



January 8, 2016

Mr. Darren Thomas
Director of Fair Trading
3rd Floor Commerce Place
10155 102 Street
Edmonton, Alberta T5J 4L4
E-mail: darren.thomas@gov.ab.ca

Dear Mr. Thomas,

Re: Payday Loans Regulation Review

The City Of Calgary Payday Lending and Financial Inclusion Task Force would like to convey its appreciation for the opportunity to participate in the Payday Loans Regulation review. The purpose of the Task Force is to recommend and advocate for policy and regulatory changes, as well as to advocate for appropriate services, to provide safe, affordable alternatives to high-cost payday loans, and create pathways for people living on low incomes to permanently exit from the payday loan cycle. The Task Force members welcome the opportunity to participate in any further discussions regarding the impact of the proposed legislative changes on financially marginalized Calgarians.

Please find attached the Task Force recommendations for submission to the provincial review of the Payday Loans Regulation. The Task Force members identified a total of 27 recommendations. A priority setting and consensus building process undertaken by task force members established the top five recommendations. The majority of the Task Force endorsed all of the attached recommendations.

If you have further questions please contact me at (403)-268-5163 or Melanie.Hulsker@calgary.ca

Yours truly,

Melanie Hulsker
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Attachment

cc: Payday Lending and Financial Inclusion Task Force

Attachment

City of Calgary Payday Lending and Financial Inclusion Task Force

The City of Calgary, Mayor and Council established the Payday Lending and Financial Inclusion Task Force on March 11, 2015. The Task Force is a multi-sector collaborative made up of 11 members, including representation from an individual with the lived experience of poverty and user of payday lending, non-profit agencies who work with economically vulnerable Calgarians, two Credit Unions, the Canadian Payday Loan Association, the United Way of Calgary and Area and The City of Calgary. The mandate of the Payday Lending and Financial Inclusion Task Force (the Task Force) is to:

1. work with appropriate governments, agencies and organizations to develop recommendations to protect the financially vulnerable from payday lending practices; and,
2. influence financial institutions to re-engage low-income earners with the ability to access short-term small loans, and financial counseling services and education.

The Task Force recognizes that people living on low incomes need access to small, short-term loans offered by payday lenders, yet these financial products must also provide the greatest protection of rights and responsibilities possible to the consumer. It is the goal of the Task Force to work with government, agencies and organizations to develop recommendations to protect those most economically vulnerable from facing excessive debt that may result in repeated use of payday loans.

Recommendations from the City of Calgary Payday Lending and Financial Inclusion Task Force

The Task Force believes that the following top five recommendations, while not listed in order of priority, will contribute to the protection of those facing financial hardship while at the same time maintaining responsible business practices for payday lenders.

- 1. Reduce the rate of borrowing to the lowest possible cost to the consumer while maintaining the viability of the payday lending industry**

The Task Force recognizes that payday lending fulfills consumer need for access to small, short-term loans. The majority of task force members viewed the rate of interest charged in Alberta as excessive. The current rate of interest charged by Alberta Payday Lenders can exacerbate the cycle of debt for some low-income consumers. It is important to strike a balance between the need for small, short-term loans and maintaining the protection of consumers. The Task Force chose not to specify the rate of interest on payday loans. It is recommended that the Government of Alberta undertake an analysis of the profit margins required to maintain the viability of the payday lending industry while at the same time offering the product at the lowest possible cost to the consumer. This would protect consumers and maintain the payday loan industry.

- 2. Establish an Alberta Borrowers Financial Literacy Fund to be funded by a portion of Payday Lenders license fees**

The Task Force recommends that a portion of license fees charged to payday lenders be used to fund an Alberta Borrowers Financial Literacy Fund. These funds would facilitate financial literacy awareness and programming for all Albertans. Investments in a financial literacy fund would have the preventative impact of educating borrowers on a range of financial issues including the cost of payday loans, debt settlement, counseling and tax services. Access to financial literacy is a promising poverty reduction tool that has the potential to generate positive outcomes for many people living on low incomes. This fund would be similar to the Payday Borrowers Financial Literacy Fund operated by the Government of Manitoba.

3. Mandate that borrowers can repay loans in installments rather than a single lump sum

Lenders should allow borrowers to repay loans in installments over 62 days, the maximum term allowed for payday loans. Currently, borrowers must repay loans in one installment payment on their next payday. This can lead some consumers, particularly those most economically marginalized, to take out subsequent loans in order to payback the initial loan. This has led some consumers into a cycle of debt that can be difficult to exit. Installment plans would offer increased flexibility and opportunity for consumers to repay loans without incurring additional debt.

While the majority of task force members agreed with this recommendation, the representative from the Canadian Payday Loan Association did not support repayments of loans in installments on the first loan taken out by a consumer. It was the position of the Canadian Payday Loan Association that this choice be made available only when taking out a third or subsequent loan.

4. Mandate the use of a standard contract as developed by the Registrar of payday loans.

There is currently no standardized form or contract used by payday lenders in Alberta. A standardized plain language contract, developed by the Registrar, comprehensive of the Fair Trading Act and Payday Loan regulations, would ensure that borrowers could more easily understand all of the terms and conditions of the loan. Information in the contract should outline all of the rights and responsibilities of the consumer and the payday lender such as collection fees, interest, use of pre-authorized debits, prepayment rights, cancellation policies and the cooling off period. A standardized contract would support the financial literacy of consumers. Financial counsellors could also use the form as a teaching tool to assist clients to understand payday loans.

5. Mandate that payday lenders notify the Registrar if their license to operate has been suspended or cancelled in another jurisdiction.

There is currently no requirement that payday lenders who have had operating licenses revoked in other jurisdictions to notify provincial authorities. The consensus of the Task Force was that such a requirement would protect consumers from lenders who have a history of poor business practices in hopes of preventing these operators from establishing in Alberta