

Are Payday Loans a Predictor of Consumer Bankruptcy in Canada?

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Overview

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Background for Study

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- Anecdotal evidence that payday lenders were becoming a major creditor.
- Two schools of thought:
 - These loans are usurious, victimizing the least knowledgeable, or....
 - These loans are filling a gap and allowing consumers to avoid bankruptcy.

Other factors

- Increased attention from inner city advocates and media to fringe banking practices.
- Provinces (such as Manitoba) attempting to find ways to regulate payday lending.
- Proposed federal legislation to regulate payday lending.
- Lack of Canadian research on the role of payday lending in consumer bankruptcies.

Payday Loans and Bankruptcy

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- FCAC study (2005) showed fewer than one in ten users reporting filing for bankruptcy. Over one in ten reported borrowing to repay their payday loan.
- Mayer (2004) found those with payday loans went bankrupt sooner than others and many owed all of their next paycheck to payday lenders.

Overall research question:

How important are payday loans in contributing to consumer insolvency in Canada?



Methodology

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- Sample from CMA of Canada's six largest cities (and Winnipeg!) - both proposals and consumer bankruptcies which were e-filed for 2005 and 2006.
- Data from Form 79 including other loans, demographics, reasons for bankruptcy.
- Each city and year was analyzed separately, then amalgamated by year and weighted. Montreal was excluded in the weighted data as very few payday loans were reported there.

Results: PDL Data

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- In 2005, 10% of cases included 1 or more PDLs; in 2006 it was 10.5%.
- CMAs ranged from 6 - 24% of e-files reporting PDLs (Winnipeg was highest and Vancouver was the lowest).
- Number of PDLs held by an individual ranged from 1 - 10 in 2005, increasing to 13 in 2006.
- Size of loan: 2005 \$75 to \$13,500.
2006 \$25 to \$22,019.
- Mean: 2005 \$1,456 and 2.47 loans per person.
2006 \$1,223 and 1.99 loans per person.

Results: Demographics

Variable Means	2005	2005	2006	2006
	PDL	No PDL	PDL	No PDL
Age*	39	42	39	42
Household Size	2.15	2.20	1.95	2.16
Members Under 18	0.65	0.63	0.54	0.63
Bankrupt's Monthly Income*	\$2,186	\$1,964	\$2,207	\$2,018
Total Household Income	\$2,544	\$2,456	\$2,566	\$2,500
Short-term Loans*	\$14,485	\$25,972	\$13,986	\$26,615
Long-term Loans	\$15,007	\$16,634	\$14,580*	\$17,245*
Debt-to-Income Ratio*	102%	150%	104%	155%
Marital status single*	38%	28%	41%	29%

*statistically significant difference

Results: Research Question 1

Do insolvents with payday loans go bankrupt with lower debt-to-income ratios than do other insolvent consumers?

PDL holders have

- significantly lower debt-to-income ratios.
- lower debt levels than other insolvents.
- lower amounts of long term loans.

Results: Research Question 2

0011 *Are insolvents with PDLs holding more short-term debt than other insolvent consumers, and do they owe more than 25% of their net monthly income to payday lenders?*

- PDL insolvents hold less short term debt, but over 25% of household monthly incomes were owed to PD lenders.
- PDLs are positively associated with income however, $\frac{3}{4}$ of those with monthly incomes of \$1,000 or less owe more than \$400 to PD lenders.

Results: Research Question 3

What other variables may be associated with high levels of payday loans held by insolvent consumers?

- Significant differences between PDL and non-PDL holders in age, marital status, employment status, monthly income.
- PDL holders more likely to report gambling and addiction problems and credit overuse.

Results: Research Question 4

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Is there a difference between summary administration filings and Division II proposal filings with respect to PDLs?

- PDL holders much more likely to have filed either a proposal or bankruptcy previously.
- No difference in incidence of PDL by type of file in 2005, but in 2006, proposal filers had more PDLs at a higher dollar value.

Conclusions and Implications

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- Large size of PDLs and number held makes repayment difficult.
- Consumers are equally willing to file proposals as summary administrations when holding PDLs.
- Need for consumer education as borrowers are younger, single and comparative information on PDLs is not readily available.
- May be more effective to regulate the number of loans held at one time, than the maximum interest rate charged.

Conclusions and Implications

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- Could payday loans be controlled in the same manner as prescription drugs, where only one prescription from one pharmacy may be held at one time?
- The Canadian Payday Loan Association could serve a valuable role in maintaining a similar data base for its members.

• There are still many unknowns in the relationship between payday loans and consumer insolvency.

• These loans are serving a niche market and, since loan holders have lower debt-to-income ratios than other insolvents, it may be that these consumers are availing themselves of debt relief more quickly.

• This may be positive as there are lower write-offs for creditors and less misery for consumers.

Some city differences

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- Vancouver was the only CMA where both household and bankrupt's income were significantly different between PDL and non-PDL holders—those with PDLs had higher income in both instances
- Calgary: PDL holders had much less long term debt—may relate to high housing prices at the time
- Edmonton: Similar to Calgary with respect to long term debt.
- Winnipeg: highest percentage of PDLs in sample with bankrupts having the lowest mean income
- Toronto: Highest household and bankrupt's income
- Ottawa: Age was not significantly different for PDL holders here—those filing proposals were more likely to have PDLs.
- Montreal: Case numbers were too small to make comparisons. The size of some of these loans was extremely large.

An Endnote from Manitoba

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Manitoba Regulation of Payday Lenders

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- Public Utilities Board held hearings for 4 months, decision announced April 4, 2008.
- Maximum interest rate was set at 17% for loans up to \$500, 15% on the next \$500, and 6% on loans over \$1,000.
- Insurance, fees and charges are included in this rate.
- Borrowers on EI or Social Assistance, or taking a loan for more than 30% of their cheque, cannot be charged more than 6%.

Manitoba PUB decision

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See the website

<http://www.pub.gov.mb.ca/misc07on.html>

to read the summaries of the evidence and review the complete decision.

The CPLA appealed the decision but it was subsequently upheld by the PUB. In January 2009, the Court of Appeal overturned the PUB decision, saying that the lenders had been unfairly treated.

Current Situation

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In Manitoba: A new bill amends the Consumer Protection Act to revise the role of the PUB from a **rate setting** to an **advisory** body.

Maximum loan rates will be set by regulation.

Created a financial literacy fund to help ensure borrowers have information

Other provinces

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Ontario: rate cap of \$21 per \$100

British Columbia: rate of \$23 per \$100

Alberta: rate of \$23 per \$100

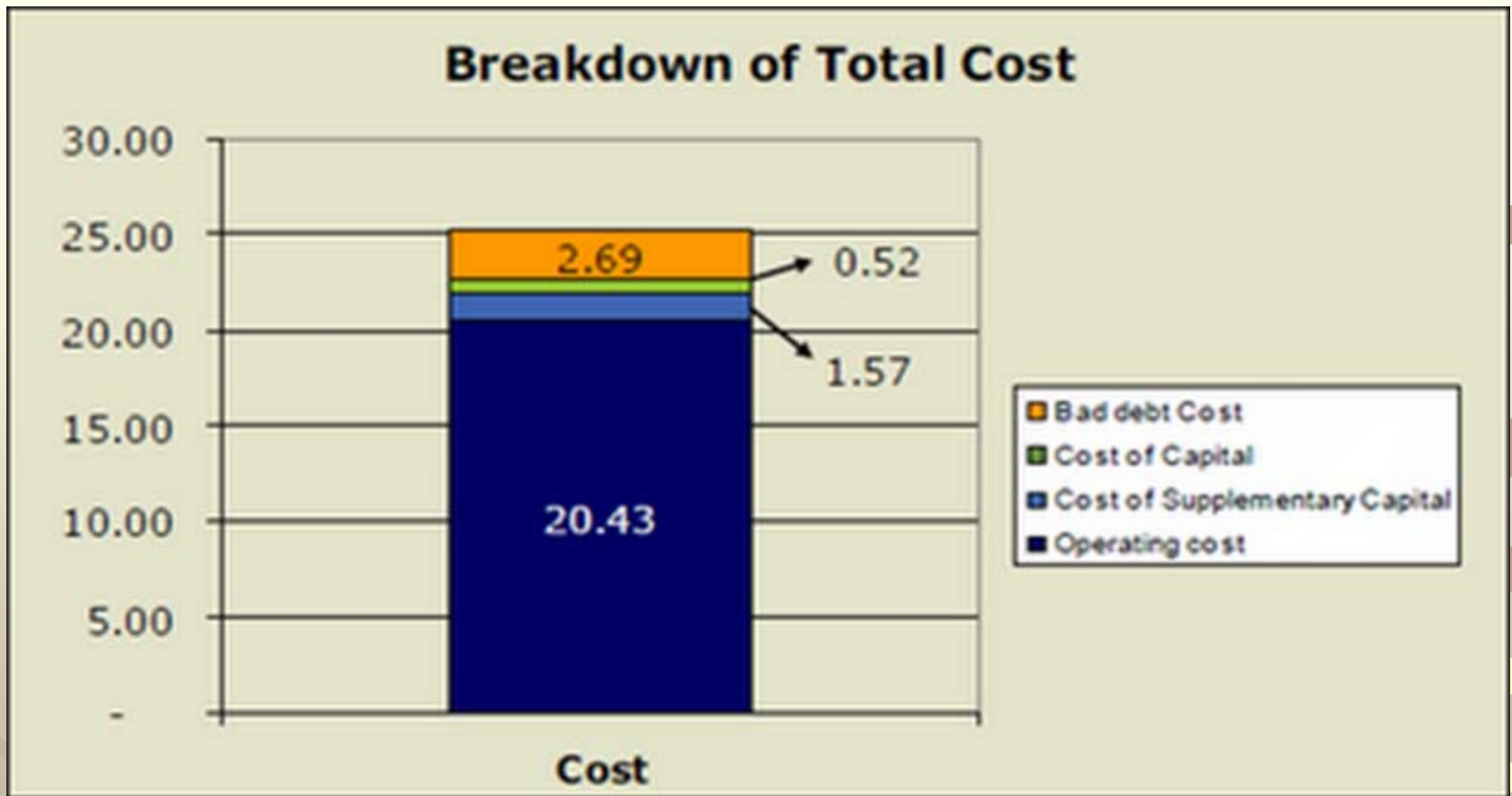
Nova Scotia: “market based” at \$31/100

Quebec: \$35 *so no payday lenders*

Saskatchewan, PEI, NB, NL, Territories
are discussing.....

Industry Costs

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Full paper is available at osb.ic.gc.ca listed under resources for academics

THANK YOU!

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