

Guelph & Wellington Task Force for Poverty Elimination
160 Chancellors Way
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Consumer Policy and Liaison Branch
Ministry of Government and Consumer Services
777 Bay St., 5th Floor
Toronto ON M7A 2J3

To the Ministry of Government and Consumer Services:

The Guelph & Wellington Task Force for Poverty Elimination works collaboratively, informed by diverse voices of experience, to take local action and advocate for system and policy change to address the root causes of poverty. One of our priorities is income inequality, where our goal is for everyone in Guelph and Wellington to have the income, resources and opportunities to fully participate in the community. We know some of the challenges we face achieving this goal are created by alternative financial services that are accessed by some of our most vulnerable community members.

The Poverty Task Force (PTF) is pleased that the Ministry of Government and Consumer Services is “consulting on how to strengthen consumer financial protection for consumers of certain financial services offered outside of the mainstream banking system and those with debts in collection¹.” In an effort to provide a variety of perspectives in our submission, the PTF hosted two community conversations on July 22nd and July 28th, 2015. Five members of the PTF that represent various health and social services attended the first discussion (hereinafter referred to as “service providers”). Eleven community members with lived experience attended the second discussion. The PTF Coordinator facilitated both discussions, using the guide provided by the Ministry of Government and Consumer Services. The feedback and responses from the community conversations to the questions included in the guide were used to inform this submission.

While providing feedback on specific questions and proposals outlined in the Ministry’s discussion guide was useful in guiding the community conversations, it was somewhat limiting in its breadth of topics. In particular, there were few opportunities to consider the role of traditional financial services. In both community

¹ (Ministry of Government and Consumer Services, 2015)

conversations, participants stressed that **we need to increase the ability of traditional services to respond to the needs of those currently accessing alternative services. More specifically, we need to develop an alternative model of lending that works for low-income community members that can be offered by traditional services.** It is strongly recommended that the Ministry explore this recommendation further and look to best practices in other provinces and countries.

MAIN RECOMMENDATIONS

1. Introduce a tiered system for subsequent loans so the cost per \$100 lent would gradually decrease. Begin by decreasing the first tier of the current \$21 for every \$100 borrowed to \$17. This would protect borrowers from falling deeper into debt when they borrow from multiple places in an attempt to pay off loans.
2. Extend and legislate the current 14-day pay period to the maximum of 62 days after 3 repeat loans or when requested by the borrower.
3. Set the maximum value of principal lent to 30% of net income.
4. Support financial literacy *before* consumers have a need to access alternative financial services.
5. Extend current policies that apply to federal cheque cashing to other levels of government so that no fees apply and a bank account is not required to cash a cheque from the provincial or municipal government.
6. Expand debt collection legislation as suggested in the Ministry's discussion guide.
7. Implement a payday loan tracking system to allow limiting of debt accumulated through these lenders.

SUMMARY OF KEY DISCUSSION POINTS

1. We have an moral responsibility to protect the most vulnerable

Dealing with unexpected financial issues is hardly uncommon. For many, such situations can be resolved with a trip to the bank, a request to a family member, or the swipe of a credit card. However, for those living in poverty, the options are much more limited and many find themselves dependent on alternative financial services. Using these services can result in crushing debt and intensely stressful situations for those already struggling to stay afloat. As a society, we have a moral responsibility to protect our most vulnerable community members and yet they are continually taken advantage of by a lack of legislation concerning these alternative financial services. Consulting on how to strengthen consumer financial protection is a critical first step, but doing so through a lens that considers the impacts on low-income families and individuals is imperative.

2. There is a lack of understanding of how alternative financial services work

During our community conversations, service providers stressed that their clients often do not understand what they're getting into when they access alternative financial services. The providers admitted that despite considering themselves to be financially literate, they found navigating the terms and conditions of payday loans to be unnecessarily complex. Suggesting that those in a financial crisis should be able to understand well enough to make a sound decision is an unfair expectation that these services place on those in such vulnerable situations. This was confirmed during the conversation with low-income community members when they noted that they rarely review the terms and conditions of alternative financial services. For some, this is because the written terms are too confusing, but most pointed out that the terms didn't actually matter to them. All they were focused on was getting the money and, at that particular moment, they couldn't be bothered to try and understand the longer-term impact.

All of the community conversation participants stressed that financial literacy is critical, but needs to happen *before* people walk in the door of an alternative financial service and *before* they find themselves in financial stress. Ideally, financial literacy would be included as part of the secondary school curriculum. In Guelph-Wellington, we have been able to achieve this to some degree through a partnership with Family Counselling and Support Services for Guelph-Wellington and the Wellington Catholic District School Board. There are currently discussions about extending this work into the Upper Grand District School Board.

3. Lack of options is driving low-income community members to use alternative financial services

The lack of options for low-income families and individuals to access financial support in crisis situations is driving the use of alternative financial services. In some cases, low-income borrowers have been denied access to traditional financial services due to bad credit or lack of identification. When they find themselves in a crisis situation, such as losing their job, they are left with few options and often accessing alternative financial services is the best one.

"I used [a payday loan service] because I lost my job during the recession and one thing turned to another and all of a sudden I owed \$800! You're always chasing and it's hard to catch up. I finally was able to pay it off and struggled for the month. I spent so much money chasing the system." [community member]

Service providers also noted that cuts to social assistance benefits, such as the Community Start-Up and Maintenance Benefit (CSUMB), drive low-income community members to use these services. Eliminating these supports is eroding the safety net for the most vulnerable and pushing them to take on the burden that comes with using alternative financial services.

While there is acknowledgement that certain barriers, crisis situations, and lack of supports drive people to use alternative financial services, it is imperative to note that these are not, in fact, the root causes. Rather, a lack of adequate income is what makes many people turn to these services. Several community members stressed that social assistance is not enough to cover their basic needs, and they are often forced to use payday loan services to cover rent or deal with a health issue.

“What happens if my wheelchair breaks? I need it, but what am I going to do? It would be tempting to turn to a [payday loan service] because it’s a matter of life or death for me.”
[community member]

4. Low-income community members are spiraling into more debt than they can handle

Service providers and community stakeholders suggested that low-income consumers accessing alternative financial services are at risk of taking on more debt than they can handle and falling into a cycle of repeat borrowing to pay off previous debts. Community members with lived experience shared multiple examples of how this had happened to them, and stressed how difficult it is to get out of the situation.

“You borrow from one place to pay back the other and as soon as one is paid off, you borrow from that place again. There’s enough of them around that you can just go from one place to the next. What else are you supposed to do? You get stuck.”
[community member]

“Eventually they’ll catch up to you. I have a plan for that. I’ve talked to my boss and I told him that if they contact him, I’ll just take a lower wage so I can work under the table.”
[community member]

5. Low-income community members are more comfortable accessing alternative financial services

Many community conversation participants with lived experience noted that they are significantly more comfortable dealing with alternative financial services as opposed to traditional banks. They explained that alternative services have developed a welcoming atmosphere and staff conveys an attitude of understanding and willingness to help. Traditional services were described as cold and proper, and staff as judgmental and dismissive.

“These places are open all hours. Some are 24 hours! And they don’t judge you when you go in looking grubby. Banks are all proper and scary to go into.”

[community member]

FEEDBACK ON MINISTRY PROPOSALS

The Ministry of Government and Consumer Services asked for feedback on specific proposals outlined in *Strengthening Consumer Financial Protection*². Service providers and community stakeholders reviewed the proposals and their approval (✓) or disapproval (✗), along with some feedback, is included below.

	Proposals from Ministry	Feedback from Community Conversations
✓	Specifically regulate alternative financial services	Manitoba was identified as a leader in this area.
✓	Regulate cost of a broader range of alternative services	There should be no fees for cashing government cheques from the municipality, province, or federal government.
✗	Base a review of the maximum total cost of borrowing on specified factors	There is some concern that further government reviews could prolong action. Instead, it is recommended that the government look to best practices in other provinces.
✓	Restrict how consumers can use payday loans through a transaction tracking system	A tracking system could be used as an enforcement tool to ensure lenders are only approving qualified borrowers (e.g. 30% of net income). It could also provide valuable data for the province by identifying those using alternative financial services to avoid child and spousal support payments.
✗	Require payday lenders to take the borrowers’ ability to repay into account	If this proposal were adopted, most low-income people would be restricted from ever accessing alternative financial services, which is not a solution. Maximum value of principal lent should be

² (Ministry of Government and Consumer Services, 2015)

		30% of net income (same as Manitoba).
✗	Waiting periods between payday loans	A tiered system for repayment is a better option and would have a greater impact.
✗	Restrict the number of payday loans a borrower can take out in a year	Once the system has been used by a low-income borrower, they need continuing loans to subsist.
✓	Require payday lenders to provide an extended payment plan to frequent borrowers	This is a particularly attractive option if coupled with a tiered system for repayment. Lenders should be required to provide an extended payment plan when the borrower requests it. Those in arrears should be required to access help from a non-profit counselor.
✓	Lower the total cost of defaulting on a loan	A \$20 default fee followed by 30% per annum is recommended.
✓	Increase the information available to the consumer	Advertising of the costs of payday loans should be in dollars as well as percentages. Government issued posters need to be more prominent and should be posted in a variety of locations (e.g. transit, community centres, social service agencies, etc.). Increase financial literacy opportunities in schools and the community.
✓	Increase the effectiveness of disclosures	See feedback directly above.
✓	Limit price escalation from promotional rates	
✓	Prohibit payday lenders from purchasing gift cards	Limit discount of face value to 10%
✓	Relax the requirement to make funds accessible within an hour of granting a payday loan online	48 hours is recommended.
✓	Expand inspection authorities to include unlicensed payday lenders and loan brokers	
✓	Transparency and disclosure	
✓	Broad partnerships	Provide information to front-line service providers to support their clients.
✓	Apply debt collection rules to purchasers of overdue debts	
✓	Adjust the timing and content of the initial notice sent	The US Fair Debt Collection Practices Act is

	at the start of collection activity	supported.
✓	Allow debtors to require contact by a collecting agency continue only in writing	

LOCAL BEST PRACTICES

1. Innovative Microfinance Program

Circles Guelph-Wellington, a programme designed to support individuals in reaching their goals and moving out of poverty, has successfully launched an innovative microfinance program in partnership with a local community agency and credit union. The local community agency involved generously offered to support programme participants with micro-loans to help them achieve their employment and education goals (tuition, purchase of a used vehicle, computer, tools, etc...). Instead of the community agency providing the loan directly to the individual, an arrangement has been with a local credit union to administer the loans. The original donation is held by the credit union as security against the approved loans. Once approved by the Circles programme coordinator, the credit union provides the funding to the participant through a standard loan process. The participants pay back the loan to the credit union and this helps them establish a credit history and gets them involved with mainstream financial services.

2. Ontario Works Partnership with Traditional Financial Service

The local Ontario Works office works closely with clients to encourage them to open a bank account and receive their payments through direct deposit. However, for a range of reasons there are some clients who do not have a bank account. In an effort to assist these clients, the Ontario Works office has made arrangements with a specific bank branch near their office locations to provide clients who receive their payment via cheque with cheque cashing service at no charge. To avoid situations of potential fraud, there is a validation process that takes place between the Ontario Works office and the bank branch. The client can then cash their cheque and avoid having to use typical cheque cashing locations that charge a significant fee.

On behalf the Guelph & Wellington Task Force for Poverty Elimination, we would like to acknowledge the Ministry of Government and Consumer Services for providing the opportunity to share feedback and ideas on this critical issue. We are open to continuing this discussion with the Ministry and working in partnership to identify local solutions that can protect the most vulnerable in our community. If you have further questions, please contact the PTF Coordinator, Randalin Ellery, by phone (1-800-265-7293 ext. 4359) or by email (randalin@gwpoverty.ca).

Sincerely,



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PTF Co-chair



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