



High-Cost Financial Services

What they are, why they matter, and what we can do about them

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*Breakout Session - High-Cost Financial Services:
What's Happening?*

ABLE Financial Empowerment Conference

8 May 2018

Outline

- 1. Introduction: what are high-cost financial services?**
- 2. Audrey's story**
- 3. High-cost financial services sector: what we're observing**
- 4. Five key issues**
- 5. Policy change: the case of Alberta**
- 6. Policy change: federal opportunities**

High-cost financial services are...

Alternative credit products and banking services that exist beyond the mainstream financial system.

Their interest rates often approach or meet—and in some cases exceed—60%.

instalment
loans

title loans

pawn loans

rent-to-
own
financing

cheque
cashing
services

payday
loans

sub-prime
auto loans

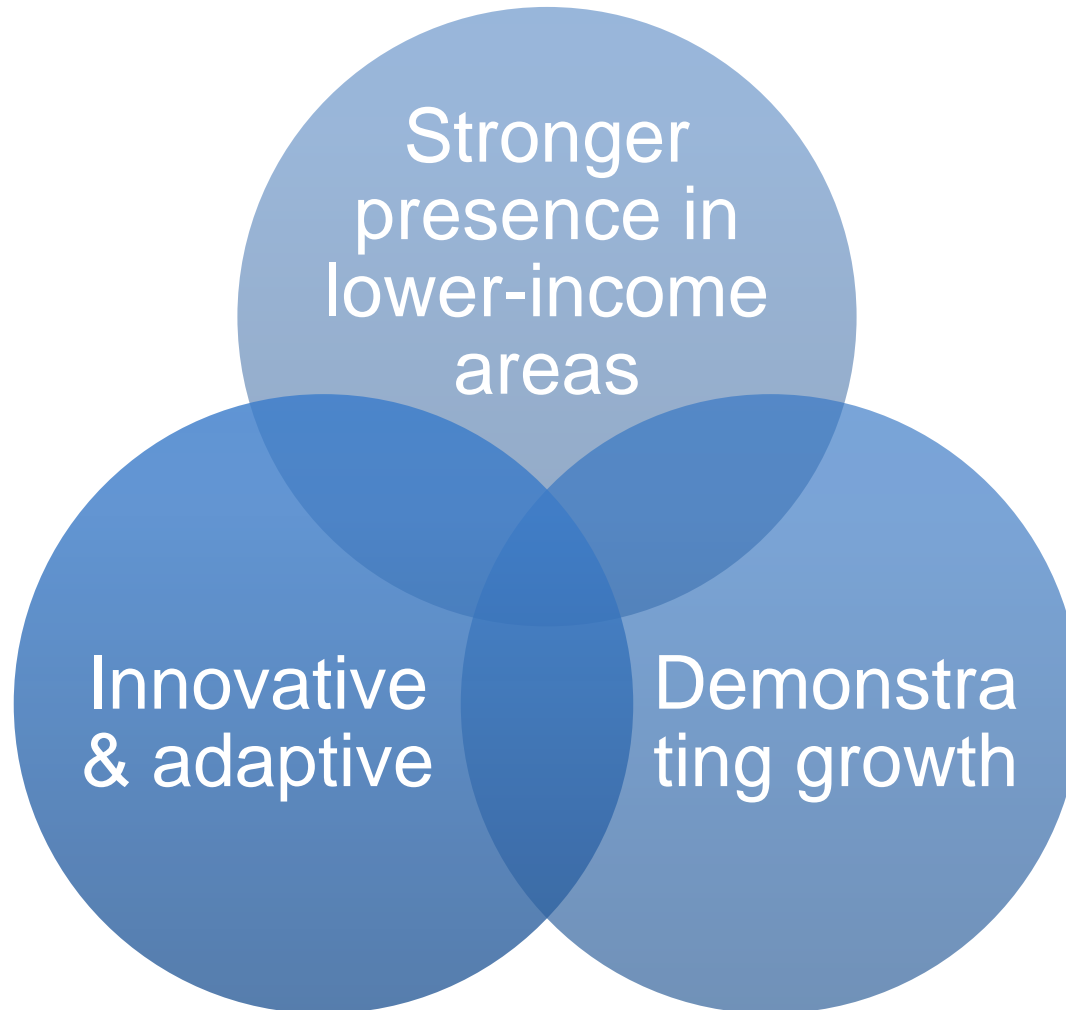


Audrey's story

“I feel anxious and depressed when I think about all the bills from high-cost lenders. I wish more people understood what they are signing up for.”

“It has affected our whole family. The kids see that I’m stressed out and tell me that they don’t need shoes, when I know that they do. They learn to go without, to offer sacrifices. Kids aren’t supposed to think that way.”

High-cost financial services sector: what we're observing



Issue #1: high cost

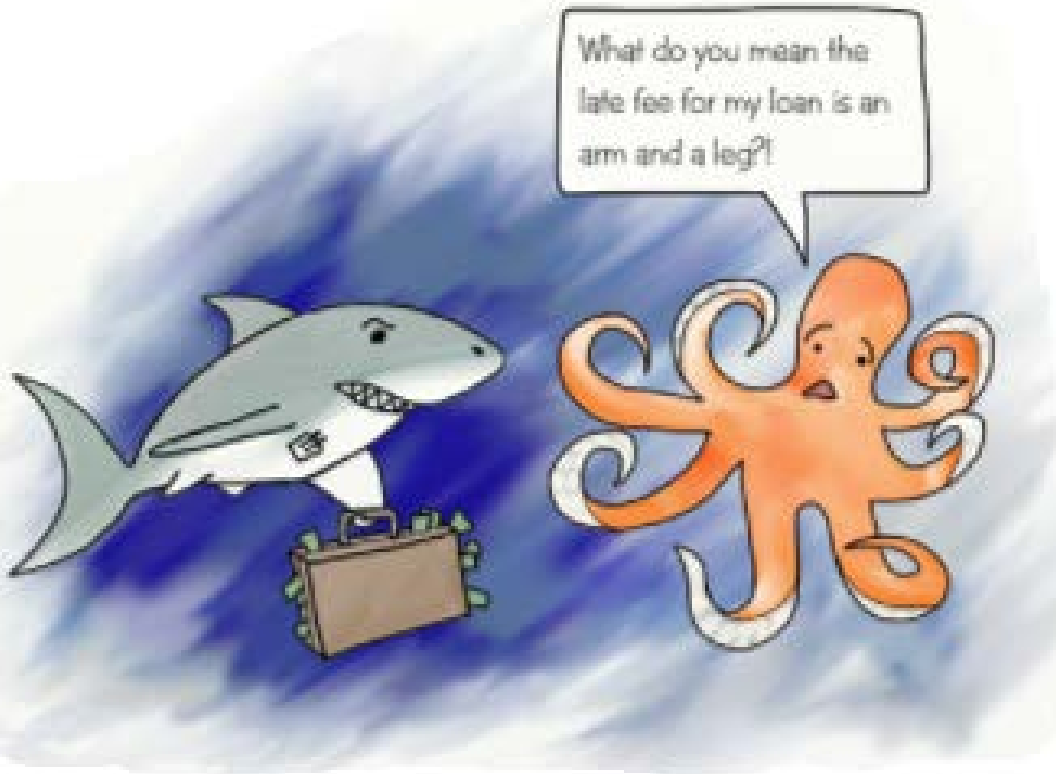
- High interest
- Added fees, lengthy terms
- Difficult to pay off
- It can cost as much as four times the retail price to purchase a product from a rent-to-own store

Purchasing a MacBook

*Option 1: rent-to-own
\$39/week for 130 weeks, or
\$5,070 over the course of
the agreement*

*Option 2: Apple store
\$1,199 upfront*

Issue #2: inadequate disclosure



- Failure to communicate clearly the total cost of borrowing
- Failure to display upfront terms, conditions, and fees
- Representation of optional fees and services as compulsory

Issue #3: unfair practices

- Solicitation of additional loans
- Inaccurate product valuation
- Misrepresentation of used items as new
- Installation of starter disruptors (title loans)

"There is no need to pay three to four times the value of the product."

"It's unbelievable the phone calls I get on a regular basis from them."

"They find ways to get you in the store. They send fake cheques, and say that to cash them you need to visit the store"

Issue #4: lending to vulnerable

"My son is on ALSH due to a brain injury, yet the fringe lenders and pawnshops are all lending money to him. His bank has set up rules for his bank account (no card, no cheques ; he has to go to the teller to access money). But the fringe lenders do not care, and are just giving him money and letting him pawn things."

- Failure to evaluate an individual's capacity to repay a loan
- Lending to individuals on fixed income
- For many, a loan is simply not a good option

Issue #5: economic leakage



Policy change: the case of Alberta

Bill 30: A Better Deal for Consumers and Businesses Act (2017)

-Introduced sweeping changes to Alberta's consumer protection laws

Defines high-cost lenders as those offering credit products at 32% interest and above. This includes rent-to-own businesses

several reforms specific to high-cost credit

Requires all high-cost lenders to obtain licenses.

Establishes disclosure and advertising requirements

Introduces standard contract terms and format

Policy change: federal opportunities

1. Lower the usury cap

2. Improve access to safe and affordable credit

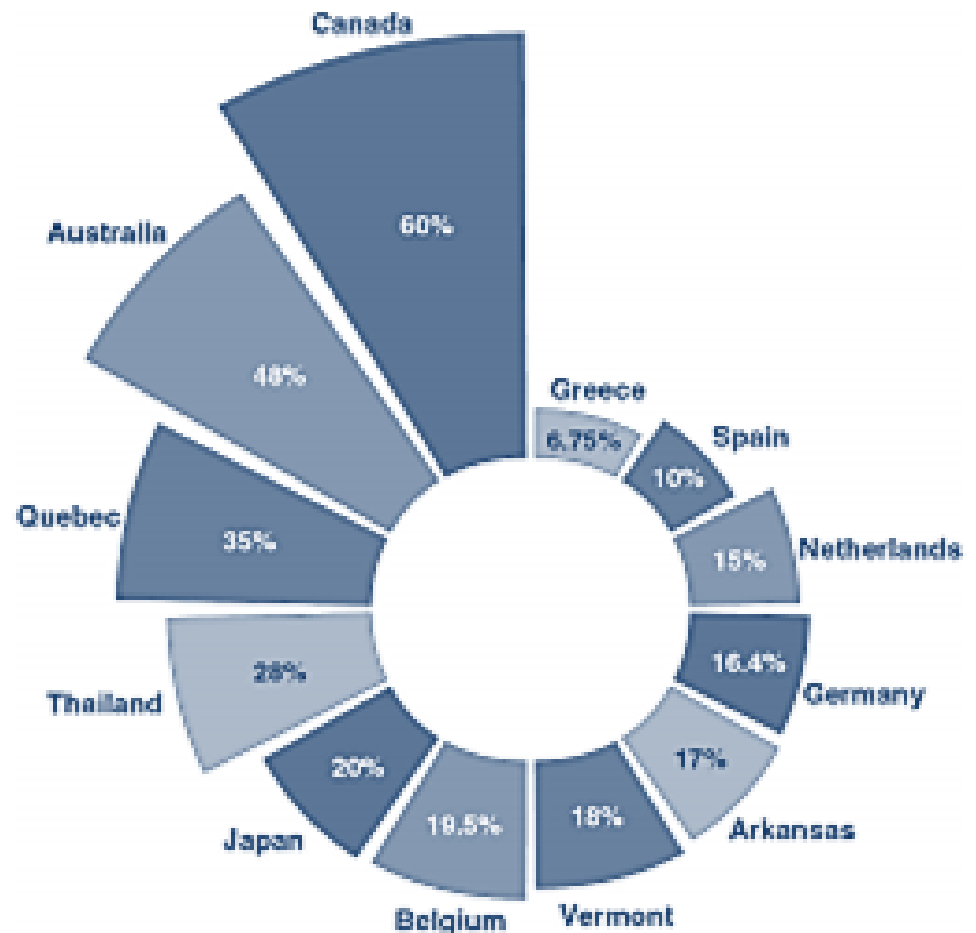
3. Strengthen disclosure rules

Federal opportunities: lower the usury cap

Examples of interest rate caps around the world

Recommendation:

- Lower the usury cap (potentially Bank of Canada's overnight rate plus 45%)
- Clarify that it applies to all products, including rent-to-own
- Ensure that law enforcement has tools to enforce



Federal opportunities: improve access to safe and affordable credit



Department of Finance Canada

www.fin.gc.ca



Recommendation:

Through the Bank Act review, require banks to improve access to basic banking and credit needs (including alternatives to high-cost financial services)

Federal opportunities: strengthen disclosure rules

Recommendation:
Require federally-regulated lenders to display a standardized Financial Facts Label on all contracts and advertisements.

| Financial Facts | |
|---|---|
| Loan amount \$1,000 18 monthly payments | |
| Average Amount Per Payment | |
| Principal \$55 | Fees & Interest \$7 |
| % of Monthly Debt Budget * | |
| Monthly Payment \$62 | 14% |
| Principal \$55 | |
| Loan Fees \$3 | |
| Interest \$4 | |
| APR 14% | • Total Fees \$50 |
| Interest Rate 8% | • Total Interest \$68 |
| Late Payment \$15 | • Total Paid \$1,118 |
| * Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level. | |
| Income levels: | \$2,000 \$3,000 \$4,000 \$5,000 \$6,000 |
| Debt budget: | \$300 \$450 \$600 \$750 \$900 |
| Numbers rounded to nearest dollar. | |



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