>
<td>The Money Pit</td>
<td>773-2662</td>
<td>442 Main Street North</td>
<td>Russell</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Instaloans</td>
<td>785-4070</td>
<td>321 Main Street</td>
<td>Selkirk</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Money Mart</td>
<td>482-5532</td>
<td>295 Main Street</td>
<td>Selkirk</td>
<td>Yes</td>
<td>CPLA</td>
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<tr>
<td>The Fastcash Company</td>
<td>326-4318</td>
<td>329 Main Street</td>
<td>Steinbach</td>
<td>No</td>
<td>CPLA</td>
</tr>
<tr>
<td>The Money Pit</td>
<td>734-4655</td>
<td>626 Main St</td>
<td>Swan River</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>The Cash Store</td>
<td>778-5863</td>
<td>300 Mystery Lake Road</td>
<td>Thompson</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>The Fastcash Company</td>
<td>331-3418</td>
<td>254 Main St</td>
<td>Winkler</td>
<td>No</td>
<td>CPLA</td>
</tr>
</tbody>
</table>

Unmapped PayDay Loan Firms

**Online PDLs in Yellow Pages**

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Address</th>
<th>Town / City</th>
<th>Big 3 or Not</th>
<th>CPLA or Non</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little Loan Shoppe, The</td>
<td>1-877-991-2288</td>
<td><a href="http://www.littleloanshoppe.com">www.littleloanshoppe.com</a></td>
<td></td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>310-Loan</td>
<td>1-800-310-5626</td>
<td><a href="http://www.310loan.com/">www.310loan.com/</a></td>
<td></td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

Winnipeg "Call Centre" Types

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Address</th>
<th>Town / City</th>
<th>Big 3 or Not</th>
<th>CPLA or Non</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altus Finance Ltd.</td>
<td>925-3345</td>
<td>Linden Woods?</td>
<td>Winnipeg</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Cash-X Payday Loans</td>
<td>949-3617</td>
<td>City Place Mall</td>
<td>Winnipeg</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Payday Loans Cash Now Inc</td>
<td>784-2274</td>
<td>216-819 Sargent Avenue</td>
<td>Winnipeg</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Online PDLs on Google Search MANY [http://www.google.ca/search?hl=en&q=payday+loans+winnipeg&meta=]
Appendix 5: Canadian Payday Loan Association: Code of Best Business Practices

No Rollovers
A Member will not grant a customer an extension of an outstanding payday loan for a fee or advance a new payday loan to pay out their existing payday loan.

Multiple Loans
A Member shall not grant multiple payday loans to a customer that in total exceed what the Member initially approved the customer to borrow.

Default and Post-Maturity Interest Charges
A Member shall not charge a penalty fee and/or NSF fee that exceeds an amount set from time to time by the Association. Interest on each $100 of a payday loan in default will not exceed $0.90 per week for the first thirteen weeks and $0.50 per week thereafter.

Credit Counselling
A Member must advise customers who have defaulted twice within one year of credit counselling services, and offer to forgo accrual of interest if the customer obtains credit counselling.

Collateral
A Member may not take title to chattels or assets of a borrower as security for repayment of payday loans.

Collection Practices
A Member will collect past due accounts in a fair, lawful and professional manner. Members are prohibited from taking an assignment of wages.

Loans to Certain Customers
A Member shall not grant payday loans to customers on the basis of social assistance payments received by that customer.

Amount Loaned
A Member shall not grant a payday loan that exceeds $1500.

Term of Loan
A Member shall not grant a payday loan with a term that exceeds 31 days.

Record Keeping
A Member will keep and maintain records of financial transactions with their customers in accordance with standards established by the Association.

Right to Rescind

---

A customer shall have the right to rescind a payday loan at no cost on or before the close of the following business day.

**Privacy Protection**
Members are prohibited from using personal and confidential information for marketing or other purposes unrelated to the payday loan without the consent of the customer and will comply with all privacy laws.

**Selling Other Goods or Insurance**
A Member is prohibited from requiring a customer to obtain insurance as a condition of taking out a payday loan.

**Advertising Standards**
Members will follow the advertising standards as established by the Association and must also comply with all Provincial laws governing advertising.

**Disclosure to Customer**
A Member shall use plain language in their documentation, will disclose all the fees, costs and interest in a clear manner and will prominently indicate the high-cost nature of the payday loan on all loan documentation.

**Education and Awareness Campaigns**
Members shall prominently display the Code of Best Business Practices, the CPLA logo showing membership in the Association, credit counselling and CPLA educational brochures, and information on how customers can contact the Association with complaints or comments.

**Member Non–Compliance**
The Association will ensure Members comply with all elements of the Code. A Member will report to the Association any violation of this Code by any other Member.

**Responding to Consumer Complaints**
A Member must respond diligently to all complaints of their customers. If a customer is not satisfied with redress of their complaint they are invited to contact the Association action line at 1–800–413–0147 or by email at inquiry@cpla-acps.ca. The Association will investigate and take any appropriate and necessary action to resolve customer complaints.
Appendix 6: Mystery Shopper Profiles

Shopper A
- **Description:** Single, white male, early thirties
- **Employment Status:** Part-time student at the University of Winnipeg, part-time employment in administration at the University of Winnipeg, earning about $500 every two weeks. Has been employed there for a year.
- **Assets:** No major assets. Owns an older car
- **Financial situation:** Finances are in very good standing, but has car repairs. Needs about $200. Has never taken a payday loan before and knows almost nothing about them. I ask basic open-ended questions and then decide that I should ask more detailed ones because my girlfriend always gets angry with me when I do not ask enough questions about financial matters.

Shopper B
- **Description:** Single, middle-aged, middle-class white woman.
- **Employment Status:** Works fulltime at a middle-income job as an Administrative Assistant at the University of Winnipeg, earning $1,294.00 semi-monthly. Has been employed there for five and a half years.
- **Assets:** Owns own home (5 years) and older car.
- **Financial situation:** Usually has a bank balance of around $10,000.00, but recently had major repairs done to her house. At the same time, her car had to be repaired three times. She is cash poor, but needs to pay the mechanic by cash before the end of the month. She cannot get an advance on her paycheque, bank won’t lend her the little bit she needs, and all her close friends she could borrow from are on vacation. Has never taken a payday loan before and knows nothing about them. Decides to make notes because she’s shopping around and doesn’t have a good memory for details.

Shopper C
- **Description:** Young, black middle-class woman
- **Employment Status:** University of Winnipeg student. Also works at the University at a 25 hour a week part-time job
- **Assets:** No major assets.
- **Financial Situation:** Has just had an unexpected expense come up and is just looking for $100 to $250 to tide her over till the next pay date.
Appendix 7: Sample of Confidentiality of Personal Information Assurance on a Payday Loan Agreement:

“Our signature on this form provides us with consent to contact such parties as your financial institution, employer, references, spouse/common-law partner, and landlord and authorizes us to release any information, financial, personal or otherwise, as required for the purposes of assessing or verifying your loan eligibility and the information you have provided to us. Your signature on this form grants any such organization we contact permission to provide all information we request to us with respect to our inquiry. As well, we may share your personal and financial information with customer service representatives acting on our behalf who may contact you to monitor and assess customer satisfaction levels. We will continue to collect, use and disclose your personal information until such time as your loan has been repaid.”
Appendix 8. Mapping of Payday Loan Locations in Manitoba and Winnipeg

Figure 1. Payday Loan Outlet Locations in Manitoba (Outside Winnipeg)

Manitoban Payday Loan Companies
Outside of Winnipeg

Rural Payday Loan Firms
By CPLA Membership & "Big 3" Status
- CPLA Member - Not in Big 3
- CPLA Member - Yes in Big 3
- Non-CPLA - Not in Big 3
- Non-CPLA - Yes in Big 3

Note: Big 3 Status means that the store is either a Money Mart, The Cash Store, or Instaloans outlet.

Base Map Source: DMTI Spatial
Figure 2. Payday Loan Outlet Locations in Winnipeg

Base Map Source: DMTI Spatial
Figure 3. Payday Loan Outlet Locations & Bank Branch Closures (2002-2007) in Winnipeg

Base Map Source: DMTI Spatial; Bank Closure Data Source: FCAC – Financial Consumer Agency of Canada
Figure 4. Payday Loan Outlet Locations & Neighborhood Median Household Income

Neighbourhood Attribute Variable: Median Household Income

Neighbourhood Variable
Median Household Income
- $0 - $28,170
- $28,171 - $41,725
- $41,726 - $56,441
- $55,442 - $77,953
- $77,954 - $113,000

Base Map Source: DMTI Spatial
Neighbourhood Data Source: Statistics Canada 2001 Census
Figure 5. Payday Loan Outlet Locations & Neighborhood Incidence of Low-income

Neighbourhood Attribute Variable: Incidence of Low Income

Neighbourhood Variable
Incidence of Low Income

- 0.0 - 8.48
- 8.41 - 19.20
- 19.21 - 32.00
- 32.01 - 48.20
- 48.21 - 52.00

Base Map Source: DMTI Spatial
Neighbourhood Data Source: Statistics Canada 2001 Census

PayDay Loan Locations

- Big 3, CPLA Member
- Big 3, Non-member
- Not Big 3, CPLA Member
- Not Big 3, Non-member

Inner City
Major Streets
Other Streets
No Data Neighbourhoods
Figure 6. Payday Loan Outlet Locations & Neighborhood % of Population Spending 30% or More of Income on Shelter

Neighbourhood Attribute Variable: Percent of Population Spending 30% or More of Income on Shelter

Neighbourhood Variable
30% or More of Income Spent on Shelter
- 3.10 - 11.40
- 11.41 - 16.70
- 16.71 - 23.40
- 23.41 - 34.00
- 34.01 - 54.80

Base Map Source: DMTI Spatial
Neighbourhood Data Source: Statistics Canada 2001 Census

PayDay Loan Locations
- Big 3, CPLA Member
- Big 3, Non-member
- Not Big 3, CPLA Member
- Not Big 3, Non-member
- Inner City

Major Streets
Other Streets
No Data Neighbourhoods
Figure 7. Payday Loan Outlet Locations & Neighborhood % of Population Aged 20 or More with Less than High School Completed
Figure 8. Payday Loan Outlet Locations & Neighborhood % of Population Self-identified as Aboriginal

Neighbourhood Attribute Variable: % of Population Self-Identified as Aboriginal

Neighbourhood Variable
% of Population Self-Identified as Aboriginal
- 0.00 - 4.50
- 4.51 - 9.00
- 9.01 - 16.99
- 17.01 - 32.20
- 32.21 - 64.50

Payday Loan Locations
- Big 3, CPLA
  - Big 3, CPLA Member
  - Big 3, Non-member
  - Not Big 3, CPLA Member
  - Not Big 3, Non-member

Inner City
Major Streets
Other Streets
No Data Neighbourhoods

Base Map Source: DMTI Spatial
Neighbourhood Data Source: Statistics Canada 2001 Census
Figure 9. Payday Loan Outlet Locations & Neighborhood % Population Visible Minority

Neighbourhood Attribute Variable: Visible Minority as % of Population
Figure 10. Payday Loan Outlet Locations & Neighborhood Absolute Number of Population Aged 15-34
Figure 11. Payday Loan Outlet Locations & Neighborhood % Population Aged 15-34
Neighbourhood Attribute Variable: Percent of Population Aged 15 - 34