Short-Term Gain, Long-Term Pain:
Examining the Growing Payday Loan Industry in B.C.

Highlights

- Residents of British Columbia are using payday loans at an increasingly higher rate (per capita) than residents of other provinces.
- Between 2012 and 2014, the number of payday loan borrowers in British Columbia grew 58%. During the same time period, the size of the industry (measured by number of dollars lent) grew to more than $385 million from about $318 million.
- British Columbia has the highest rate of working age people living in poverty, which may be contributing to the growth of payday lending usage in B.C.
- Between 2012 and 2014, the number of individuals in B.C. with more than 15 payday loans grew nearly 604%.
- Between 2012 and 2014, the total cost of credit (fees and interest associated with loans) in B.C. increased 19% to over $84 million from about $68 million.
- There are an estimated 1,400 payday-lending locations operating throughout the Canada.[1]
- In 2014, 5.56% of British Columbians (more than 198,000 adults) used payday loans, compared to 5.43% of adults in Alberta, 5.42% of Saskatchewan adults, 3.89% of Manitoban adults, and 4.02% Ontarian adults.
- Compared to payday loan borrowers in other provinces, British Columbians are more likely to use payday loans to make ends meet. Nearly three-quarters (72%) of payday loan borrowers in British Columbia say they would take out a payday loan if they needed $300, compared with 56% of Manitoba residents.
- 54% of payday loans users in B.C. said access to emergency cash to pay for necessities is the top reason for taking out a payday loan.
- Of payday loan borrowers in British Columbia, 21% say the main reason they used payday loans was because they had no alternative.
- Online lending has made it faster and easier to access payday loans. If Canada follows the United States and Australia, domestic online lending is likely to grow substantially. Borrowing online from another jurisdiction may not offer the same rights and consumer protections.
- The majority of Canadian payday loan borrowers are the “working poor” – individuals who are employed, yet live at or below the poverty line.
- In B.C., the majority of payday loan borrowers are middle aged, low-income, employed, somewhat indebted and have completed post-secondary education.
- About 20% of payday loan borrowers in B.C. take out between six and 10 payday loans per year.

The report provides recommendations for governments, financial institutions and consumers:

- In lieu of federal legislation, provinces should consider standardizing payday lending legislation.
- Financial institutions should provide improved access to small-dollar loans.
- Consumers in British Columbia are encouraged to research alternative products to payday loans, and use Consumer Protection BC’s licensee search tool to ensure potential lenders – including those offering online payday loans or alternatives – are licensed.

Introduction

Since the early 1990s, the Canadian payday lending industry has provided millions of consumers with quick access to small-dollar, short-term credit. A payday loan is a small-dollar, short-term loan that borrowers commit to paying back when they receive their next paycheque, usually within 14 days. In Canada, payday loans are capped at $1,500, with a maximum term length of 62 days. Depending on the province, borrowers can borrow between 30-50% of their take-home pay. To receive a loan, borrowers must provide a post-dated cheque for the total amount of the loan and any accompanying fees. When the loan comes due, the lender deducts the funds directly from the borrowers' bank account.

Since many borrowers are unable to pay back the full amount of the loan in such a short period of time, many individuals resort to taking out additional loans to pay back the initial loan. Payday loans therefore often lead borrowers into a cycle of debt, from which it can be difficult to escape.

Payday loans generally have high fees and high interest rates. For example, borrowing $100 for two weeks can cost anywhere from $17 (Manitoba) to $23 (British Columbia) or $25 (Prince Edward Island). A $17 fee on a two-week, $100 loan is equivalent to paying 442% annually. A $25 fee is equivalent to paying 650% annually.[2]

However, for many consumers, especially those with tarnished credit histories and negative experiences with banks, payday loans may be the only way to manage fluctuations in income or cover an emergency expense. As a result, payday loan usage has become increasingly common in Canada. According to the Canadian Payday Loan Association, about two million Canadians currently use payday loans annually and there are an estimated 1,400 payday-lending locations operating throughout the country.[3]

In British Columbia, payday loan usage has grown especially rapidly. In 2014, 198,003 individuals used payday loans, compared to 125,172 individuals in 2012. This represents an increase of 58% over a two-year period. During this same period, the total amount of money lent through payday loans increased 21%, to more than $385 million from about $318 million.[4] While this industry growth has likely been driven by a number of factors, high poverty rates and a dearth of affordable financial services is likely contributing to the high payday loan usage rates throughout the province.

This report provides an overview of the payday lending landscape in British Columbia compared to the rest of the country and explores the underlying factors contributing to the growth of the industry in recent years. It puts forth a series of recommendations to help ensure consumers have access to high-quality and affordable small-dollar credit.

Overview of the Canadian payday lending industry

Payday lending landscape

According to the Canadian Payday Loan Association (CPLA), approximately two million Canadians make use of payday loans annually. There are an estimated 1,400 payday lending outlets throughout the country. A few large players, including Dollars Direct and Money Mart, dominate the landscape.[5]

Industry growth

Although concrete numbers on the current size and growth of the Canadian payday lending industry are not available, provincial data suggest that the payday lending industry is growing at the national level (Chart 1). British Columbia and Nova Scotia, the only two provinces for which data is available, grew an astounding 21% and 16%, respectively from 2012 to 2014.[6]

Chart 1: Total loan volume

	2014	2013	2012	% Change (2012-2014)
British Columbia	$385,303,137	$351,354,396	$318,149,042	21%
Nova Scotia	$89,276,435	$85,331,013	$77,063,652	16%
Ontario	$1,300,000,000	data not available	data not available	

Source: BC Aggregated Payday Loan Data, Consumer Protection BC, 2014

The growth of the payday lending industry in Canada is likely the result of a number of factors. Over the past two decades, Canadians' debt load has increased faster than their incomes; in 2014, 12% of households had a total debt-to-income ratio above 250%, nearly double the level in 2000.[7] Employers, many of whom had provided salary advances to financially strapped employees, have largely abandoned this practice. At the same time, banks have tightened access to traditional forms of credit. Additionally, online access to payday loans has made it faster and easier than ever to access these loans.

Payday loan borrowers

It can be challenging to identify the demographics of payday loan users because of inconsistent data collection across the provinces, and few studies are in the public domain. Data available indicates the majority of Canadian payday loan borrowers are the "working poor" – individuals who are employed, yet live at or below the poverty line.[8] In 2005, the Financial Consumer Agency of Canada (FCAC) created a profile of the dominant characteristics of payday loan borrowers. The majority of payday loan borrowers were men between the ages of 18 and 34, with annual incomes of less than $30,000, living in the Western provinces, who had completed some post-secondary education.[9] However, a 2007 Payday Loan Customer Survey by Pollara indicates that the average age of payday loan users in B.C. is 40, with 44% of these users earning an income greater than $50,000.

Online lending

Statistics on the overall size of the online payday lending are not available for Canada; however, a comparison of like countries provides plausible similarities to what may be occurring. In the United States and Australia, about one-third of all payday loan transactions are conducted online.[10] In the United Kingdom, more than 80% of payday loan transactions are conducted online.[11] Since a smaller proportion of Canada's overall economy takes place online, it is likely that a smaller proportion of Canadian payday lending transactions occur online.[12] Like the United States, it is also likely that younger consumers are more likely to borrow online than older customers.[13] However, in the coming years, online lending is likely to grow substantially in Canada, as it is globally.

Payday lending in British Columbia

Background

British Columbia has one of the highest rates of poverty in Canada. Approximately 1 in 10 British Columbians (469,000 people) are living in poverty. The province also has one of the highest poverty rates in Canada of working age people (18-64 years).[14] After the 2008 global financial crisis and recession, British Columbia experienced a sharp increase in poverty, from which it has yet to fully recover.[15] These macroeconomic trends, coupled with a dearth of affordable financial services (explored later in this report), may be contributing to the higher payday loan usage rates observed in British Columbia compared to the rest of the country.

Growth of the industry

British Columbians are increasingly turning to payday loans to meet their need for short-term, small-dollar credit. Between 2012 and 2014, the number of British Columbians using payday loans grew by 58% to 198,003 borrowers from 125,172 (Chart 2). The total amount of money lent through payday loans increased during this period from $318 million to more than $385 million, representing an astounding industry growth rate of 21%. The only other province for which this data is available, Nova Scotia, grew at a rate of 16% (Chart 1).[16] During this same time period, the total cost of credit (the fees and interest associated with loans) in British Columbia increased 19% to $84,337,727 from $68,414,329, and the average size of a payday loan increased to $499 from $431 (Chart 2).

Chart 2: Growth of the payday loan industry in British Columbia

	2014	2013	2012	% Change (2012-2014)
Total # of individual borrowers	198,003	146,701	125,172	58%
Total loan volume	$385,303,137	$351,354,396	$318,149,042	21%
Total cost of credit	$84,337,727	$76,416,309	$68,414,329	19%
Average $ loan amount	$449	$441	$431	4%

Source: BC Aggregated Payday Loan Data, Consumer Protection BC, 2014

Rate of borrowing by province

British Columbians use payday loans at a higher rate than residents of other provinces. Chart 3 shows the total number of borrowers who used payday loans in 2014, compared to the total population of that province. Some 5.56% of British Columbians used payday loans in 2014, compared to 5.43% of Alberta residents, 5.42% of Saskatchewan residents, 3.89% of Manitoba residents, and 4.02% of Ontario residents.[17]

Chart 3: Per cent of payday loan borrowers out of total adult population

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario
Total number of borrowers	198,003	153,000	43,000	36,000	408,000
Total adult population of province	3,558,685	2,818,970	792,740	925,040	10,157,955
Rate of borrowing	5.56%	5.43%	5.42%	3.89%*	4.02%*

Source: BC Aggregated Payday Loan Data, Consumer Protection BC, 2014
* Statistically different from BC @ 95% confidence

Payday loan usage by province

Chart 4 depicts key descriptive statistics about payday loan use in British Columbia compared to payday loan use in other provinces. The average cost of credit in British Columbia ($98) is slightly higher than the average cost of credit in Ontario ($97) and Nova Scotia ($95.26), but it is less than the average cost of credit in Alberta ($109). The average size of a payday loan in British Columbia ($449) is higher than the average size of a payday loan in Nova Scotia ($433), but it is less than the average size of a payday loan in Ontario ($460) and Alberta ($472).

Chart 4: Payday loan usage by province population

	British Columbia	Alberta	Ontario	Nova Scotia
Average cost of credit	$98	$109	$97	$95.26
Average loan size	$449	$472	$460	$433

Source: Consumer Protection BC, 2014

Demographics of payday loan borrowers

As with payday loan borrowers nationwide, most British Columbian borrowers are considered the "working poor." Chart 5 shows a comparison of payday loan borrowers across six provinces.[18] Although cross-province insights cannot be gleaned from these numbers because they are not statistically representative, the data suggest that the majority of payday loan borrowers in British Columbia are middle aged, low-income, educated, employed and somewhat indebted.[19] This slightly differs from the average Canadian borrower as defined by FCAC in 2005, which found the majority of payday loan borrowers in Canada were men between the ages of 18 and 34.

Reliance on payday loans

Compared to residents of other provinces, British Columbians who use payday loans are more likely to turn to payday loans to make ends meet until their next paycheque (Chart 6). Nearly three-quarters of recent payday loan customers say they would turn to payday loans if they needed $300 before their next payday. This is significantly higher than residents of Alberta (65%), Manitoba (56%), and Ontario (65%). Likewise, fewer British Columbians say they could "do without or wait until payday" compared to residents of Alberta, Manitoba and Ontario.

Chart 5: Demographics of payday loans borrowers by province population

	British Columbia	Saskatchewan	Manitoba	Ontario	New Brunswick and Nova Scotia
Average age (yrs)	40	38	38	39	39
Income > $50,000	44%	51%*	48%	58%*	49%
Completed post-secondary education	53%	53%	46%**	51%	59%**
Employed full-time	77%	71%**	77%	68%*	76%
Average debt	$22,765	$26,855	$24,356	$23,579	$23,149

Source: Payday Loan Customer Surveys, Pollara, 2007
* Statistically different from BC @ 95% confidence
** Statistically different from BC @ 90% confidence

Chart 6: Response to "What would you do if you needed $300 before your next payday?"

	British Columbia	Alberta	Manitoba	Ontario
Use a payday advance or payroll loan company	72%	65%**	56%*	65%**
Borrow from a family member	19%	16%	16%	16%
Borrow from a friend	14%	10%	11%	10%
Get a cash advance from credit card	12%	11%	12%	11%
Do without/wait until payday	7%	14%*	13%*	14%*

Source: Payday Loan Users, Environics, 2013
* Statistically different from BC @ 95% confidence
** Statistically different from BC @ 90% confidence
Respondents could select multiple answers

Repeat usage among payday loan borrowers

Despite regulation limiting the extent to which borrowers can borrow multiple loans from a single provider (discussed later in this report), many payday loan borrowers have multiple payday loans over the course of a year. Chart 7 shows the number of individuals in British Columbia who took out multiple payday loans within a single year. While a quarter of payday loan borrowers had one loan, 20% of borrowers had between six and 10 loans, and 15% of borrowers had more than 11 loans. The number of individuals with multiple payday loans has grown significantly in recent years: from 2012 to 2014, the number of individuals with more than 15 loans grew a staggering 604%.

These findings are in line with a June 2014 poll conducted by Vancity credit union that found 67% of payday loan users in the Lower Mainland and Greater Victoria are borrowing several times a year; 35% of these borrowers took out a payday loan once a month or more.[20]

Reasons for borrowing

The top three reasons why payday loan borrowers in British Columbia use payday loans are to access emergency cash to pay for necessities, to cover an unexpected expense, and to avoid late charges on bills (Chart 8).[21]

These findings are in line with findings from other provinces and data collected at the national level. They are also corroborated by findings from Vancity's 2014 poll, which found 38% of payday borrowers in the Lower Mainland and Greater Victoria borrowed payday loans because they had an unforeseen expense; 37% of payday borrowers took out a loan because they were getting behind on their bill payments.[22]

Chart 7: Individuals by number of payday loans in a year (B.C.)

	2014	2013	2012	% of Total Borrowers (2014)	% Change (2012- 2014)
# of individuals with 1 loan	49,628	33,074	16,857	25%	194.41%
# of individuals with 2 to 5 loans	77,416	55,104	26,948	39%	187.28%
# of individuals with 6 to 10 loans	40,509	34,077	18,809	20%	115.37%
# of individuals with 11 to 15 loans	21,585	17,723	11,049	11%	95.36%
# of individuals with > 15 loans	8,865	6,608	1,260	4%	603.57%
Total	198,003	146,586	74,923	—	—

Source: BC Aggregated Payday Loan Data, Consumer Protection BC, 2014

Chart 8: Reasons for borrowing payday loans

	British Columbia	Alberta	Manitoba	Ontario
For emergency cash to pay for necessities	54%	56%	58%	52%
To help out with an unexpected expense	38%	37%	30%**	33%
To avoid late charges on routine bills	25%	23%	20%	22%

Source: Payday Loan Users, Environics, 2013
** Statistically different from BC @ 90% confidence

Why borrowers choose payday loans

Chart 9 depicts the most important reasons borrowers say they chose payday loans. Compared to borrowers in other provinces, British Columbians were more likely to borrow payday loans because they had "no alternative source for borrowing" (21%).

Chart 9: Most important reason why borrowers chose payday loans

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	New Brunswick and Nova Scotia
Quick and easy process	47%	48%	66%*	51%	51%	55%*
Convenient location	21%	24%	20%	20%	18%	18%
No alternative source for borrowing	21%	15%*	23%	15%*	15%*	15%*
Structure forces me to pay back more quickly	8%	3%*	5%**	3%*	7%	8%
Less expensive than other forms of credit	7%	4%**	4%**	4%**	4%**	4%**

Source: Payday Loan Customer Surveys, Pollara, 2007
* Statistically different from BC @ 95% confidence
** Statistically different from BC @ 90% confidence
Respondents could select multiple answers

Characteristics of payday loan borrowers by gender

Male and female payday loan borrowers in British Columbia differ from each other in a few key ways (Chart 10). Male payday loan borrowers are more likely than female borrowers to have used a personal loan in the past (69% vs. 50%). Female borrowers report having more knowledge of the fees related to their savings or chequing account than male borrowers (76% vs. 62%). Female borrowers are more likely than male borrowers to report having two credit cards (49% vs. 17%). And male borrowers are more likely than female borrowers (10% vs. 4%) to say that if they needed $300 a few days before their next payday, they would figure out a way to do without it.

Chart 10: Characteristics of British Columbian payday loan borrowers by gender

	Male	Female
Have ever used a personal loan	69%	50%
Knowledge of approximate fees of savings and chequing accounts	62%	76%
Currently own two active credit cards	17%	49%
Would figure out a way to "do without" if needed $300 before next paycheque	10%	4%

Source: Payday Loan Users, Environics, 2013

Financial health of payday loan borrowers

Although research on the impact of payday loans on Canadian borrowers' financial health is not available, research from the Center for Financial Services Innovation (CFSI) sheds light on the relationship between payday loan borrowing and consumers' financial health. Data from CFSI's Consumer Financial Health Study shows that U.S. payday loan borrowers are significantly more likely to be financially unhealthy than financially healthy (Chart 11); a staggering 94.7% of payday loan borrowers are considered financially coping or vulnerable.[23]

Chart 11: Percentage of payday loan borrowers by financial health segment

	Healthy	Coping	Vulnerable
Percent of payday loan borrowers in segment	5.3%	29.1%	65.6%

Likewise, payday loan borrowers are significantly more likely than non-payday loan borrowers to express negative sentiments about their financial health (Chart 12).[24] It is unclear whether payday loan borrowers are financially unhealthy because they borrow payday loans or whether they borrow payday loans because they are financially unhealthy and cannot access more affordable products. Regardless, these data suggest there is a negative relationship between payday loans and borrowers' financial health.

Chart 12: Financial stress and payday loan borrowers

	Payday loan borrowers	Non-payday loan borrowers
My finances cause me significant stress	49.9%	25.3%
I always find myself living pay cheque to pay cheque	66.9%	30.6%
I am not confident that I can meet my short-term saving goals	76.5%	46.2%
I am not confident that I can meet my long-term goals for becoming financially secure	69.2%	53.7%

Payday lending regulation

Regulatory overview

In 2007, the Canadian federal government gave each province the authority to regulate payday lenders.[25] Since then, six provinces – British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia – have enacted legislation. Two others – Prince Edward Island and New Brunswick – have proposed legislation.

Similarities across provinces

Each of the provinces that regulate payday loans cap the loans at $1,500 with a maximum term length of 62 days. Each of the provinces bans "rollovers" by requiring that a borrower repay one loan before receiving another loan from the same lender. Although specific disclosure requirements vary by province, each province has rules governing the disclosure of fees and licenses at the point of sale. Each province also mandates that lenders allow loans to be repaid early without penalty and prohibits lenders from collecting fees before the loan matures or from garnishing wages for repayment.[26]

Differences across provinces

Beyond these similarities, payday legislation varies significantly by province. Each province has different legislation governing the amount an individual can borrow up to $1,500, the disclosure of the annual percentage rate (APR), the cost of a loan, and the rate of interest that can be charged if a loan is not repaid (Chart 13). On the following page is a discussion of some of the notable differences between British Columbia and other provinces.

Chart 13: Payday regulation by province

	B.C.	Alberta	Saskatchewan	Manitoba	Ontario	Nova Scotia	New Brunswick	P.E.I.[27]
Size of loan	$1,500 or 50% of net pay	$1,500	$1,500 or 50% of net pay	$1,500 or 30% of net pay	$1,500	$1,500	N/A	$1,500
APR disclosure required	Yes	Yes	No	Yes	No	Yes	N/A	No
Max. fee per $100 borrowed	$23	$23	$23	$17	$21	$22	$25	$25
Post-Default Interest Rate	30%	2.5%/ month	30%	2.5%/ month	No cap on interest rates	60%	Regulation pending	No cap on interest rates

- **Size of the loan**
  British Columbians can borrow a payday loan up to $1,500 that is within 50% of their net take-home pay. This is the same amount that a resident of Saskatchewan can borrow, but it is more than a resident of Manitoba can borrow because Manitoba caps loans at 30% of borrowers' net pay. Residents of Alberta, Ontario, Nova Scotia, and Prince Edward Island can borrow up to $1,500 regardless of their income.
- **Maximum fees**
  Like the other provinces, British Columbia caps payday loan fees. For every $100 borrowed, lenders in B.C., Alberta and Saskatchewan can charge no more than $23, including all fees and interest (except for interest charged if the borrower defaults). Manitoba has set this fee at the low end at $17, while Prince Edward Island has the highest fee at $25.[28]
- **APR disclosure**
  British Columbia, like most provinces, requires lenders to display the cost of a loan in the form of an annual percentage rate (APR). The rationale for this provision: viewing costs as an APR allows consumers to more easily compare the costs of payday loans to other forms of credit, such as credit cards and bank loans. Payday lenders fought this regulation for many years, arguing that it is "equivalent to making hotel rooms disclose the cost of renting a room for a year or making taxi cabs show customers how much it costs to take a cab in Chicago." Ontario, Saskatchewan and Prince Edward Island do not require APR disclosure.[29] However, even with APR disclosure – as Vancity discovered in in-depth interviews with payday loan borrowers – many borrowers do not believe they are being charged up to 600% APR; instead they *incorrectly* equate $23 per $100 borrowed for two weeks to 23% interest.
- **Interest rates after default**
  British Columbia caps the interest rate charged on a loan when a customer defaults at 30% per annum on the remaining principle, which is half as high as the federal limit of 60%. This regulation is stricter than it is in Nova Scotia, which also has a 60% cap, and in Ontario and Prince Edward Island, which do not cap the default interest rate that lenders can charge.
- **Other**
  Under British Columbia legislation, if a borrower takes out three loans from the same provider in a 62-day period, an "extended payment plan" obligation is triggered in which payment of the third loan can be spread over a longer period.[30] This policy is designed to ease the burden on borrowers and help them break a cycle before they get in too deep.

Recent regulatory developments

A slew of recent developments at both the provincial and the municipal levels have been re-shaping the payday lending environment in Canada.

By province

- **Alberta**
  The provincial government of Alberta has been conducting a survey to assess the province's payday lending industry to strengthen consumer protection laws for payday loan borrowers. Alberta launched this survey in response to concerns about the high interest rates being charged by payday lenders. Provincial authorities say they hope to announce new payday loan regulations in March 2016.[31]
- **Manitoba**
  In September 2015, Manitoba's Consumer Protection Office levied a $5,000 fine on the payday loan company 5117951 Manitoba Ltd. (operating as The Pas Title Loans) for offering borrowers loans that exceeded the allowable proportion of their net pay.[32]
- **Ontario**
  In December 2015, the provincial government proposed legislation to increase protections for consumers who use high-cost alternative financial services. If passed, the Alternative Financial Services Statute Law Amendment Act would make amendments to the Payday Loans Act, Consumer Protection Act and the Collection and Debt Settlement Services Act. Changes would give payday loan users more information about products, a longer repayment period option and a cap on fees for cheque-cashing services. Expanded rules against unfair collection practices regarding overdue debts are also proposed. New regulations are anticipated to be in place for 2017.

Municipal developments

- **Calgary**
  In November 2015, the Calgary city council voted to restrict the number of payday loan operators in any given area so that payday lenders cannot cluster in poor areas. Henceforth, payday-loan operators will not be able to operate within 400 metres of each other. (Existing payday businesses will be grandfathered under the new land-use regulation.) The move mirrors regulations that exist in other jurisdictions in Canada, and is similar to the rules governing liquor stores in Calgary, which can not operate within 300 metres of each other.[33]

- **Lethbridge**
  In August, 2015, Lethbridge city council voted to raise fees for payday loan business licenses by about $1,000 per year. The additional revenue would be used to support community financial literacy programs. A revision to the Land Use Bylaw was also approved, which would limit the distance between new payday loan companies and existing ones, as well as their proximity to permanent gaming establishments.

- **Red Deer**
  Red Deer has increased the regulation of payday lenders in their city. In August 2015, the Red Deer city council voted to assist with lobbying efforts to limit the interest that payday lenders can charge on their loans. The Central Alberta Poverty Reduction Alliance and the Alberta Urban Municipalities Association are also aligned with this effort.[34]

- **Hamilton**
  Hamilton is considering legislation that would make it the first city in Ontario to license payday lending stores at the municipal level. Among other consumer protections, the city is considering limiting the amount and number of loans that borrowers can receive, and establishing a database to allow lenders to track borrowers' outstanding debts with other lenders. City staff are currently assessing the feasibility of such legislation.[35]

- **Burnaby**
  In June 2015, Burnaby city council was asked to authorize a bylaw amendment that would limit new payday loan locations to zoning districts in the city specifically for pawn shops and second-hand stores. Under current zoning bylaws, payday loan shops are considered a bank and are permitted in commercial and neighbourhood districts. The proposed amendment will eventually go to public hearing.

- **Maple Ridge**
  New payday loan centres are banned from opening up in Maple Ridge, B.C. In April 2015, existing payday loan stores were permitted to keep operating, but a bylaw was passed making it impossible for new ones to open.

- **Chilliwack**
  In December 2015, Chilliwack council voted to ask the federal government to decrease the maximum interest rate that can be charged on short-term loans.

Online lending

With the migration of payday lending to online channels, borrowers have cheaper, faster and more convenient access to credit than ever before. However, the growth of online lending has raised jurisdictional and enforcement quandaries for regulators. A report from the Consumers Council of Canada poses the following questions: "What if the borrower and lender are not in the same province? What if they are not in the same country? What if the borrower does not know who the lender is, having dealt only with a lead generator?"[36]

For example, if a borrower in British Columbia accessed a loan from an online lender headquartered overseas and had a dispute with the lender, it is unclear where that borrower would turn to resolve it. At this point, it appears unlikely that existing consumer protection legislation at the provincial or federal level could adequately protect the above mentioned consumer's rights.[37]

Complicating these questions is the fact that very little data is available about the nature and use of online payday lending in Canada. The one comprehensive study of this industry is the Consumers Council study cited above, which conducted an audit of online payday lenders across the country and found that the majority of audited sites were not licensed.[38] Unfortunately, unlicensed lenders were less likely to comply with provincial lending regulations, such as fee disclosure requirements, than licensed lenders (Chart 14).

Chart 14: Percent of lenders in compliance with provincial fee disclosure requirements

	Licensed Lenders	Unlicensed Lenders
British Columbia	86%	33%
Alberta	100%	13%
Saskatchewan	100%	0%
Manitoba	100%	10%
Ontario	89%	25%
Nova Scotia	100%	25%
Quebec	NA	0%
New Brunswick	NA	11%
Prince Edward Island	NA	11%
Newfoundland	NA	0%
Yukon	NA	25%

Source: Consumer Experiences in Online Payday Lending, 2015

Customer awareness of regulation

Despite licensing and fee disclosure requirements, most Canadians do not realize that the payday loan industry is regulated. Chart 15 shows that slightly more than half of British Columbian payday loan borrowers (52%) know that payday loans are regulated.[39] This is higher than borrowers in other provinces – just 44% of Ontario borrowers, 40% of Alberta borrowers, and 41% of Manitoba borrowers know this – but it reflects a low level of overall borrower knowledge and awareness. There is clearly an opportunity to educate British Columbians and Canadians as a whole about payday loan regulation and the accompanying consumer protections.

Chart 15: Percent of surveyed borrowers aware that payday loans are regulated

	British Columbia	Ontario	Alberta	Manitoba
Percent of surveyed borrowers who are aware payday loans are regulated	52%	44%**	40%*	41%*

Source: Payday Loan Users, Environics, 2013
* Statistically different from BC @ 95% confidence
** Statistically different from BC @ 90% confidence

Recommendations

The Canadian payday lending industry provides millions of consumers with quick and easy access to credit. However, because of the costly nature of these loans, many borrowers find themselves stuck in a cycle of repeat usage and mounting debt that undermines their ability to build financial health. In British Columbia, this problem is particularly acute, as B.C. borrowers are more likely to use payday loans because they view them as their best credit option. The following recommendations are for all levels of government, financial institutions and consumers, and can help ensure consumers have access to high-quality and affordable small-dollar credit, both in British Columbia and the rest of Canada.

Government

- **The federal government should commission research to better understand the Canadian payday lending industry and to potentially regulate federally.** Comprehensive data about the size, scope, growth and composition of the Canadian payday lending industry does not currently exist. Moreover, most of the existing consumer-focused studies have been undertaken by the Canadian Payday Loan Industry (CPLA), an industry trade group that may not have brought an impartial eye to this work. Much of this research is also dated; this report draws on a 2007 study from the CPLA because more recent information is not available. Updated consumer research conducted by an impartial, third-party entity is needed to better understand how borrowers use payday loans for a clearer understanding of the users, and providers, in Canada's payday lending marketplace. Finally, very little is known about the Canadian online payday lending industry. Without research that captures the size, scope, and challenges of this industry, regulating such a complicated and diffuse industry will be nearly impossible.
- **Provincial governments should consider creating and/or enhance consumer protection bureaus.** Much of the data from this report came from Consumer Protection BC, a not-for-profit corporation that protects consumers and encourages a fair marketplace in British Columbia. Other provinces have consumer protection bureaus as well, but few provinces appear to be as robust as British Columbia's agency. Consumer Protection BC could serve as a model for the country, especially with regard to the collection of data and the support of customer education.
- **Provinces should consider standardizing payday lending legislation.** With municipalities increasingly taking it upon themselves to enact new legislation, the Canadian payday lending regulation is at risk of becoming complicated and inconsistent. This may stifle innovation by making it harder to introduce high-quality products at scale. It may also lead to unregulated lenders taking advantage of regulatory gaps or loopholes and conduct activities consumers might assume are permissible. In the United States, regulating the industry on a state-by-state basis has proven ineffective, as payday lenders have simply located themselves on state lines. As payday lending increasingly moves online, beyond the jurisdiction of local municipalities, regulating the industry inconsistently will prove ineffective. Instead, city governments working with their provincial counterparts will be better poised to enact more robust and uniform consumer protections.
- **Increase enforcement of provincial legislation.** Consumer education alone will not be enough to remove bad actors from the payday lending industry. Instead, increased enforcement action will be necessary to ensure that all payday lenders are licensed and compliant with provincial legislation. Since the regulation and enforcement of online lenders is complicated by the legal and jurisdictional questions posed earlier in this report, looking to other countries may shed light on industry best practices. The United Kingdom, where 80% of payday lending takes place online, may be a particularly illustrative example.

- **Improve consumer rights awareness.** By law, B.C. payday lenders must provide a signed copy of the loan agreement to the consumer at the time of signing, while total fees must never be more than 23% of the amount borrowed (or 30% in the case of a default). Payday lenders must have posters showing the rates they charge. In B.C., it is also illegal for these lenders to ask for money upfront.

Financial institutions

- **Increase access to other forms of affordable, high-quality credit.** Borrowers in British Columbia are more likely to say they use payday loans because they do not have other options. These findings suggest there is a dearth of affordable and high-quality credit options in B.C. Banks, credit unions and other financial service providers should explore solutions for innovative products and services that provide consumers with access to affordable and high-quality credit for smaller amounts.
- **Provide financial education.** Financial institutions should educate consumers on financial planning and help them save and budget in order to pay debts and put money aside for financial emergencies

Payday loan industry associations

- **Improve knowledge and awareness of payday regulations.** Although British Columbians are slightly more aware than consumers in other provinces that payday loans are regulated, nearly half of British Columbian payday loan borrowers do not realize this fact. Since licensed lenders are more likely to comply with provincial regulations and are more likely to have consumer-friendly practices than unlicensed lenders, educating consumers about payday loan regulation is imperative. Moreover, since licensed lenders generally display their licensing status in storefronts and on websites, educating consumers about borrowing rights can help them patronize licensed lenders with more affordable rates and supportive policies.

Consumers

- **Research alternatives that can build credit history.** Financial institutions may offer an alternative to payday loans, including micro loans or lower-interest credit cards. Unlike payday loans, financial institutions report payments for credit products to the credit bureau agencies. Regular and on-time payments may help increase credit scores and allow for future access to more traditional lending products such as other loans, lines of credits, and mortgages, or more favourable lending terms, including better interest rates over time. Other, more affordable options to payday loans may exist that also help establish a credit history.
- **Access Consumer Protection BC's licensee search tool.** To ensure the lender is licensed (as required of all payday lenders operating in B.C.) use the license search tool at www.paydayloanrightsbc.ca.

Methodology

Primary and secondary research and data analysis for this report were conducted by Thea Garon and John Thompson at the Center for Financial Services Innovation (CFSI). In addition to secondary sources, the researchers spoke with local consumer protection agencies and additional data was obtained from Consumer Protection BC. The research for this report was conducted in November and December of 2015.

Disclaimer: *While Vancity commissioned this report, neither it nor the desk researcher who, at Vancity's request, conducted the research of primary and secondary sources referred to in the report is responsible for the accuracy of that data or information.*

Appendix

Chart 16: Payday lending in British Columbia (2012-2014)

	2014	2013	2012	% Change 2012/2014	
Total $ loan volume	$385,303,137	$351,354,396	$318,149,042	21.11%	Increase
Total $ cost of credit	$84,337,727	$76,416,309	$68,414,329	23.27%	Increase
Total # of payday loans	857,830	796,580	738,688	16.13%	Increase
Total # of individual borrowers	198,003	146,701	125,172	58.18%	Increase
Average $ loan amount	$449	$441	$431	4.18%	Increase
Average $ cost of credit	$98	$96	$93	5.38%	Increase
Average % cost of credit per $100	21.90%	21.70%	21.50%	1.86%	Increase
Average # of loans per borrower	4.3	5.4	5.9	-27.12%	Decrease
Total $ of loans initially defaulted	$93,032,739	$87,648,916	$72,263,144	28.74%	Increase
% of Total loans initially defaulted	24.15%	24.95%	22.71%	6.34%	Increase
Total $ of loans ultimately written off	$19,449,207	$14,030,705	$13,904,495	39.88%	Increase
% of Total loans ultimately written off	5.05%	3.99%	4.37%	15.56%	Increase
Total # of licensed locations (H.O. + branches)	274	275	274	0.00%	—
Total # of licensed corporate entities (H.O. only)	46	51	44	4.55%	Increase
# of individuals with 1 loan only during year	49,628	33,074	16,857	194.41%	Increase
# of individuals with 2 to 5 loans during year	77,416	55,104	26,948	187.28%	Increase
# of individuals with 6 to 10 loans during year	40,509	34,077	18,809	115.37%	Increase
# of individuals with 11 to 15 Loans during year	21,585	17,723	11,049	95.36%	Increase
# of individuals with more than 15 loans during year	8,865	6,608	1,260	603.57%	Increase
# of loans-$0 to $500 loan amount	578,936	531,403	505,919	14.43%	Increase
# of loans-$501 to $1,000 loan amount	241,142	228,321	205,210	17.51%	Increase
# of loans-$1,001 to $1.500 loan amount	37,752	36,856	29,511	27.93%	Increase
# of policies sold payment default insurance	150,254	152,693	Not Reported	—	—
$ of premiums earned on default insurance	$2,677,853	$2,762,092	Not Reported	—	—
Average $ amount of all loans issued-per location	$1,406,216	$1,277,652	$1,161,128	21.11%	Increase
Average $ Amt of All Fees Earned on Loans-per	$307,802	$277,877	$249,687	23.28%	Increase

Source: Consumer Protection BC, 2014

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18. **"Payday Loan Customer Survey," Pollara (2007).**
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20. **"POLL: Two-thirds of payday loan users trapped in cycle of debt,"** Vancity credit union, (2014).
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26. This is not an exhaustive list of the similarities of payday lending regulations across provinces. **"Consumer Experiences in Online Payday Lending," Consumers Council of Canada, (2015).**
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