

High-Cost Alternative Financial Services

Purpose

The Central Alberta Poverty Reduction Alliance (CAPRA) has prepared this backgrounder on predatory fringe financial services for discussion during the 2017 municipal campaign.

Description

Financial Literacy is a critical life skill. Barriers, such as lack of access to relevant, quality financial advice and predatory fringe financial services that target low-income consumers prevent many low-income people from achieving financial stability and the assets they need to pursue prosperity and escape poverty.

'Many Albertans turn to high-cost alternative financial services when they need a short-term fix for a financial issue. Though these services are expensive and unsafe, they are often the only option for low-income individuals, particularly those who struggle to obtain credit at mainstream financial institutions. High-cost alternative financial services contribute to a two-tiered banking system, in which the poor often pay more for inferior services. Without more stringent regulation, and in the absence of safe and affordable short-term credit options, Albertans living on lower-incomes will continue to experience financial exclusion and take on heavy debt loads – both of which are major contributors to long-term poverty'.¹

Proven financial empowerment strategies and interventions aimed at helping households to build their financial literacy, set financial goals, grow their incomes, reduce debt, save regularly and invest in their future are a critical means of building more resilient households and communities, while helping more families move out of poverty.

Local History

In 2014-15, CAPRA advocated to members of Council with the City of Red Deer, requesting that a change to the Land Use Bylaw (LUB) be made to restrict the number of payday lending businesses that could take up business in a given city neighbourhood. Councillors Ken Johnston and Paul Harris put forward a notice of motion (see Appendix A) in July of 2015. The motion that was subsequent adopted.

No further action regarding changes to the Land Use Bylaw (LUB) has been taken as of this date.

Current Situation

In 2015, the Provincial Government passed Bill 15, which significantly curtailed the powers of payday lenders as well as reducing the cost of borrowing. This has led to the closure of some payday lending businesses, and new business strategies for others. Payday lenders are also now required to provide financial literacy counselling to all clients.

¹ Momentum, Summary Briefe: [High-Cost Alternative Financial Services](#), June 2017

Poverty Reduction actors and strategists are now focusing on the broader scope of high-risk, high-cost lending options, such as:

Rent-to-own financing	A financing option that allows consumers to lease furniture or a household appliance for a weekly, bi-weekly or monthly fee over a set period of time (e.g., 130 weeks). If the consumer makes all payments over the duration of the contract, they will own the item.
Instalment loans	High-interest loans between \$500 and \$15,000 that are paid back in instalments over a set period of time (up to 60 months).
Pawn loans	Short-term loans secured against personal property. The amount loaned is determined based on the value of the pawned product. To buy back an item, the borrower must pay the cost of the loan plus interest.
Cheque cashing	A service that allows individuals to, for a fee, cash cheques and receive funds instantly (i.e., without the account holds often applied by banks and credit unions).
Title loans	High-interest loans between \$1000 and \$50,000 that are secured against a borrower's vehicle. Contract lengths range from 30 days to five years.
Auto loans	Sub-prime auto loans offered at a high interest rate to individuals with low credit scores. Extended term loans often result in lower monthly payment amounts but a higher overall cost of borrowing.

According to Joe Fantauzzi, “Providers of high-cost alternatives are located primarily in lower-income neighbourhoods. Research indicates that people access these services for the same reasons they obtain payday loans, and fit within similar demographic groups.”²

Municipal Government Role

Local government can play a role in mitigating the impact of predatory fringe financial services, through:

- Land Use Bylaw, which can restrict the number of fringe financial services providers in specific neighbourhoods
- Support the development of financial literacy initiatives
- Advocate to Provincial and Federal governments for regulatory changes that protect consumers from predatory financial services
- Reduce barriers through the policies and procedures that demand citizens pay costs upfront and does not take into account mitigating circumstances.

Resources

Momentum: [High-Cost Alternative Financial Services: The Customer Experience](#)

Prosper Canada: [Financial Literacy and People Living on Low Incomes](#)

Vibrant Communities Canada: [Poverty Costs 2.5](#)

² Joe Fantauzzi, *Predatory Lending: A Survey of High Interest Alternative Financial Service Users* (Toronto: Canadian Centre for Policy Alternatives Ontario Office and ACORN Canada, 2016),