IPLAC
Independent PayDay Loan Association of Canada

Standing Committee on Social Policy Submission by
Independent Payday Loan Association of Canada

<u>Bill 59, Putting Consumers First Act (Consumer Protection Statute Law Amendment), 2016</u>

The Independent Payday Loan Association of Canada (IPLAC), formed in early Fall 2016 represents over 20 Independent Payday Loan operations with 65 store fronts located in 40 towns/cities, employing 300 and serving over 50,000 customers across Ontario. This association was formed to ensure that our membership could provide recommendations for our industry in Ontario and for protecting the Ontario Consumer.

<u>Issues:</u>
According to the Conference Board of Canada, "Filling the Gap: Canada's Payday Lenders", November 28, 2016, the major issues facing the industry are as follows: (See Appendix A).

4.2 per cent of adult Canadians surveyed had used payday loan services in the previous 12 months (Statistics Canada's 2014 Canadian Financial Capability Survey,)

If regulated fee limits are inappropriate, payday loan providers may be forced out of specific markets, causing some people to potentially turn to unregulated or underground loan options, or face higher borrowing costs from legal substitutes for payday loans.

Perhaps the most troubling – and pressing – driver of industry rivalry for Canada's licensed payday lending industry is the proliferation of competition from illegal online lenders. The payday loans industry in the United States is more mature than the Canadian market, and serves as a benchmark for future trends in the Canadian Payday lending industry. South of the border, one-third of the payday loans industry has an online presence. Of this channel, six out of 10 online payday lenders are unregulated, representing one-fifth of the total U.S. payday loans industry. An estimated 41% of these illegal lenders operate offshore. In an interview with the consultancy Policis, one U.S. regulator observed: "The ones [online lenders] that are not licensed are just loan sharks. They roll people over, they wipe out bank accounts, and they do not respect any legal authority whatsoever."

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The U.S. experience of payday lending suggests that ensuring adequate customer access to licensed lending is central to ensuring vulnerable borrowers are not subject to predatory lending practices.

Payday loans can serve to enhance the welfare and productive capacity of informed consumers, enabling them to manage their finances in a way that optimizes their participation in the labour force and family health outcomes.

Effective policy regulations must centre on targeting the behavioural characteristics of more payday loan customers, as opposed to demographic characteristics.

The imposition of a strict payday loan fee cap in the U.S. state of Oregon was associated with a marked reduction in access to regulated credit following regulatory reform, with the likelihood of accessing legal payday loans falling by 86 per cent in the long term.

After payday loan fees dropped to $17/$100 in 2011 in Manitoba; within one year the number of licensed payday loan storefronts in the province fell by 48%.

Inappropriate restrictions in the attributes of payday loans – or the conditions permitted in providing them – can create a regulatory environment in which it becomes uneconomic for payday lenders to operate.

Restrictive market regulation leaves a need for credit unmet among regulated sources for displaced consumers.

The Independent Payday Loan Association of Canada is in favour of a well regulated industry that puts the consumer first and ensures that the customer is well educated so that they can make the best financial decision possible. The following are our recommendations as an organization.

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1. Cap the amount a payday lender may loan at 50% of a person's net pay, which will help ensure that borrowers are not over-extended.

2. Ministry of Government and Consumer Services investigate and execute a mandatory Ontario payday loan database. Its use could achieve limiting customers who deal with multiple payday lenders at a time to either a small number of payday loans or only 1 payday loan at a time within Ontario,

3. Require all Payday Loan stores to provide Financial Education materials and counselling to each customer before conducting a payday loan. It is the paraphrased conclusion of both the Financial Consumer Agency of Canada (FCAC) in its report dated October 25, 2016, entitled "Payday Loans: Market Trends" and of the previously mentioned Conference Board of Canada's report of November 28, 2016 entitled "Filling the Gap: Canada's Payday Lenders" that what is more critical than regulation to the welfare and financial stability of payday loan customers is consumer financial education. This could help users identify licensed online payday lenders and avoid illegal lenders. It is IPLAC's recommendation that we develop, with the help of the Ministry and the FCAC, a financial education certification protocol that the consumer would sign off on having been thoroughly briefed on prior to conducting any payday loan. (Both reports – Appendices B and C)

4. Enforce the Pay Day Loan Act, in particular, the regulation permitting only 1 Pay Day Loan Product at a time. This will also help ensure that consumers are not financially over-extended.

Based on the Conference Board of Canada Report, the Ernst & Young Report and the experience of our members, if these recommendations are not accepted, the resulting industry will not serve the 378,000 people it currently serves adequately. The locally owned and operated Payday Loan Stores employing 2,000 + Ontarians will cease to operate. Foreign owned multi-nationals will take over the industry and will not operate in smaller communities, forcing literally thousands of consumers in the smaller communities to use unregulated services.

1. In the event that rates stay at the current $18/$100 rate and go to the subsequent $15/$100 rate decrease that has been proposed, this is what will happen; either the independents will have to shut down entirely, or they will have to resort to lending a far higher percent of net pay than the 50% currently being offered by them. Either way, the consumer's interest is not being protected. Some of the larger offshore-owned companies in the business are already lending 80% of net pay or more. (Effect of this approach vs. rate capping – See Appendix D)

2. The group of independents represents approximately 41% of the industry and the majority of the storefronts affected are in smaller communities throughout the province. In anticipation of the rate decrease, some independents have already shut down. The net result of this is that consumers in these smaller centres will often have long distances to travel to a licensed store, and will probably be driven to utilize online lenders, the majority of which are not licensed. This outcome has already occurred in the Province of Manitoba with less stringent payday loan legislation than the proposed rate cuts being contemplated in Ontario. This fact is evidenced first in another section of the Conference Board of Canada's November 28, 2016 report "Filling the Gap. Canada's Payday Lenders" (See Appendix E) and a CBC article entitled "Manitobans more likely to find unlicensed payday lenders online: study - Province's stringent rules may have 'unintended consequence' for consumers". (See Appendix F)

3. Many Independents only entered the business because the government had passed legislation regulating the industry and had made the rate for a payday loan $21/$100. The business decisions were made at that time by the Independents that they could operate these businesses and employ Ontarians. Break-even is now $20.74/$100 and in 2004 it was $20.66/$100. (Ernst & Young 2004 and Deloitte 2016 Reports – See Appendices G and H)

4. In addition, it is important to note that the large players, Money Mart and Cash Money, frequently lend twice to a single customer…a payday loan and an instalment loan. This is in direct contravention of the Payday Loan Act. Amongst our membership, it is unanimous that we each have several examples of this practice in the bankruptcy papers we receive for our customers, who are also customers of those two companies. Bankruptcies represent a small portion of the total loans that our industry conducts, so it's easy to extrapolate the potential pervasiveness of this practice. We believe that a company's license should be suspended for this serious infraction. Meanwhile, with the Independents' ethical business practice of loaning only up to 50% of a person's net pay, as well as only offering a single loan at one time to a customer, our membership cannot maintain viable businesses at the current rate of $18/$100 and future rate of $15/$100. (2 examples of bankruptcy documents illustrating double lending practices – Appendix I)

5. Part of our organization's Mission Statement is that "We are committed to providing a Responsible Lending Solution to each and every one of our valued customers". With the help of the Ministry of Government and Consumer Services and the Standing Committee on Social Policy, we hope to be able to help develop truly protective legislation and regulation for all of Ontario's payday loan consumers.

APPENDIX A

This is a link to the Conference Board of Canada's webpage that will allow you to download their report dated November 28, 2016 entitled, "Filling the Gap. Canada's Payday Lenders", free if you create an account with them. There are no obligations associated with this account.

http://www.conferenceboard.ca/e-library/abstract.aspx?did=8369

The following is the Executive Summary of that document:

The payday loans industry has an unfavourable image with the public, and politicians and the media mainly discuss it in a negative light. Despite its unfavourable reputation, the licensed payday loans industry provides a necessary service for cash-strapped Canadians who lack access to alternate sources of credit in times of need. It also generates a substantial economic footprint for the national economy in the process.

In 2014, the licensed Canadian payday loans industry provided nearly 4.5 million in short-term loans to Canadian households, with a total loan value of $2.2 billion. This activity generated 6,930 full-time equivalent jobs for the Canadian economy, with accompanying total salaries of $273.3 million. Extrapolating the economic footprint of licensed payday lenders since 2014, it is projected that Canada's licensed payday lending industry will issue nearly 6 million loans to households in 2016 at a value of $3 billion. Data from the Bank of Canada indicate that credit issued by the licensed payday loans industry represents 4.2 per cent of the $70 billion in total outstanding household consumer credit (excluding residential mortgages) issued by non-bank institutions in 2016. This makes payday loans an important source of credit for Canadians. Consumer credit includes, but is not limited to, credit card loans, personal lines of credit, automobile loans, and other types of personal loans.

The Conference Board of Canada analyzed data from Statistics Canada's 2014 Canadian Financial Capability Survey (CFCS), which indicated that households that use payday loans only do so infrequently (80 per cent of payday loan customers borrow a maximum of twice - Grant Thornton, Confidential Canada-Wide Member Survey). As per the Bank of Canada's definition, non-banks include trust and mortgage loan companies, credit unions and caisses populaires, life insurance companies, non-depository credit intermediaries, and other institutions (e.g., automobile leasing and sales financing companies). However, research in the United States reveals that access to, and use of, licensed payday loans helps borrowers who use fewer than 10 loans per year to survive financially.

There is no prototypical payday loan consumer in Canada. Instead, there are two distinct categories of clients with widely divergent needs. The first category, “ALICE”—which stands for “asset limited,” “income constrained,” and “employed” is a relatively financially vulnerable customer who relies on payday loans to cover the cost of both periodic, unexpected expenses and ongoing necessities. ALICE customers’ lack of an established asset base severely restricts access to alternate consumer credit through conventional financial channels. The second type of client is “ARTI”, “asset rich, temporarily illiquid”, a more economically stable client who uses payday loans as interim financing (often as productive capital) to cover unexpected expenses.

ALICE and ARTI clients both use payday loans due to infrequent, adverse spending shocks. However, ALICE clients have the additional challenge of being among the working poor. This is a characteristic that would be better addressed outside the context of the payday loans industry through community support and social service programs that support labour market skills development, financial literacy, and access to affordable living.

The policies required to address the needs of two such different clients will necessarily diverge. As such, paternalistic or broad market initiatives that may superficially appear to be welfare-enhancing for one or both consumer segments may well have unintended, deleterious effects for at least part of the market. For example, research in the United States shows that the implementation of inappropriate fee ceilings constrains access for all types of customers to short-term consumer credit. There is no prototypical payday loan consumer in Canada. Instead, there are two distinct categories with widely divergent needs.

High default rates resulting from lending to a largely subprime consumer base characterize the licensed payday lending business model and fee structure. Furthermore, such policies have the undesirable effect of crowding customers out of relatively safe and regulated markets, and causing some of them to use imperfect payday loan substitutes. Notably, these include illegal online lenders or more expensive, regulated forms of short-term credit such as overdraft fees, late bill payment fees, and service cancellation fees. The welfare losses resulting from inadequate access to safe credit will be felt disproportionately by the most vulnerable consumers, for whom the cost of financial instability is highest.

Provincial legislation governing the licensed payday loans industry in Canada provides safeguards against the exploitation of households. Furthermore, legislated fee ceilings on licensed payday loans appear broadly consistent with the cost structure of the licensed payday loans industry in Canada. This industry is characterized by low market power, cannibalization by illegal online lenders, and a high incidence of bad debt. Nevertheless, there is some risk that licensed payday lending could become uneconomical if aggressive policy changes are implemented surrounding fee caps. Careful analysis of the industry's cost structure in Canada reveals that current legislative maximum fees in some provinces with low interest ceilings, such as Alberta, may not adequately cover the cost of providing payday loans. Policy-makers are urged to exercise caution in lowering provincial maximum fees, and to use judicious, evidence-based approaches to securing the financial welfare of Canadian households.

Analysis of natural experiments in the United States concerning the imposition of inappropriate industry regulations reveals that aggressive attempts to cap loan fees significantly reduces access to consumer credit for those who use licensed payday loans, with resultant welfare losses to households. In addition, other conventional sources of consumer credit are imperfect substitutes for payday loans. As a result, displacement of consumers from legal payday-lending channels can result in spillover of borrowers into unregulated (alternate) lending channels that cause consumers to incur higher debt costs. Imposing inappropriate regulatory requirements on an industry that is already significantly regulated may only serve to reduce access to credit for a financially vulnerable segment of the population. Instead, a public policy approach favouring consumer education is advised. Specifically, consumer education around distinguishing licensed online payday loan lenders from illegal lenders would be a critical step toward protecting the financial welfare of Canadian payday loan borrowers, and deterring the growth in unscrupulous, unregulated channels. Efforts to increase financial literacy, such as the federal government's current initiative in this area, are also critical to ensure that Canadians are making the best financial decisions possible.

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APPENDIX B

This link takes you to a report issued in October, 2016 by the Financial Consumer Agency of Canada entitled “Payday Loans: Market Trends”, the data for which comes from a survey of 1,500 Canadian Payday Loan customers. Here are some portions of the report that we think need highlighting:

http://www.fcac-acfc.gc.ca/Eng/resources/researchSurveys/Pages/payday-loans-market-trends.aspx

Most provinces have adopted consumer protection measures such as:

- limiting rollovers and concurrent loans
- ensuring full and accurate disclosure of contract terms
- letting borrowers cancel new loans penalty-free within one business day
- requiring an independent complaint resolution mechanism
- adopting acceptable debt-collection practices

Despite this, **fewer than half of respondents understood that a payday loan is more expensive than an outstanding balance or cash advance on a credit card** (see Figure 4). This indicates that the majority of respondents were not aware of the relative costs of all short-term credit options and may be using payday loans more often as a result.

This highlights the need to increase consumer awareness about the relative costs of various credit products.

Figure 4: The majority of respondents did not correctly identify that payday loans cost more than an outstanding balance or cash advance on a credit card.

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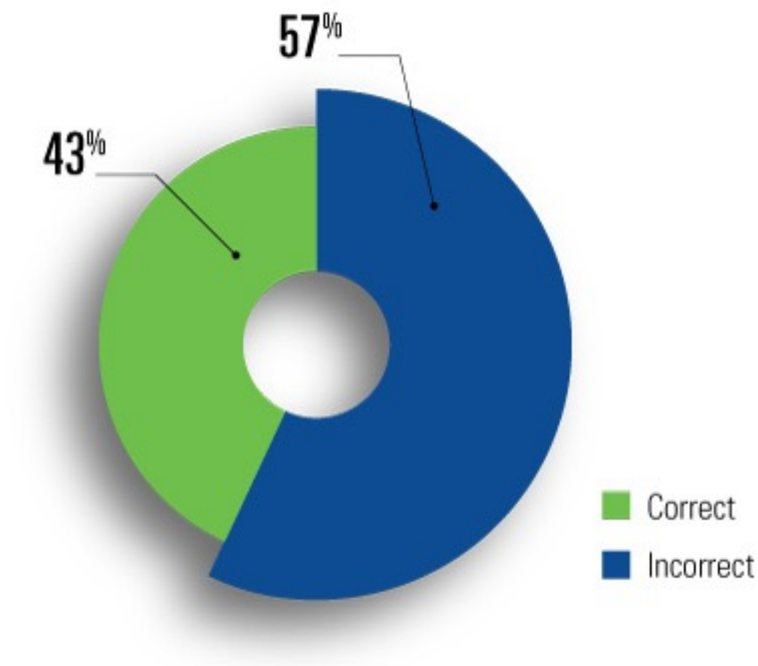

Text version: Figure 4 – The majority of respondents did not correctly identify that payday loans cost more than an outstanding balance or cash advance on a credit card.

4.9. Financial literacy levels

Our survey shows that more financially literate respondents used fewer payday loans.

Financial literacy means having the knowledge, skills and confidence to make responsible financial decisions. Respondents were asked to rate themselves in five areas: personal financial knowledge, keeping track of money, making ends meet, shopping around for the best financial product, and staying informed about financial issues.

For each of the five areas, the higher respondents rated themselves, the fewer payday loans they had taken out.[Footnote 27] Among those with household budgets, ratings in each area of financial confidence also correlated with success at staying within their budget.[Footnote 28]

Self-reported financial literacy therefore correlated with both successful budgeting and less frequent payday loan use. Together with our findings that payday loan borrowers were unaware of the relative costs, this highlights the role financial literacy plays in reducing payday loan use and strengthening Canadians' financial well-being.

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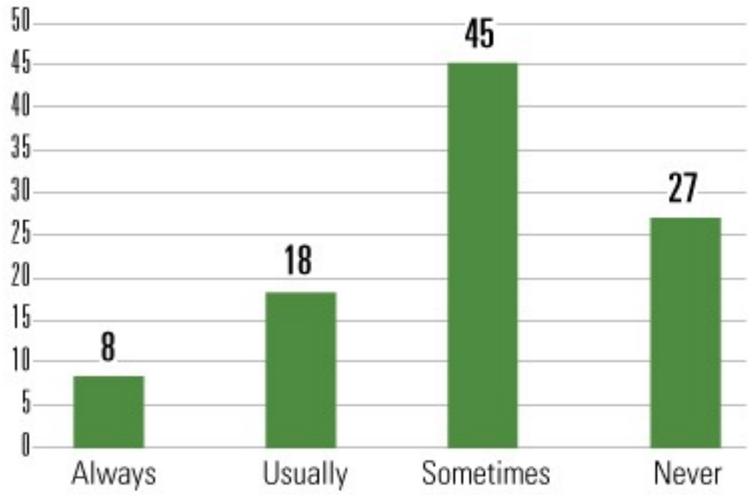
4.10. Seeking financial advice when it is needed

Many respondents did not consistently seek out financial advice even when they felt it was needed.

As shown in Figure 12[Footnote29], only eight percent of respondents reported always seeking financial advice when they felt it was needed. Surprisingly, 27 percent never sought out advice even when they felt it was needed.

Figure 12: How often do you seek free or unpaid advice about financial products when you feel it is needed?



Text version: Figure 12 - How often do you seek free or unpaid advice about financial products when you feel it is needed?

Getting advice on financial products and services is an important step in achieving financial well-being. For instance, FCAC research indicates that getting financial advice increases the likelihood of saving and financial planning.[Footnote30] The low rate of financial advice sought by respondents highlights the need to promote the availability of such advice to payday loan users.

4.11. Use of financial institutions

Respondents reported lower access to traditional financial services than the typical Canadian.[Footnote31]

For instance, only 35 percent of respondents reported having access to a credit card, compared to 87 percent of Canadians generally.[Footnote32] Only 12 percent said they had a line of credit, compared to 40 percent of Canadians.[Footnote33]

Respondents identified several reasons for not accessing credit from a bank or credit union:

- 27% said a **bank or credit union would not lend them money**
- 15% said they **did not have time to get a loan from a bank or credit union**
- 13% said they **did not want to get money from a bank or credit union**
- 55% said payday lending offered the **best customer service**
- 90% said payday lending was the **fastest or most convenient** option
- 74% said payday lending was the **best option available** to them

Notably, 35 percent said they did not have access to a bank account at the time of their last payday loan. This is striking, given that 99 percent of Canadians in 2014 reported having access to a bank account.[Footnote34] Further, payday lenders generally insist on pre-authorized access to a bank account before agreeing to lend to a consumer. It may be that some respondents excluded unused bank accounts, or interpreted “access to a bank account” as an account with money they could access. Some respondents may never have applied, while others may have applied and been denied. This finding highlights the need for consumers to inform themselves and to seek assistance from professionals to understand the options available to them to meet their unique needs and circumstances.

APPENDIX C

Once again, this is a link to the Conference Board of Canada's webpage that will allow you to download their report dated November 28, 2016 entitled, "Filling the Gap. Canada's Payday Lenders", free if you create an account with them. There are no obligations associated with this account.

This paper provides useful insights, including stressing improving consumer financial literacy as the most effective way to increase the financial stability of Canadian consumers. While the entire report is a very informative read, the following is the conclusion portion of the report that we think might be useful:

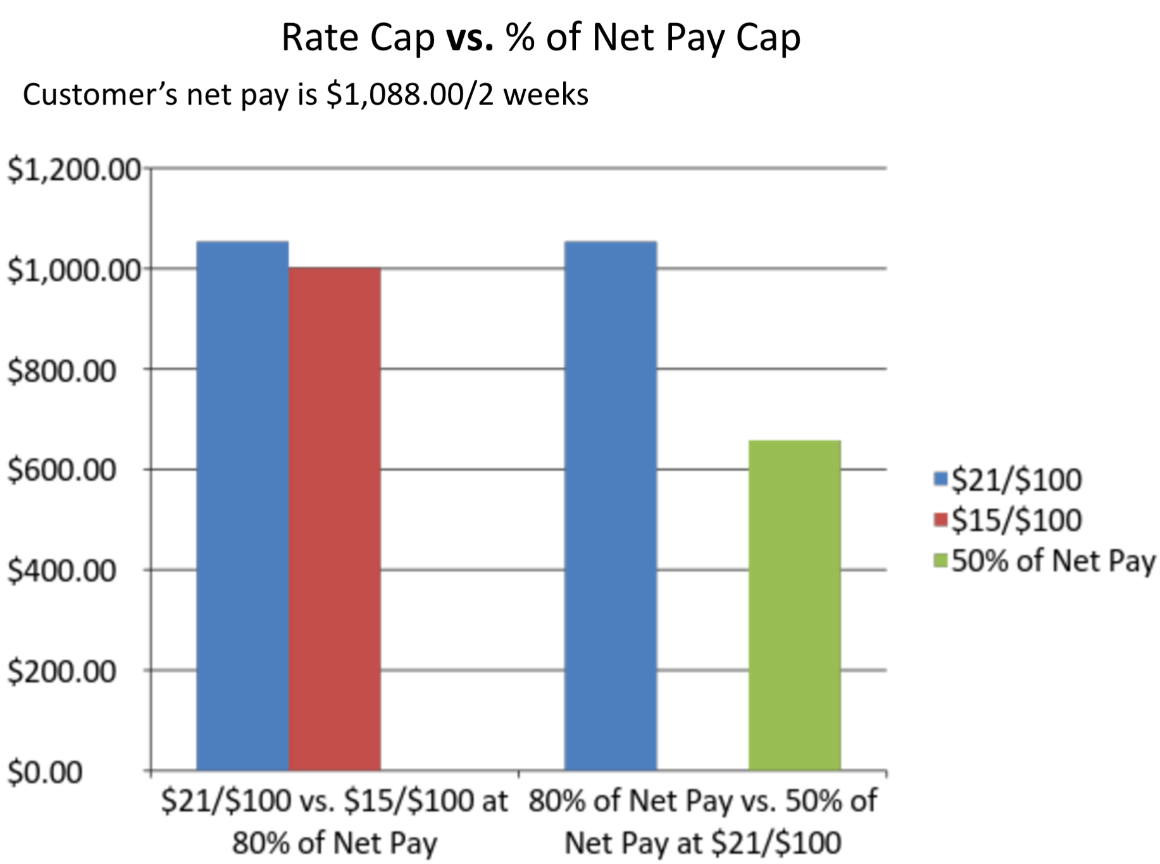
http://www.conferenceboard.ca/e-library/abstract.aspx?did=8369

Analysis of natural experiments in the United States concerning the imposition of inappropriate regulations in the payday loans industry reveals that aggressive attempts to cap loan fees for licensed payday loan providers result in significant impairment of access to consumer credit for payday loan users, with resultant welfare losses to households. Furthermore, other conventional sources of consumer credit are imperfect substitutes for payday loans. As a result, displacement of consumers from legal payday lending channels can result in spillover into unregulated lending and higher costs of debt from alternate credit.

Careful analysis of the cost structure of licensed payday lending in Canada reveals that current legislated maximum fees in some provinces with low interest ceilings may not adequately cover the cost of providing payday loans. Imposing inappropriate regulatory requirements on an industry that is already significantly regulated might only serve to reduce access to credit for a financially vulnerable segment of the population. Instead, a public policy approach favouring consumer education is advised. Specifically, consumer education around financial literacy and distinguishing licensed online payday loan lenders from illegal lenders would be a critical step toward protecting the financial welfare of Canadian payday loan borrowers.

APPENDIX D

This represents an illustration of the net effect on the Ontario consumer of rate capping, such as what's being implemented by the Ontario Government, versus the effect of restriction of payday lending to 50% of a customer's net pay.



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APPENDIX E

Again, this is a link to the Conference Board of Canada's webpage that will allow you to download their report dated November 28, 2016 entitled, "Filling the Gap. Canada's Payday Lenders", free if you create an account with them. There are no obligations associated with this account.

http://www.conferenceboard.ca/e-library/abstract.aspx?did=8369

The following is the relevant excerpt with respect to the Manitoba experience after dropping the rate to $17/$100:

"These results are consistent with the impact on payday lending in Manitoba caused by the introduction of a considerably higher maximum fee of $17 per $100 loan (equivalent to an APR of 443 per cent with simple compounding) in October 2010. Between 2011 and 2012, the number of licensed payday loan outlets in Manitoba fell 48 per cent."

APPENDIX F

http://www.cbc.ca/news/canada/manitoba/manitobans-more-likely-to-find-unlicensed-payday-lenders-online-study-1.3175820

Manitobans more likely to find unlicensed payday lenders online: study

Province's stringent rules may have 'unintended consequence' for consumers

By Holly Moore, CBC News Posted: Jul 31, 2015 6:00 PM CT Last Updated: Jul 31, 2015 6:00 PM CT

A report by the Consumers Council of Canada looked at 12 online lenders in Manitoba and found that only two were licensed by the province. (Shutterstock)

(Note: CBC does not endorse and is not responsible for the content of external links.)

Manitobans looking for payday loans online are more likely to find unlicensed lenders than licensed lenders, according to a nationwide study released Friday by a non-profit consumer group.

"You are not safer in provinces with more regulation," said Ken Whitehurst, executive director of the Consumers Council of Canada.

He is calling the situation an "unintended consequence" of Manitoba's stringent payday loan regulations.

Twelve online lenders in Manitoba were investigated in the study and only two were found to be licensed by the province.

Manitoba has some of the toughest payday loan rules in Canada, according to the study. The province sets the lowest borrowing rate in the country, at $17 per $100 borrowed.

Licensed lenders must also restrict their borrowing to 30 per cent of net pay. As well, they must provide a notice to the consumer at the point of borrowing, stating the high cost of the loan, the right to cancel and information about credit counselling.

Newfoundland has the least amount of regulation and Whitehurst said consumers there are clearly exposed to unlicensed companies. Quebec caps interest rates at 35 per cent, which limits payday loan activities in that province.

Whitehurst added that the study found nearly all licensed lenders complied with regulations, but non-licensed players showed virtually no compliance with provincial regulations.

"Licensing has not made illegal lending go away," he said, adding that unlicensed lenders can also put consumer information and privacy at risk.

"Unlicensed lenders seem to request highly specific banking information," he said. "It's very difficult to know who you are dealing with online."

'Payday borrowing is very problematic'

The study found that a number of unlicensed lenders asked for passwords, account numbers and other information that connects them directly to borrowers' bank accounts.

"There's a fair amount of phishing that goes on now with banking information," he said. "It's hard to know if that is the primary goal."

The study looked at 134 payday loan websites from a consumer perspective across the country, in order to test compliance with regional regulations and gather data. Six provinces have laws to protect consumers and two are pending.

"Payday borrowing is very problematic," said Whitehurst.

He advised consumers in Manitoba to check with the provincial government's Consumer Protection Division for a list of licensed lenders, but stressed that consumers should look at their options carefully before signing up.

"If someone feels they need to get a payday loan, they may be well-advised to first get credit counselling," he said.

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APPENDIX G

This is a link to the whole 62 page 2004 Ernst & Young report entitled "The Cost of Providing Payday Loans in Canada: A Report Prepared for the Canadian Association of Community Financial Service Providers".
http://www.cpla-acps.ca/english/reports/EYPaydayLoanReport.pdf

The following is a relevant portion of the report:

V. Key Findings

Box 2: Presentation of results

Results of the analysis are presented for:

Different types of loans:

- All loans (comprising first-time, repeat, rollover, extension, and re-write loans)
- First-time loans only
- Repeat, rollover, extension and re-write loans

Different types of businesses:

- Average of all firms
- Large businesses (those providing over $20 million of payday loans in the year),
- Medium-sized businesses (those providing over $2 million but less than $20 million of payday loans in the year), and
- Small businesses (those providing under $2 million of payday loans in the year)

Average cost results are presented as:

- Unweighted (simple) averages of the 19 companies in the survey; and
- Weighted averages based on market share of the companies in the survey by volume of payday loan transactions.

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A. Cost of providing payday loans

Since data for the entire universe of payday lenders in Canada is not available, it is not possible to determine the exact weights (share of payday loan volume in the entire industry) for each survey participant, which has implications when conducting a weighted average of industry costs.

The industry is dominated by certain large operators, which influences the data sample. A weighted average does not adequately reflect the cost structure of smaller operators, who are active in the industry, but whose overall share of the industry is relatively small.

To address these issues, we have presented the data as:

- unweighted averages of the nineteen survey respondents, and
- weighted averages for the survey sample.

For the weighted average calculation, the weights were constructed as follows. The largest operator in the industry, which is included in the survey sample, was assigned a weight of 33%. This weight is based on some key industry observations. The corporate-owned stores of the largest provider constitute approximately twenty percent of the total number of stores in the industry. However, it is a high-volume operator on a per-store basis, and its share of total volume of loans is much higher. Therefore, based on discussions with industry representatives and the operator's own intelligence about the market for payday loans in Canada, it was assumed that it accounted for one-third of the total payday loan volume in Canada.
For the remaining operators in the sample, weights were assigned on the basis of their relative share in the volume of payday loans within the sample but calibrated to an overall share of 67% (i.e., they are representative of the remaining two-thirds of the industry).

Table 5a provides the total cost of providing payday loans, disaggregated by individual cost components and by major lender size category. The estimates in the table are unweighted averages.

Table 5a
Cost of Providing Payday Loans, by Type of Cost, and by Size of Business
Unweighted Averages of Survey Respondents

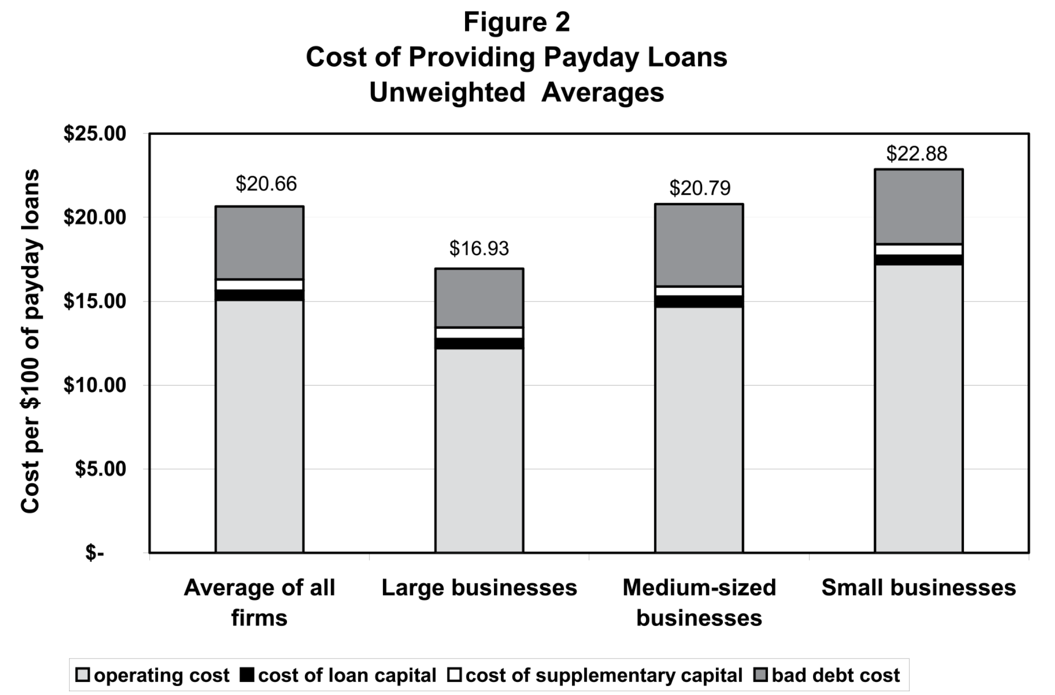
	Cost per $100 of Payday Loans			
	Average of All Firms	**Large Businesses**	**Medium-sized Businesses**	**Small Businesses**
Operating cost	**$15.10**	**$12.21**	**$14.69**	**$17.21**
Cost of loan capital	$0.55	$0.54	$0.59	$0.52
Cost of supplementary capital	$0.66	$0.69	$0.60	$0.68
Bad debt cost	$4.35	$3.49	$4.91	$4.47
Total	**$20.66**	**$16.93**	**$20.79**	**$22.88**

Source: Ernst & Young Sample Survey of Payday Loan Businesses, 2004

The total cost of providing a payday loan for the industry as a whole is $20.66 per $100 of a payday loan. Therefore, for an average loan of $279 (average loan size based on survey results), the total average cost is $57.64.

As depicted in Figure 2 below, operating costs are by far the largest cost component, representing nearly three-quarters of total costs. The costs of loan and supplementary capital are the smallest components of the total cost, accounting for less than 6%, while the bad debt cost accounts for the remaining 21% of the total cost.

There is a significant variance in costs between large, medium and small payday loan providers. Total costs per $100 of loan for large payday lenders are 18% below that of the industry on average. Large lenders have significantly lower operating and bad debt costs compared to medium and small lenders. Total costs of small operators are 35% higher than those of large lenders. The cost of loan and supplementary capital is not a factor in this differential, as these costs are relatively uniform across the industry, representing a relatively small fraction of the total costs.



Source: Ernst & Young Sample Survey of Payday Loan Businesses, 2004

While the costs are lower for larger providers, each cost component's share of total cost does not vary much between large, medium and small companies. Operating costs are between 71% (medium-sized lenders) and 75% (small lenders) across the average of all company sizes. Similarly, bad debt costs do not vary much across different sizes of operators: 20% of total costs for small companies and 24% for medium-sized companies.

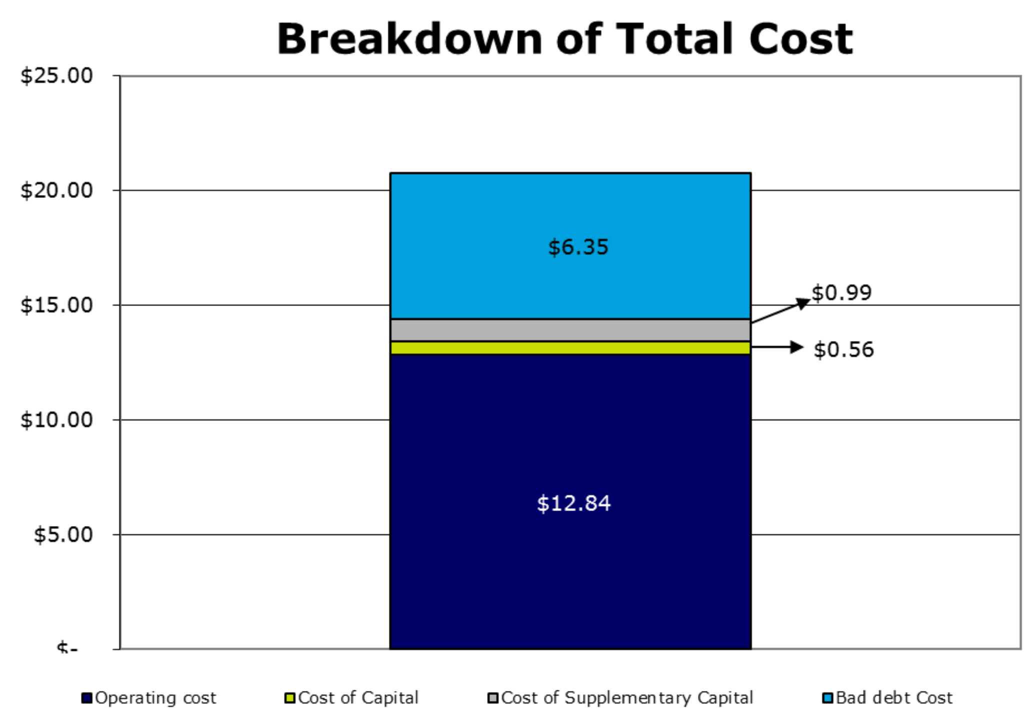
The fact that operating costs represent the most significant cost component of providing a payday loan, and that these are more or less fixed, regardless of the term of the loan, means that regulating the price of a payday loan solely through an interest rate mechanism is problematic. An interest rate mechanism would be appropriate only if the cost of capital were the most significant component of the overall cost. (See section E below for further elaboration).

If regulators set a price ceiling on transaction fees, operators with costs below the ceiling would continue to operate in the market, while high-cost operators would be squeezed out. Setting a regulated fixed fee ceiling that is too high could result in some lenders increasing their prices to the "legitimized" (ceiling) price. Too low a price would eliminate a number of high-cost loan providers and inhibit entry into the market of new providers. These effects would reduce competition and innovation, resulting in higher costs and fewer services for consumers.

APPENDIX H

This is a 2016 report from Deloitte entitled "Summary of the 2015 Survey on the Cost of Providing Payday Loans in Alberta".
http://www.pub.gov.mb.ca/payday_loan_review2016/cpla_9_schedule_g_deloitte_report_summary_of_2015_survey_on_the_cost_of_providing_payday_loans_in_alberta.pdf

1.07 These costs are combined and presented as a 'cost per $100 loan.' This report estimates the cost of providing a $100 payday loan[1] in Alberta to be $20.74, which can be further illustrated as follows:



[1] We note that our denominator includes all loans where E&Y methodology did not. E&Y included only "good" loans that were not in default, where we have included all loans in our averages.

 Cost of providing payday loans in Alberta

IPLAC
Independent PayDay Loan
Association of Canada

APPENDIX I

The first page of this piece of evidence is from Husain's bankruptcy documentation and the second page is from Gona's documentation. Both are Money Direct customers.

FORM 79 – Continued

LIABILITIES

Liabilities type code (LTC):
1 Real Property or Immovable Mortgage or Hypothec
2 Bank Loans (except real property mortgage)
3 Finance Company Loans
4 Credit Cards Bank/Trust Companies Issuers
5 Credit Cards Other Issuers
6 Taxes Federal/Provincial/Municipal
7 Student Loans
8 Loans from Individuals
9 Other

Creditor	Address including postal code	Account No.	Amount of debt			Enter LTC
			Unsecured	Secured	Preferred	
Bell Canada - Residential Attn: SLA Team	906 - 600 rue Jean-Talon E Montréal QC H2R 3A8	16753667F	400.00	0.00	0.00	9
Bell Mobility Attn: Stephanie Deveau	200 Bouchard Blvd, 3rd Floor Dorval QC H9S 5X5	xxx...869	7.00	0.00	0.00	9
Canadian Tire Financial Proposals c/o FCT Default Solutions Attn: Insolvency Department	PO Box 2514, Station B London ON N6A 4G9	5446 1223 1401 3544	0.00	0.00	0.00	5
Canadian Tire MasterCard Proposals c/o FCT Default Solutions Attn: Insolvency Department	PO Box 2514, Station B London ON N6A 4G9	5446 1400 3345 385	3,150.00	0.00	0.00	5
Capital One MasterCard Proposals c/o FCT Default Solutions Attn: Insolvency Department	PO Box 2514, Station B London ON N6A 4G9	5457 5681 9897 6006	4,054.00	0.00	0.00	5
Cash 4 You - Toronto Attn: Collections	C18 - 1000 Gerrard St. E. Toronto ON M4M 3G6		1,004.00	0.00	0.00	9
Cash Money (Insolvency Processing Centre) Attn: Grace Ferri	400 Carlingview Drive Etobicoke ON M9W 5X9	A02879296354	400.00	0.00	0.00	3
Cash Money (Insolvency Processing Centre) Attn: Grace Ferri	400 Carlingview Drive Etobicoke ON M9W 5X9	P88611533	1,089.00	0.00	0.00	3
CRA - Canada Revenue Agency - Tax - Ontario Attn: c/o London Taxes Services Office Division Regional Intake Centre for Insolvency	PO Box 5548 3 - 451 Talbot St London ON N6A 4R3	Supp.	0.00	0.00	0.00	6
Dell Financial Services Canada Ltd. Attn: Tami Beall	501 - 155 Gordon Baker Road North York ON M2H 3N5	2839668	2,600.00	0.00	0.00	3
Money Direct Financial Services Inc. Attn: Collections Department	200 - 866 The Queensway Etobicoke ON M8Z 1N7		242.00	0.00	0.00	9
National Money Mart - Proposals Attn: Lori Stith	401 Garbally Rd Victoria BC V8T 5M3	Personal Loan	2,236.00	0.00	0.00	9
National Money Mart - Proposals Attn: Lori Stith	401 Garbally Rd Victoria BC V8T 5M3	Loan	1,162.00	0.00	0.00	9
National Student Loans Service Centre - Mississauga (Non-defaulted loans) Attn: Vanessa Babooran	PO Box 4030 Mississauga ON L5A 4M4	5-855736	8,372.00	0.00	0.00	7

04-Dec-2015

Date

IPLAC

Independent PayDay Loan Association of Canada

FORM 79 – Continued APPENDIX "B" (example #2)

LIABILITIES

Liabilities type code (LTC):
1 Real Property or Immovable Mortgage or Hypothec
2 Bank Loans (except real property mortgage)
3 Finance Company oans
4 Cred Cards Bank/Trust Companies Issuers
5 Credij cards Other Issuers
6 Taxes Federal/Provincia/Municipal
7 Student oans
8 Loans from Inlividuals
9 Other

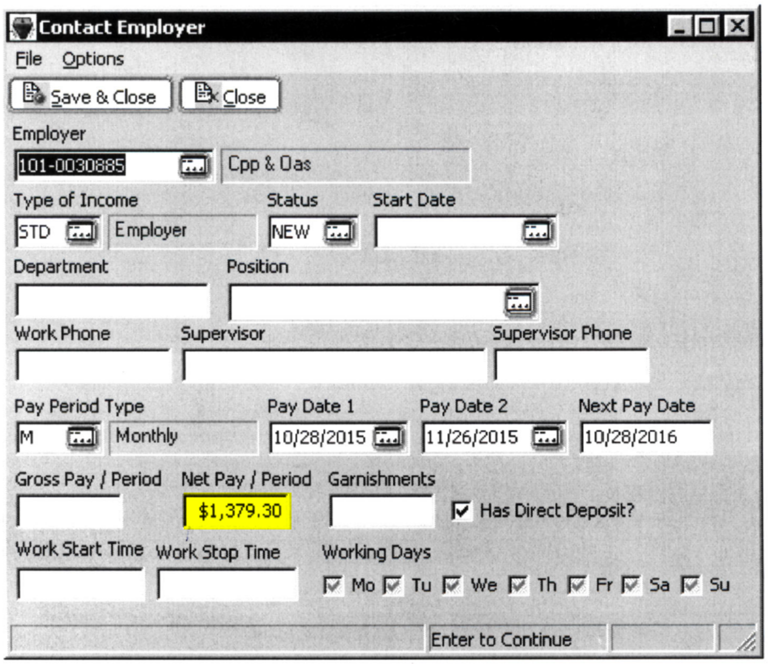
Creditor	Address including postal code	Account No.	Unsecured	Amount of debt Secured	Preferred	Enter LTC
Cash Money (Insolvency Processing Centre) Attn Grace Ferri	400 Carlingview Drive Etobicoke ON M9W 5X9		1,653.00	0.00	0.00	3
Easyfinancial Services Incorporated Proposals do FCT Default Solutions Attn Insolvency Department	PO Box 2514 STN B London ON N6A 4G9	874329	5,105.00	0.00	0 00	9
Mogo Financial Inc. Attn Victoria Black	PO Box 2419, Station Main Winnipeg MB RJC 4A7		800.00	0.00	0.00	3
Mogo Financial Inc. Attn Victoria Black	PO Box 2419, Station Main Winnipeg MB R3C 4A7		500.00	0.00	0.00	3
Money Direct Financial Services Inc. Attn Collections Department	300-2345 Stanfield Road Mississauga ON L4Y JYJ		484.00	0.00	0.00	9
Movengo Corp Contingent $ 1 00	180 Nebo Rd Hamilton ON LBW 2E4		0.00	0.00	0.00	2
National Money Mart - Bankruptcy Attn Lori Stith	401 Garbally Rd Victoria BC Var SMJ		1,146.00	0.00	0.00	9
National Money Mart - Proposals Attn Lori Stith	401 Garbaffy Rd Victoria BC VBT 5M3		1,618.00	0 00	0.00	9
	TOTAL	Unsecured	11,306.00			
	TOTAL	Secured		0.00		
	TOTAL	Preferred			0.00	
				TOTAL	11,306.00	

01-Feb-2016

Date

IPLAC

Independent PayDay Loan
Association of Canada



Contact Employer

File Options

Save & Close | Close

Employer: 101-0030885 | Cpp & Oas

Type of Income		Status	Start Date
STD	Employer	NEW	

Department	Position

Work Phone	Supervisor	Supervisor Phone

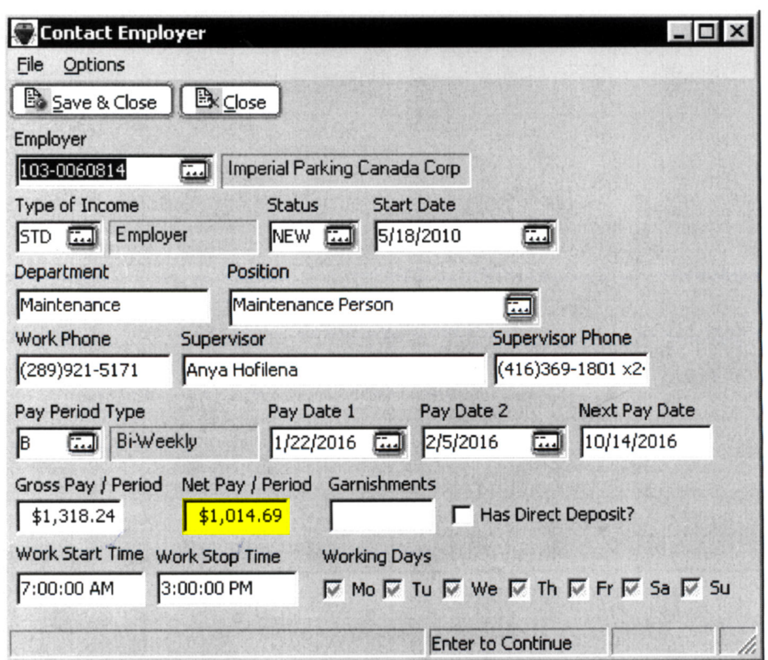
Pay Period Type		Pay Date 1	Pay Date 2	Next Pay Date
M	Monthly	10/28/2015	11/26/2015	10/28/2016

Gross Pay / Period	Net Pay / Period	Garnishments	
	$1,379.30		☑ Has Direct Deposit?

Work Start Time	Work Stop Time	Working Days
		☑ Mo ☑ Tu ☑ We ☑ Th ☑ Fr ☑ Sa ☑ Su

Enter to Continue

Husain



Contact Employer

File Options

Save & Close | Close

Employer: 103-0060814 | Imperial Parking Canada Corp

Type of Income		Status	Start Date
STD	Employer	NEW	5/18/2010

Department	Position
Maintenance	Maintenance Person

Work Phone	Supervisor	Supervisor Phone
(289)921-5171	Anya Hofilena	(416)369-1801 x2·

Pay Period Type		Pay Date 1	Pay Date 2	Next Pay Date
B	Bi-Weekly	1/22/2016	2/5/2016	10/14/2016

Gross Pay / Period	Net Pay / Period	Garnishments	
$1,318.24	$1,014.69		☐ Has Direct Deposit?

Work Start Time	Work Stop Time	Working Days
7:00:00 AM	3:00:00 PM	☑ Mo ☑ Tu ☑ We ☑ Th ☑ Fr ☑ Sa ☑ Su

Enter to Continue

Gona

2345 STANFIELD ROAD, SUITE 300, MISSISSAUGA, ON L4Y 3Y3