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Payday Loans

Background

Payday loans are small, unsecured, and personal loans. They range in amounts from $500 to $1,500 and the term of the loan cannot initially exceed one month. The borrower pays a fixed fee, often expressed as an amount per $100 borrowed: $15 on $100 would be a typical example. This $15 would be the extra amount owed after two weeks (for example $115 would be paid back after two weeks). This actually works out to a nominal Annual Percentage Rate (APR) of 390%. Many of the most vulnerable in our society are drawn to these loans because no credit checks are required, yet they do not fully understand the terms. It is common for borrowers to default on their loan, thus beginning a cycle of ever-increasing debt wherein they must either roll over their loan, take out another Payday loan to cover paying back the first, or default on the loan, all of which compound what they will ultimately owe.

Quick Facts

- Payday loans are highly predatory and target the most vulnerable sectors of society, including many women
- Interest rates are not expressed as APRs but as fees, so they can be very misleading to the typical borrower. Many do not understand the reality of the rates they are being charged or the full consequences if they do not pay back their loan on time
- If calculated as nominal APRs, the interest rates on such loans would be between 390% and 650% in most provinces
- Payday loan companies do not require credit checks and do not report to credit agencies, making them very attractive to those who are struggling financially
- It is often difficult or impossible for such borrowers to obtain a secure, short term loan at a Chartered Bank, Credit Union or Caisses Populaires with a more reasonable interest rate

Relevant Legislation & Canada's Obligations

- 2007, Parliament amended the *Criminal Code* to **allow the provinces to regulate the Payday Loan Industry**. Rates therefore vary between provinces, with many capping them at a $15 fee per $100 borrowed for a two-week loan period, although in some provinces the cap is much higher (up to $25 on $100 in **PEI**, for example). Some provinces limit the amount of any loan to 50% of the borrower's take home pay. Some provinces also only allow an individual to have one such loan at a time.
- **Quebec** is the only province that has taken a very strong stance on Payday loans, having limited interest rates on any loan type to no more than an APR of 35%. The result has been that the Payday loan industry effectively no longer operates in Quebec.
- **Ontario** has recently capped interest rates for those who have defaulted on their Payday Loans as part of the *Covid-19 Economic Recovery Act, 2020.*
- The provinces need to **improve education** on the dangers of these loans.

Payday Loans – 2020

Adopted at the 2020 AGM

RESOLVED, That the Canadian Federation of University Women (CFUW) urge the Federal Government to work with the provinces and the territories to lower the cap on the interest rate Payday loan firms can charge.

CFUW urge the Federal Government to encourage the Chartered Banks, Credit Unions and Caisses Populaires to facilitate short-term small loans.

CFUW urge the Federal Government to work with the provinces and territories to ensure that the terms and potential risks of a Payday loan are made fully transparent to the consumer at the time of the transaction.

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Payday Loans

Take Action

Some suggested actions for CFUW members and chapters to promote the regulation of payday loans, encourage Chartered Banks to facilitate short-term small loans, and lower the cap on the interest rate payday loan firms can charge.

- Each club should consider whether the proliferation of payday loan companies is causing hardships to the most vulnerable people in their communities.

- Clubs may wish to initiate discussions of this issue with other organizations focussed on poverty issues.

- Clubs should also lobby their local MPs and MLAs to take the following steps to protect citizens:
    1. A lower cap on the interest rates these companies can charge.
    2. Better monitoring of their practices.
    3. Encouraging more inclusive lending policies on the part of our Chartered Banks.

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