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BUSINESS

Time for government to foreclose on payday lenders: social service group

BY GARY NORRIS

TORONTO (CP) _ It's nice work if you can get it: you lend someone \$400, and a week or two later get repaid \$500.

If this business model brings to mind loan-sharking or usury you're not alone, and a community group is demanding that governments, after dithering with the issue for years, move against the payday loan industry.

Loans to people who need a few hundred dollars to get them to their next payday are generating more than \$1 billion a year in revenue in Canada, according to a study released Wednesday by the Association of Community Organizations for Reform Now.

ACORN, active in the United States since 1970 and now growing in Canada, notes there are no precise numbers on the industry: "It is unregulated, unaccountable and, according to many observers, out of control."

It says that although the Criminal Code limits annual loan interest to 60 per cent annually, the fees of payday lenders add up to 300 to 900 per cent or more.

And while federal and provincial politicians have been studying the issue for years, "the reality is that the industry is growing like wildfire, no one is on the verge of implementing a comprehensive regulatory system for payday lenders and no one is enforcing the law."

There are an estimated 1,200 payday loan outlets in Canada, largely in gritty districts with relatively few bank branches.

The biggest operator, with about 300 locations, is Money Mart Canada, a unit of Dollar Financial Group, an American specialist in "serving **under-banked consumers**" which in its latest quarter reported a profit of \$3.4 million US on revenue of \$66.2 million US.

ACORN attributes the growth of the payday lending business to the banks "abandoning the small loan market and closing literally hundreds of branches."

It demands an effective and enforced interest-rate cap, and a prohibition on rollover loans _ further debt with additional fees for people unable to repay an original loan. It also urges stricter regulation and improved disclosure.

Many of those measures _ notably the rollover ban _ are in a code of conduct about to be released next week by the Canadian Association of Community Financial Service Providers, the president of the newly formed industry group, Bob Whitelaw, said from Ottawa.

As for the 60 per cent interest-rate limitation, "when that law was put into place ... it did not anticipate or foresee this type of industry today," Whitelaw said.

"Therefore it is under review. The interest rates that the stores are charging, we try to see compliance, but then when you add on the service costs, et cetera, et cetera that might be another matter."

Money Mart, for example, will lend \$200 _ 40 per cent of take-home pay _ to a person with a \$500 paycheque a week away, at a cost of \$28.43. Annualized, that's a rate of 739 per cent.

Other lenders offer cash at a cost of up to \$25 per \$100 borrowed for periods of four to 18 days. On a one-week loan, that's 1,300 per cent annualized.

Whitelaw says his organization, with its impending code of conduct,

covers about 900 of the 1,200 payday-loan shops in Canada _ a number he says is increasing by 10 to 15 a month.

The industry has a million customers a year and "there's not a swell of complaints," he said.

"Canadians by and large are living payday to payday because of the economy," and clients need to have a job and a bank account to obtain a payday loan, he observed.

"So it is the regular people of Canada, people who are working and have a bank account, but for some reason or other need immediate cash until payday."

Money Mart had no corporate spokesman available but its website says the typical customer "accurately represents the average, working Canadian. Statistically, the average customer is 32 years of age and employed with an annual income at the national average _ 82 per cent of all customers are under the age of 45."

The company says the top three reasons people borrow from it are fast service, convenient locations and extended operating hours.