The Public Utilities Board of Manitoba
2013 Payday Loans Review

Public Utilities Board Information Requests
TO: Consumers' Association of Canada (Manitoba) Inc. / Winnipeg Harvest/ Community Financial Counselling Services (jointly) ("the Coalition")

PUB/COALITION – 1

a) For each of the experts who prepared a report filed by CAC, please identify the specific expertise for which CAC seeks to have the expert approved to provide evidence to the Board.

Response

CAC MB notes that Dr. Buckland, Dr. Simpson and Dr. Robinson were qualified as expert witnesses during the 2007/2008 payday lending proceeding.[1]

Dr. Buckland

CAC MB seeks to qualify Dr. Buckland as an expert in economics with particular expertise in qualitative and quantitative research methodology, micro finance, micro community development, economic development, and interdisciplinary development theory.

Jerry Buckland is a Professor of Economics at Menno Simons College, Canadian Mennonite University (affiliated with the University of Winnipeg). He serves as Acting Director of the Master's in Development Practice Program at the University of Winnipeg. Dr. Buckland has written numerous peer review articles and book chapters on matters relating to financial exclusion and fringe financial services. He is the author of the book *Hard Choices: Financial Exclusion and Fringe Banks in Inner-city Canada*.[2] His curriculum vitae has been filed in this proceeding.

On December 12, 2007, Dr. Buckland was qualified in the previous payday lending proceeding as an expert in:

- economics including qualitative and quantitative research methodology with particular specialization in micro finance, micro community development, economic development, and interdisciplinary development theory.[3]

1 For a review of the evidence related to Dr. Buckland and Dr. Simpson qualifications, please see the December 12, 2007 transcript at pages 2588 to 2608. The discussion of Dr. Robinson's qualifications on December 12, 2007 runs from pages 2640 to 2658.

2 For examples of his work, please see *'The Changing Structure of Inner-city Retail Banking: Examining Bank Branch and Payday Loan Outlet Locations in Winnipeg, 1980-2009,'* Canadian Journal of Urban Research, *'Banking on the Margin in Canada,'* Economic Development Quarterly, *'Two-Tier Banking: The Rise of Fringe Banks in Winnipeg's Inner-city,'* Canadian Journal of Urban Research.

3 December 12, 2077, pages 2655 and 2658.

Dr. Simpson

CAC MB seeks to qualify Dr. Simpson as an expert in economics with particular expertise in applied microeconomics and econometrics. They seek to qualify Ms Bazarkulova as an expert in applied econometrics.

Wayne Simpson is a Professor of Economics at the University of Manitoba with specific expertise in applied microeconomics and econometrics. His research, teaching and consulting experience over 35 years has included the analysis of large-scale data sets, including household surveys such as the Canadian Survey of Financial Capabilities. His curriculum vitae has been filed in this proceeding.

Dana Bazarkulova is a PhD candidate in the Department of Economics at the University of Manitoba who is completing a dissertation in labour economics and applied econometrics. Her thesis research and work as a research assistant in the Asper School of Business involves the analysis of large-scale data sets. Her curriculum vitae has been filed in this proceeding.

On December 12, 2007, Dr. Simpson was qualified in the previous payday lending proceeding as an expert in:

- labour economics including applied microeconomics, quantitative methods, and social policy.[4]

In October 2012, Dr. Simpson was qualified in a PUB proceeding related to MPI as an expert in applied microeconomics and applied econometrics.[5]

Dr. Robinson

CAC MB seeks to qualify Dr. Robinson as an expert in accounting including financial statement analysis and personal finance.

Chris Robinson is a Professor of Finance at York University. He is an expert in interpreting the financial statements of corporations and in all areas of personal financial planning. Highlights of his curriculum vitae include his PhD in finance, CPA, CA and Certified Financial Planner® achievements. He is a Fellow of the Financial Planning Standards Council, his research in financial planning has won many outstanding paper awards and been published and cited widely around the world. His co-authored textbook, Personal Financial Planning, 5e Captus Press 2012 is a standard work in Canadian universities. His curriculum vitae has been filed in this proceeding.

On December 12, 2007, Dr. Robinson was qualified in the previous payday lending proceeding as an expert in:

- accounting including financial statement analysis, qualitative research and personal finance.[6]

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4 December 12, 2077, pages 2656 and 2658.
5 October 18, 2012, pages 1406 – 1408.
6 December 12, 2077, page 2658.

PUB/COALITION – 2

a) With reference to the Dr. Simpson and Dana Bazarkulova Report ("Dr. Simpson Report"), please create a table to chart the comparisons made between 2005 source reports and 2009 source reports for ease of reference.

Response

Dr. Simpson et al

	2005						2009
	SFS		FCAC		CACFS		CFCS
	PL	NL	PL	NL	PL	NL	PL
Employment status:							
Employed or self-employed	83.4	67	70	53.4	70	55	65.3
Education:							
No high school diploma	21	10	16.3	10	14	15	24.2
Undergraduate degree	10.6	25	8.7	29.7	21	32	29.8
Age:							
18-35 y.o.	52.6	23.9					33.6
Children (more than 2 family members)	47.7	36.6			47	32	46
English speaking	89	77.9					71.7

*comparison is provided subject to data availability
**data is reported in percentages

PUB/COALITION – 3

a) Referencing pp. 3-4 Dr. Simpson Report, what is the relevance of the distinction made between Figure 3 and 4, as to PL and NL groups and tangible and financial assets?

Response

Dr. Simpson et al

The possession of tangible assets includes such items as a house or property, vehicles, collections, antiques, jewels, home furnishings and other valuables. Financial assets include cash savings, investments (stocks, bonds, term deposits, GICs and non-RRSP mutual funds), registered disability savings plan, tax free savings plans, and private pensions. Both Figures 3 and 4 show that respondents who use payday loans are more likely to have smaller amounts of tangible and financial assets.

PUB/COALITION – 4

a) What do the age demographic characteristics on p. 5 of the Dr. Simpson Report signify, as to changes shown between 2005 and 2009?

Response

Dr. Simpson et al

The proportion of PL borrowers younger than 35 dropped to 33.6% in 2009 compared to more than 50% in 2005. This result suggests that the demand for payday loans shifted to older population groups during the period.

PUB/COALITION – 5

a) What do the remaining demographics signify, relevant to payday borrowers as compared to general population, based on the experience of Dr. Simpson?

Response

Dr. Simpson et al

The payday loans customer is not a typical Canadian. They are less likely to have a partner and more likely to carry financial responsibility for a child or children. They are also more likely to be aboriginal, an issue of concern in Manitoba with a relatively large aboriginal population. We do not want to put any strong interpretation on these general results, but they suggest a vulnerable population that cannot rely on a steady income flow to support a family that is likely to have children.

PUB/COALITION – 6

a) What application do the Canadian demographics have to Manitoba, based on survey data sources from 2005 and 2009?

Response

Dr. Simpson et al

As we note in our paper (footnote 1) the data is not available by province and, in any case, the sample for Manitoba would not be sufficient to yield reliable results. We assume that the arrangements and conditions for payday lending are similar across Canada, in which case the survey results can provide a useful perspective on the characteristics of payday loan customers in both Manitoba and Canada. The survey results are valuable because they are collected using a highly respected survey methodology at Statistics Canada that captures a random sample of the population that includes both customers and non-customers of payday loans. This permits a reliable comparison of the characteristics of payday loan customers with the rest of the population in Canada.

PUB/COALITION – 7

a) P. 7, paragraph 2, Dr. Simpson Report – please explain definition of "wealth" in the measure reported.

Response

Dr. Simpson et al

Wealth is defined as net worth, which is the difference between total assets and total liabilities. The CFCS provides separate estimates of assets and liabilities and does not combine them into an estimate of respondent net worth. Thus, we report the results for assets and liabilities separately. Assets are defined as the sum of total tangible, financial and business assets reported by respondents. Liabilities are defined as debts such as mortgages, student loans, payday loans, outstanding credit card debts, and other debts reported by respondents.

PUB/COALITION – 8

a) P. 7, paragraph 3 of Dr. Simpson report, confirm accuracy of reference to 45% of payday borrowers would use a payday loan again for a $500.00 amount.

Response

Dr. Simpson et al

Actually, we report a figure of 4.5%, not 45%. Only 12 people out of 265 payday borrowers (4.53% of PL sample) answered that they would take a payday loan if they needed $500 unexpectedly. Only 0.4% of NL sample answered yes to this question.

PUB/COALITION – 9

a) Can Dr. Simpson comment on this value as compared to the payday loan choice for lending product selected by previous borrowers in the Environics Study?

Response

Dr. Simpson et al

The Environics Study reports that 56% of payday loans customers would use a payday advance or payday lender if they needed $300 a few days before the next payday. The questions are not comparable in terms of who asked the question (CPLA vs. Statistics Canada), what was asked (the exact question posed), and the amount of the hypothetical loan. The CFCS results find that the proportion that would turn to a payday lender declines sharply as the amount required rises. We also report that that this figure falls to 0.8% of payday borrowers for an unexpected expenditure of $5,000.

PUB/COALITION – 10

a) P. 7 of Simpson Report, re: regression analysis, please explain meaning of “probit model” and “ordered probit model” and why these models are appropriate to this data.
b) Please explain the concept of regression analysis.

Response

Dr. Simpson et al

Regression analysis permits an assessment of the relative impact of a number of factors that might explain the probability of taking out a payday loan. This provides important additional information to the earlier results because one factor (e.g., presence of a partner) may be closely associated with another factor (e.g., household income). Regression analysis will provide an estimate of the relative impact (the partial correlation, given the presence of the other factor) for each factor. Some factors which appear to be important on their own may not be important when other related factors are considered.

The most common form of regression analysis, ordinary least squares regression, is not considered to be appropriate when the dependent variable is a categorical variable, as it is here. A probit model takes explicit account of the structure of the categorical variable when it involves two outcomes (payday loan customer or not) and an ordered probit model is similarly appropriate when it involves more than two ordered outcomes (the number of payday loans taken out in a year).

PUB/COALITION – 11

a) P. 7 – explain re: Table 1, why the personal characteristics are defined as significant in the research re: SFS study.

Response

Dr. Simpson et al

The probit model in Table 1 was estimated for three different specifications to assess the robustness of the results. The results show that adding household and financial characteristics to the model reduces the significance of the age group variables for 25 to 54 year old respondents. The significance of older respondents remains the same, as well as significance of the marital status of respondents. The results indicate that while household characteristics and the labour force status of respondents affect the probability of using payday loans, personal characteristics are also important determinants of this decision.

PUB/COALITION – 12

a) Explain the use of a “dummy variable” as part of the analysis.

Response

Dr. Simpson et al

Dummy variables are used to capture qualitative or categorical variables, such as whether someone has taken out a payday loan in the last year. It assigns a value of 1 to one category (e.g., yes, has taken out a payday loan) and 0 to the other category (no, has not taken out a payday loan).

PUB/COALITION – 13

a) What is the relevance, for the purpose of this review, as to the probability findings reported at pp. 7-8 of the Dr. Simpson Report?

Response

Dr. Simpson et al

As we indicate in our response to CAC/PUB-10, the regression analysis estimates the relative impact of each factor. Some factors which appear to be important on their own may not be important when other related factors are considered. The regression results indicate, for example, that it is not the number of children in the household that is important (statistically significant) but financial responsibility for those children. In general, we feel most confident in the results that are evident in both the basic statistics and the regression analysis, and we have emphasized those results in our summary.

PUB/COALITION – 14

a) What, if any, public policy considerations should the Panel consider arising from the report, respecting characteristics of payday borrowers in Canada, and in Manitoba?

Response

Dr. Simpson et al

There are a number of important associations between payday loan use and customer characteristics, including lower household and personal incomes, lower levels of assets and higher levels of short term and expensive debt. In addition, payday loan customers are younger, less educated, and carry financial responsibility for children. These results suggest that payday loan customers are likely to be disadvantaged in a number of important respects and to face significant financial challenges. The important policy question is whether the restrictions on payday lending are appropriate to help them cope with these challenges to improve their personal well-being over time.

PUB/COALITION – 15

a) Referencing Payday Lending Literature Review, prepared by Jerry Buckland, p. 3, Stegman (2007) Study, the statement is made that the majority of payday loan customers in the study had a high school education, or more, but often "consumers are not financially educated". Please provide the definition of financial education in this context. How did the author verify this finding? Provide professional biography and expertise of the author.

Response

Dr. Buckland

"The core demand for payday loans originates from households with a poor credit history, but who also have checking accounts, steady employment, and an annual income under $50,000. For example, Advance America's average customer is 38 years old with a median household income of just over $40,000; in addition, 42 percent are homeowners, and 84 percent are high school graduates (Marketdata Enterprises, Inc., 2005)." Stegman 2007.

The authors do not define what financial education is but they describe what it is not.

"Those with low incomes and the least education were also the least likely to understand credit scores and know their own scores."

"For example, one national survey found that only 27 percent knew that credit scores measure credit risk, just over half understood that maxing out a credit card would lower their credit scores; and, only 20 percent knew that just making minimum payments on credit cards will do likewise (Common Dreams Newswire, 2005). Those with low incomes and the least education were also the least likely to understand credit scores and know their own scores. As long as the demand for short-term credit remains high among high-risk, low-income borrowers, it is unlikely that the payday lending problem will be entirely solved by measures focused on the firms supplying such loans."

Michael Stegman Bio:
Executive Profile from Business Week May 30, 2013

Michael A. Stegman serves as a consultant to HUD, the U.S. Department of Treasury's Community Development Financial Institutions Fund (CDFI) and the U.S. General Accounting Office. Mr. Stegman is the Duncan MacRae'09 and Rebecca Kyle MacRae Professor of Public Policy and Business at the University of North Carolina at Chapel Hill. Mr. Stegman served as Acting Chief of Staff at HUD from November 1996 to April 1997. He serves as Chairman of the public policy curriculum, and Director of the Center for Community Capitalism in the Kenan-Flagler Business School's Frank Hawkins Kenan Institute of Private Enterprise. Mr. Stegman serves a Director at Initiative for a Competitive Inner City. Mr. Stegman serves as a Member of the Community Development Advisory Council at Federal Reserve Bank of Richmond. In February, 1993, President Bill Clinton nominated him to be Assistant Secretary for Policy Development and Research (PD&R) at the U.S. Department of Housing and Urban Development, and he was confirmed by the Senate on June 1, 1993., a position until June 30,

1997. He serves as a Member of the Board of Directors of the World Trade Center North Carolina, a Member of the National Board of Directors of the Initiative for Competitive Inner Cities, a Member of the National Advisory Board of The Brooking Institution's Center on Urban and Metropolitan Policy. Mr. Stegman serves as a Member of Freddie Mac's Affordable Housing Advisory Council, He served as Vice President of the Association for Public Policy Analysis and Management. In 1995, he received both the Lambda Alpha International Washington Chapter Distinguished Educator Award, and the Lambda Alpha International Richard T. Ely Distinguished Educator Award. In its June 14, 1997 issue, the National Journal named him one of Washington's 100 most influential decision makers. He has written extensively on housing and urban policy, and while at HUD, he was founding editor of Cityscape, an important new journal of urban policy research. He is a fellow of the Urban Land Institute.

PUB/COALITION – 16

a) Has CAC or any of the experts who prepared reports for CAC, performed any studies to assess financial education in Canada, and/or in Manitoba?

Response

The Coalition

The members of the Coalition have not carried out any formal studies. They are not aware of any that have taken place in Manitoba.

Two important documents prepared on financial literacy and capability are *The Report of the Federal Task Force on Financial Literacy*, http://www.financialliteracyincanada.com/canadians-and-their-money.html and the Financial Consumer Agency of Canada's analysis of the *2009 Canadian Financial Capability Survey* conducted by Stats Canada. The FCAC analysis and reports on this survey can be found on the FCAC website http://www.fcac-acfc.gc.ca/eng/resources/surveystudies/index-eng.asp.

PUB/COALITION – 17

a) Does CAC have current data on consumer debt as a percentage of disposable income? Please produce available data.

Response

Dr. Buckland

There are many reports. Recent Stats Can data can be found at: http://www.statcan.gc.ca/pub/75-001-x/2012002/article/11636-eng.htm. The Stats Can data also provides a number of references.

Dr. Robinson

Another credible analysis is by James MacGee, The Rise in Consumer Credit and Bankruptcy: Cause for Concern? CD Howe Institute Commentary 346, April 2012. (cdhowe.org/pdf/Commentary_346.pdf) MacGee says:

> Consumer credit, which includes automobile loans, credit card debt, and lines of credit – especially home equity lines of credit – has risen by more than a factor of five since the late 1970s and, at 43 percent of disposable personal income, is more than double its level of 20 years ago. (pg. 2)

PUB/COALITION – 18

a) Referencing pp. 4-5 of the Literature Review and the Edmiston (2012) Study, the author identifies credit card cash advances as very expensive. Does the study use quantitative data to explain this relative term? Please provide data.

Response

Dr. Buckland

"Most credit card fees on cash advances, if considered short-term loans, are costly as well. The fee for cash advances on many credit cards has recently climbed to 4 or 5 percent (Blumenthal)'.

The term "costly" is not quantitative but qualitative. Edmiston gets his data from the following Wall Street Journal article.

Blumenthal, Karen. TheWall Street Journal.

"Weekend Investor – The New Basics – Getting Going: Ferreting
Out Those Hidden Fees," *Wall Street Journal*, July 17.

Karen Blumenthal has been a financial journalist for more than 25 years and was the Journal's Dallas bureau chief for eight years. She is the author of four books, including two award-winning nonfiction books for young people, as well as "Grande Expectations: A Year in the Life of Starbucks' Stock" and "The Wall Street Journal Guide to Starting Your Financial Life." She works from Dallas.

"MYTH: I'm better off linking my checking account to my credit card than paying overdraft fees."

"REALITY: That depends on how quickly you pay off your credit card. An overdraft charged to your credit card is treated as a cash advance. And as Congress has clamped down on other revenue-producing credit-card practices, both the initial charge for a cash advance and the interest rate applied have been climbing."

"Just a couple of years ago, consumers paid a fee of 3% of a cash advance, or a minimum of $5. Now that fee is commonly 4% or 5%, and the minimum is often $10, according to

LowCards.com. In addition, annual interest rates for cash advances have climbed in the past year to roughly 25% from the low 20% range.

PUB/COALITION – 19

a) Referencing Edmiston, please provide professional biography and expertise of the author.

Response

Dr. Buckland

Biography For Kelly D. Edmiston
Kelly D. Edmiston is a Senior Economist in the Community Affairs Department at the Federal Reserve Bank of Kansas City. He conducts research on issues involving regional economic growth, economic development, community development, consumer finance and public finance. He provides expert commentary to the community, policymakers, and the media on local and regional economic matters; advises the Bank President and other senior Bank officials; and provides written commentary for Bank publications. His research has been published in several leading economics and policy journals, and he has presented his research findings at numerous national conferences and professional meetings.

Prior to joining the Federal Reserve Bank of Kansas City, Kelly was Assistant Professor of Economics and Senior Associate at the Fiscal Research and International Studies Centers at the Andrew Young School of Policy Studies at Georgia State University and served as a consultant for the World Bank. He holds BA and PhD degrees from the University of Tennessee.

PUB/COALITION – 20

a) Referencing p. 5 of the Literature Review, Edmiston refers to a study citing a finding that more than 75% of payday loans are being made to repeat borrowers. Provide source data and timeframe of the study supporting the finding.

Response

Dr. Buckland

Edmiston accessed two articles from the Center for Responsible Lending:

- Center for Responsible Lending. 2007. “Alternatives to Payday Lending,” Tools & Resources, www.responsiblelending.org February 19. Accessed November 17, 2010.
- Center for Responsible Lending. 2001. “Fact v. Fiction: The Truth About Payday Lending Industry Claims,” Research and Analysis, www.responsiblelending.org Accessed November 17, 2010.

The 75% is taken directly from the CRL 'Fact of Fiction' document:

> According to a recent report by the Center for Responsible Lending, only 2 percent of payday loans are extended to nonrepeat borrowers (Parrish and King). More than three-quarters of payday loans are made to borrowers who have paid off another payday loan within the previous two weeks. The remainder consists of initial loans to repeat borrowers and repeat loans that occur more than two weeks after the previous loan (p.67).

The percentage of payday lender revenues from repeat borrowers is 91% according to the 'Fact or Fiction article:

> In reality: Payday lenders thrive by getting borrowers trapped on a debt treadmill. People with legitimate, short-term needs who will pay off their loan within two weeks aren't that attractive to payday lenders. Instead, payday lenders make most of their profits from borrowers who cannot pay off their loans, and instead renew them repeatedly, quickly paying more in fees than they originally borrowed. Borrowers who get five or more loans account for 91% of payday lender revenues."
>
> This customer "churning" -- not additional consumer demand -- is fueling the growth of the payday industry. For example, while payday revenues in North Carolina grew 27% from 1999 to 2000, the vast majority of this increase came from lenders getting their customers to take out more and larger payday loans.

There is a report from Leslie Parris and Uriah King (2009) called *Phantom Demand*. Here is a quote about repeat borrowers making up 75% of the payday lending volume. Pew quotes this article in the Pew Study.

> Ultimately, when we add together the loans made to non-repeat borrowers (1,555,103), the initial loans made to repeat borrowers (8,466,674), and the subsequent loans to repeat borrowers after two weeks (8,805,341), we find that this represents a total of only 18,827,118 loans and $6,589,491,386 of loan volume. This means that the remainder is generated by the churning of loans every pay period to borrowers trapped in debt. This churning of loans to trapped borrowers is the cause of about three-quarters (76%) of all loans and loan volume, or 58,928,051 loans totaling $20,624,817,752.

PUB/COALITION– 21

a) Does CAC or any of its experts have any data on Canadian percentage of payday loans that are made to repeat borrowers? Produce any available data.

Response

Dr. Robinson

The Cost of Providing Payday Loans in Canada: A Report Prepared for the Canadian

Association of Community Financial Service Providers, Ernst & Young Tax Policy Services Group, Oct. 2004 (http://www.cpla-acps.ca). The Association has since renamed itself the Canadian Payday Loan Association (CPLA).

This study used extensive data provided by payday lenders and reported that for every loan issued to a new customer, 15 loans were to repeat customers. This report occurred when the payday lending business was still in the expansion phase, and hence it is likely that repeat business is an even higher percentage today. There is no evidence that Manitoba repeat payday lending is materially different from the Canadian average, and no reason why it should be.

The same issue arises in the US. Consider this evidence from Springing the Debt Trap:

- The debt trap of payday lending persists even in states that have attempted to reform the practice.

In these states, 90 percent of payday lending business is generated by trapped borrowers with five or more loans per year. More evidence that the debt trap persists:

- Over 60 percent of loans go to borrowers with 12 or more transactions per year;
- 24 percent of loans go to borrowers with 21 or more transactions per year;
- One of every seven Colorado borrowers have been in payday debt every day of the past six months; and
- Nearly 90 percent of repeat payday loans are made shortly after a previous loan was paid off. (Leslie King and Uriah Parrish, *Springing the Debt Trap,* Center for Responsible Lending, Dec. 13, 2007, pg. 3: www.responsiblelending.org)

PUB/COALITION – 22

a) Referencing the Literature Review p. 6, Melzer (2012) Study, how comparable is Census Bureau's SIPP data to Canadians and the Canadian economy and society. Please explain. Please provide author's professional biography and expertise.

Response

In addition to this response by Dr. Buckland, please see the response of Dr. Robinson to questions 40 and 41. Dr. Buckland has reviewed the response to question 41 in its entirety and indicates that that "I agree with Chris".

Dr. Buckland

Because of the US' large size --roughly 10 times Canada's population and GDP-- certain economic phenomenon such as payday lending are much larger in scale there as compared with Canada. The consequence is that these phenomenon receive more academic attention in the US than Canada. The consequence of this is that literature reviews can have a large representation of US studies. But this is not to say that the US studies are completely relevant to the Canadian context. We share certain things in common such as similar income per capita but we differ in history and governmental systems. The data from the Pew Survey should be seen as reflective of the situation in the US. For accurate data for the situation in

Canada, similar research must be done here.

In terms of the US Census Bureau's SIPP, I am not aware of a survey like this --which surveys entitlement program recipients-- in Canada. The purpose of the SIPP is: To collect source and amount of income, labor force information, program participation and eligibility data, and general demographic characteristics to measure the effectiveness of existing federal, state, and local programs; to estimate future costs and coverage for government programs, such as food stamps; and to provide improved statistics on the distribution of income and measures of economic well-being in the country. (See: http://www.census.gov/sipp/overview.html)."

Brian T. Melzer
Assistant Professor
Finance Department

Kellogg School of Management, Northwestern University

Fields of Research and Teaching Interest:
Household finance, financial institutions, real estate, corporate finance.

Published Papers:
"The Real Costs of Credit Access: Evidence from the Payday Lending Market," *Quarterly Journal of Economics*, Vol 126 No 1, (February 2011) 517-555.
ABSTRACT: Using geographic differences in the availability of payday loans, I estimate the real effects of credit access among low-income households. Payday loans are small, high interest rate loans that constitute the marginal source of credit for many high risk borrowers. I find no evidence that payday loans alleviate economic hardship. To the contrary, loan access leads to increased difficulty paying mortgage, rent and utilities bills.

Working Papers:
"Competition in a Consumer Loan Market: Payday Loans and Overdraft Credit," with Donald P. Morgan, July 2012.
ABSTRACT: Using variation in payday lending restrictions over time and across states, we study competition in the market for small, short-term consumer loans. We find that banks and credit unions reduce overdraft credit limits and fees when payday credit, a possible substitute, is prohibited.

PUB/COALITION – 23

a) Referencing Melzer, provide the causal explanation of how payday loans cause more financial distress, as referenced in para. 1, p. 6.

Response

Dr. Buckland

Professor Melzer provides the following information in his report.

“Recent research on the effects of credit access among low- and moderate-income households finds that high-cost payday loans exacerbate, rather than alleviate, financial distress for a subset of borrowers” (Melzer 2011; Skiba and Tobacman 2011).

Repeat borrowers seem to be caused the most financial distress. See Melzer below. “An important question to consider in this context is whether improving access to credit, for example by raising or removing interest rate caps, alleviates economic hardship among borrowers. Economic theory does not offer an unambiguous answer to this question. Improved access to credit can ease financial distress by allowing individuals to better smooth income or consumption shocks. Loan access can also exacerbate hardship among individuals with forecasting or self-control problems, who borrow to increase current consumption but suffer in the future due to a large debt service burden.” Melzer (2011).

PUB/COALITION – 24

a) Referencing the Literature Review p. 7, Morgan, Strain, Sehlani (2012) Study, and analysis respecting a finding that Chapter 13 (U.S.) bankruptcy rates decrease when payday loans are banned, what explanation is offered for the finding?

Response

Dr. Buckland

Morgan provides this explanation in his report:

“We study Chapter 13 personal bankruptcy filings per 10,000 persons at the state level between 1998 and 2008. We find some evidence that Chapter 13 bankruptcy rates decrease after payday loan bans, consistent with Skiba and Tobacman (2009) and Morgan and Strain (2008).”

However, in the models where we find that, we also find that complaints against lenders tend to increase. One possible explanation for this finding is that after payday loan bans, financially troubled households that might have sought bankruptcy protection instead fall into “informal” bankruptcy, where they are exposed to dunning by lenders and debt collectors. However, we would like to see further evidence for (or against) that hypothesis using other proxies for informal bankruptcy. (Morgan, Strain and Seblani) 2012.

PUB/COALITION – 25

a) Provide Morgan, Strain, Sehlani (2012) Study, authors’ professional biographies and expertise.

Response

Dr. Buckland

Donald P. Morgan
Assistant Vice President
Financial Intermediation Function
Federal Reserve Bank of New York

Fields of interest:
Payday lending, Banking and Financial Institutions, Household Finance. Don Morgan is an Assistant Vice President at the Federal Reserve Bank of New York. Mr. Morgan's articles on banking and credit markets have been published in the American Economic Review, Quarterly Journal of Economics, Journal of Monetary Economics, and Journal of Money, Credit, and Banking (where he is associate editor). His latest research focuses on the Bankruptcy Reform of 2005, and on payday lending. His recent working paper, "Payday Holiday: How Households Fare after Payday Loan Bans," (FRBNY Staff Report # 309), has been widely discussed in the press (Business Week, Forbes, Wall Street Journal) and online. Mr. Morgan has degrees in economics from the University of New Mexico (B.A. '83), and the University of Wisconsin (PhD '88). He grew up in Texas and New Mexico.

Michael R. Strain is a research fellow at the American Enterprise Institute.

Ihab Seblani is an economist and quantitative analyst with American International Group, Inc. (AIG) is a holding company which, through its subsidiaries, is engaged in a range of insurance and insurance-related activities in the United States and abroad. AIG's primary activities include both General Insurance and Life Insurance & Retirement Services operations. Other significant activities include Financial Services and Asset Management.

PUB/COALITION – 26

a) Referencing p. 7 and The Pew Charitable Trust (2012), provide background respecting The Pew Charitable Trust including its general objects of the Trust and background respecting the reported study.

Response

Dr. Buckland

The Pew Charitable Trusts provides the following background information:

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life.

We are an independent nonprofit organization – the sole beneficiary of seven individual trusts established between 1948 and 1979 by two sons and two daughters of Sun Oil Company founder Joseph N. Pew and his wife, Mary Anderson Pew. From its first day in 1948, Pew's founders steeped the new institution with the entrepreneurial and optimistic spirit that characterized their lives. Early priorities included cancer research, the Red Cross and a pioneering project to assist historically black colleges.

As the country and the world have evolved, we have remained dedicated to our founders' emphasis on innovation. Today, Pew is a global research and public policy organization, still operated as an independent, non-partisan, non-governmental organization dedicated to serving the public. Informed by the founders' interest in research, practical knowledge and a robust democracy, our portfolio has grown over time to include public opinion research; arts and culture and environment health state and consumer policy initiatives.

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This report series, *Payday Lending in America,* presents original research findings from the Pew Safe Small-Dollar Loans Research Project on how to create a safe and transparent marketplace for those who borrow small sums of money. www.pewtrusts.org/small-loans

Pew's Safe Small-Dollar Loans Research Project seeks to identify and analyze borrowers' needs, expectations, and experiences when it comes to small-dollar credit. It also researches a variety of loan products and the business models used by their providers, with a focus on studying the impact on borrowers. Twelve million Americans take out payday loans each year, spending approximately $7.4 billion annually at 20,000 storefronts and hundreds of websites, plus additional sums at a growing number of banks.

PUB/COALITION – 27

a) Referencing summary of The Pew Trust research, Literature Review para. 2, p. 8, are there any distinctions between Canadian and American consumers which would limit application of the findings in the Study?

Response

In addition to this response by Dr. Buckland, please see the response of Dr. Robinson to questions 40 and 41. Dr. Buckland has reviewed the response to question 41 in its entirety and indicates that that "I agree with Chris".

Dr. Buckland

Parrish and King say that 'churning' of existing borrowers' loans every two weeks accounts for 75% of all payday loan volume."

Because of the US' large size --roughly 10 times Canada's population and GDP-- certain economic phenomenon such as payday lending are much larger in scale there as compared with Canada. The consequence is that these phenomenon receive more academic attention in the US than Canada. The consequence of this is that literature reviews can have a large representation of US studies. But this is not to say that the US studies are completely relevant to the Canadian context. We share certain things in common such as similar income per capita but we differ in history and governmental systems. The data from the Pew Survey should be seen as reflective of the situation in the US. For accurate data for the situation in Canada, similar research must be done here.

PUB/COALITION – 28

a) Referencing pp. 9-10 Literature Review, and U.S./U.K. Studies respecting race and ethnic profiling, how do the studies relate to the Manitoba market and payday lending?

Response

Dr. Buckland

We are unaware of studies that have linked ethnicity and financial exclusion in Canada. The indirect evidence is that visible minorities and aboriginal people are more commonly in poverty as compared with their proportion of the population. For instance see Adie Kazempiur and Shiva Hali (2000) *The New Poverty in Canada: Ethnic Groups and Ghetto Neighbourhoods* (Toronto: Thompson Educational). We also are aware that financial exclusion is more common among poor people.

PUB/COALITION – 29

a) Referencing p. 10 Literature Review, Footnote 6, what can Professor Buckland report on analysis from 2007 to 2013 regarding locations of banks, credit unions and payday lender locations in Winnipeg? In Manitoba?

Response

Dr. Buckland

Payday loan outlet data through this period has been submitted. We saw, as expected, the reaching of a plateau at this time. We have not undertaken analysis of bank and credit union branches in this time period (2007 to 2013). Through casual observation I don't think there have been major changes in mainstream banks/credit union branches in Winnipeg. However, and importantly for the North End, Assiniboine Credit Union has established a branch on McGregor and Mountain.

PUB/COALITION – 30

a) How does availability of internet payday loan products affect the dynamic of retreat of main line banks and growth of payday lender stores?

Response

In the event the CPLA provides the information requested by the Coalition a more complete response can be provided.

Dr. Robinson

The banks were withdrawing services in low income areas before the rise of payday lending and cheque cashing, let alone internet lending, and so internet lending was not the cause. Without the quantitative evidence that I have requested from the payday lenders, I cannot determine what effect internet lending has had on the physical stores. I would expect that it would constrain growth somewhat. At the same time, there is a considerable risk to internet lenders, because they do not have any tangible contact with the borrower. I think they must find it harder to judge the risk of a loan and harder to collect from customers.

PUB/COALITION – 31

a) What impact has on-line borrowing had on lending storefronts generally?

Response

In the event the CPLA provides the information requested by the Coalition, a more complete response can be provided.

Dr. Robinson

We cannot determine that without extensive financial data from the Manitoba payday lenders over a number of years. We have requested that data in our information requests. We note that some of the companies, like Money Mart, have entered the online payday lending business as well. In Manitoba, Money Mart uses the stores to execute the transaction. We cannot say if the net effect on storefronts and consumers is negative or positive, but undoubtedly the online operators will decrease the total business available to storefronts.

PUB/COALITION – 32

a) Referencing Literature Review p. 10, Simpson/Buckland (2013), how does the Toronto pattern apply to Manitoba?

Response

Dr. Simpson

Professors Simpson and Buckland continue to conduct extensive research on the issues of payday lending and financial exclusion. Simpson/Buckland (2013) analyzes the location of payday lenders in Toronto from 1981 to 2006 and compares it with the location of banks and credit unions. It finds evidence that payday lenders have partially replaced banks and credit unions and that the extent of the replacement is greater closer to the centre of the city. It finds that the entry of payday lenders is not related to the departure of banks as much as it is related to the characteristics of inner city neighbourhoods, especially neighbourhoods with low average household incomes. This pattern is likely representative of the location patterns of payday lenders in Winnipeg (and other major Canadian cities), given the association between low incomes and payday lending activity found in surveys such as the CFCS, but we have not yet done a comparable analysis for Winnipeg.

Dr. Buckland

Evidence suggests that Winnipeg's poverty is quite concentrated in the inner-city. But in Toronto, where gentrification of the inner-city has been quite pronounced, the geographic distribution of poverty is different. In Toronto, 'inner' suburban neighbourhoods are sometimes poorer that inner-city neighbourhoods.

PUB/COALITION – 33

a) Referencing p. 11 Literature Review, please produce the Brennan (2011) and Brennan (2012) Studies. Provide the professional biography and expertise of the author.

Response

Dr. Buckland

For the 2011 article, see: http://www.uwinnipeg.ca/index/ius-canadian-journal-of-urban-research (Link is the journal for the final version but an earlier draft is attached as Appendix A).

For the 2012 study, visit:
http://mspace.lib.umanitoba.ca/bitstream/1993/8610/1/Brennan,%20Marilyn.pdf .

Dr. Brennan worked as a bank executive with a major Canadian bank for several years. In 2012 she completed her PhD in Interdisciplinary Studies and her dissertation title was, 'The Changing Landscape of Financial Services in *Manitoba*: A Location Analysis of Payday Lenders, Banks and Credit Unions.'

PUB/COALITION – 34

a) What, if anything, should the Panel consider arising from the actions of banks and credit unions as it relates to payday lending?

Response

The Coalition

CAC Manitoba and CFCS worked with three other organizations in 2011 and 2012 to host a conference on the issues surrounding financial exclusion. The *Creating Community Options for Financial Services* Conference Summary Report (Appendix B) outlines the issues surrounding accessibility to traditional financial institutions, banking, and credit for inner city residents and marginalized populations. It also identifies successful models developed in other parts of Canada and the US:

- Pigeon Park Savings (Portland Hotel Society – British Columbia)
- Prêt du quartier (Options consommateurs - Quebec)
- Community Development Financial Institutions Fund (Missouri credit unions)

Traditional financial institutions (banks and credit unions) do not offer small short term or even longer term loans/credit to customers who; do not have a lengthy association with the institution, a good credit record and collateral regardless of whether they belong to a marginalized population.

Dr. Robinson

I am uncertain what actions the PUB refers to. I will guess that one action and one lack of action are relevant.

The lack of action is that the banks and the credit unions do not offer unsecured short term loans to individuals. A customer who wants a short term loan must qualify through a credit check. A short term loan then takes the form of either a line of credit that the person can draw upon, or overdraft protection that automatically covers withdrawals from an account that exceed the balance, up to some pre-specified limit. Payday loan borrowers may not feel comfortable dealing with mainstream financial institutions, and/or they cannot meet a credit check and/or there is no mainstream financial institution that they can go to. I have to assume that the failure of the mainstream to offer these short term unsecured loans is the reason that the Manitoba government decided to allow payday lenders to continue to operate, because there is no other reason to allow such high fees.

The action is one that the PUB has not previously considered and is new. Cash Store Financial and Instaloans claim to be offering what they call a line of credit, and amounts drawn on it are deposited into something that is alleged to be a bank account. There are substantial fees associated with the alleged bank account. These two companies offer this so-called line of credit in Ontario and Manitoba, and to the extent that we can determine, it is an identical product in the two provinces. My research assistant has spoken with various Cash Store staff at the store level to try to determine what is going on with this product, since the two companies now claim that they do not offer payday loans and hence are not governed by payday loan legislation. The different staff members offer conflicting information and explanations. They have told him that they cannot tell him exactly the cost of a loan through this line of credit unless he opens the account, gets a line of credit and draws upon it. They have also told him that the very high fees associated with the account are bank fees charged by the bank that actually operates the account, but they did not tell him the identity of the alleged bank. In my professional opinion, some department of the Manitoba government and also the Superintendent of Financial Institutions should investigate the line of credit and associated bank accounts that Cash Store Financial and Instaloans are offering. In particular, they should determine the identity of the bank that is alleged to be providing the accounts and charging all the fees associated with these accounts.

The Coalition

The Coalition notes that media reports from the Financial Post dates June 11, 2013 suggest that the Province of Ontario has filed a lawsuit against payday loan operator Cash Store. According to the report, the Ministry of Consumer Services is seeking a declaration that “by providing consumers with lines of credit, Cash Store is essentially in the payday loan business and is therefore subject to Ontario's Payday Loan Act.” The media story suggests that on April 29, 2013, Cash Store sought judicial review of a prior decision of the Ministry. In its application for judicial review, the Cash Store argues that its product is not a payday loan. (*Ontario files lawsuit against payday loan operator Cash Store*, by Theresa Tedesco, Financial Post, June 1, 2013).

PUB/COALITION – 35

a) Referencing p. 12 Literature Review, Footnote 8, provide current status of community banking examples identified in the footnote. Does CFSC continue to provide low income accounts with ACU? Please update developments regarding this or related projects.

Response

Dr. Buckland

The CFSC has been renamed Citizen’s Bridge and assists people to find employment. The program assists participants in “obtaining proper identification and financial literacy training to help people who have challenges connecting to employment” (see: http://news.gov.mb.ca/news/index.html?item=15466). As far as we are aware Pigeon Park Savings in Vancouver, one outlet of the Cash and Save in Toronto and the Desjardins Mutual Assistance Fund continue to operate.

PUB/COALITION – 36

a) Referencing p. 12 Literature Review, provide specific examples of social consumer microloans identified in Footnote 9, with details as to structure how long in existence, and funding sources, if available.

Response

Dr. Buckland

Please see the following report: Buckland, Jerry. 2009. *Aforadable Credit Options for Vulnerable Consumers: Identifying Alternatives to High-cost Credit in Australia, Belgium, Canada, France, Germany, the UK, & The US.* Ottawa: Office of Consumer Affairs/Industry Canada. (Attached as Appendix C).

PUB/COALITION – 37

a) Referencing Dr. Robinson's report, p. 4, para. 1, please provide details on which U.S. states and Canadian provinces prohibit or restrict rollover/extension loans.

Response

There is an outstanding summary on the US marketplace on the Consumer Federation of America's information resource on payday lending for consumers and advocates. (http://www.paydayloaninfo.org/state-information).

Dr. Robinson

See Appendix D providing a summary of payday lending regulation in the US. Please note the numerous states in the US with fee caps in the range of $15/100 or lower. The CPLA submission Schedule D shows Canadian regulations, but leaves blank the entry on rollovers/extensions, for BC, AB, ON and PE. The missing rollover provisions, from the relevant legislation and regulations are:

- BC: no additional fee allowed for an extension or rollover, no second loan while first is outstanding, no loan may be issued to repay an existing loan.
- AB: 2.5% per month, not compounded.
- ON: No additional fee allowed.
- PE: I am unable to find evidence that PEI ever passed the Payday Loans Act bill, which the government introduced into the Legislature in 2009. The CPLA website links to the bill, not the law, and the Law does not appear in the consolidated statutes on the website. The bill does not allow an extension and does not allow a new loan until seven days have passed since complete repayment of the previous loan.

PUB/COALITION – 38

a) Referencing Dr. Robinson's report p. 4, para. 1, does Dr. Robinson agree with a 5% fee for extension loans under Manitoba's current regulations? If not, what fee is reasonable? Explain.

Response

Dr. Robinson

The total fee revenue should be considered, not individual parts of the fees, when determining a reasonable set of fees. The PUB rejected my somewhat more complicated fee schedule in favour of a simple 5%, but the difference is not material. First of all, the great bulk of the fees should come from the basic loan, repaid on the due date. Appendix D, the CPLA Schedule D and my response to IR 37 all show that Manitoba allows a higher extension fee than most jurisdictions, and many of them ban extensions, though such a ban is very hard to enforce. If we restrict ourselves to Canada, the Manitoba extension fee is higher, but the basic fee is lower. If you raise the basic fee and drop the extension fee, then the two offset each other to some extent.

Another way to think about it is to consider what will often happen with an extension. The borrower who could not live on 100% of the last pay cheque will have an even harder time living on 75% of it this time, and will not repay the loan. Suppose the person takes one month to repay it. A fee of 5% is thus approximately equal to an annual interest rate of 60%. If the person takes two months, the rate is down to 2.5% per month, which is the same rate as Alberta allows. In any case, I do not think that changes to the extension rate will make much difference to consumers unless they are very large changes. The major benefit has already been achieved by not allowing lenders to charge 17% on top of the 117% that is already owed on the due date.

PUB/COALITION – 39

a) Referencing Dr. Robinson's report p. 4, item no. 1 re: methods for fixing rate caps, provide information respecting the appropriate cost of capital and appropriate rate of return for Manitoba lenders.

Response

Dr. Robinson

The Board is seeking a significant quantity of analysis, replicating the original hearings. I have no reason to change my opinion from the previous hearing, and I reproduce here my answer to one of the PUB information requests from then. I used a real rate of return of 10% in my analysis as a rate that was in my opinion too high and therefore could not be reasonably criticized, but I also showed that variations in the cost of capital have a very small effect, because the business is labour-intensive, not capital-intensive. Here is what I said in 2007:

> **Please explain the rationale for suggesting that the rate of return should be as low as 7% vs. 10% as utilized in the analysis. [The PUB query]**
>
> First, I have to say that the rate of return is not very important in the analysis, because the vast majority of the costs are the operating costs and bad debts. This is immediately evident from the spreadsheets that form part of the answer of PUB/Coalition II-15.
>
> I am thinking in very simple terms, even simpler than those envisioned by 310-Loan's response to PUB/310 1-1. I start with a long-run TSX geometric mean real return of 5.3%. The TSX is a diversified portfolio, and the small investor could replicate it with an exchange-traded fund costing .17% p.a. plus the initial broker fee. Ignore the broker fee, and the annual return is 5.13%. How much more would an informed investor require to invest in the payday loan business? If the investor is already well-diversified, as a portfolio investor who is holding Money Mart or Rentcash shares as part of a larger portfolio ought to be, then a return dramatically different from 5.13% cannot be justified. I could make complex and learned arguments using finance theory for a rate less than 5.13% or greater than 5.13%. I don't think that these arguments are valid, and I will not raise them. The portfolio investor is not our problem. The

problem is the undiversified investor who has put a significant part of his or her wealth into a payday loan company with only one or a very few stores. This investor will require a premium over the average equity return, as envisioned by 310 Loan's response to PUB/310 1-1. Finance theory does not provide useful answers for undiversified investors.

How do I determine that 7% might be a reasonable rate? It is a premium of 36% over the diversified rate that this investor might otherwise earn with his or her money. As I have explained in many places, including my two reports and in responses to questions from the Board and intervenors, I do not consider the payday loan industry to be remarkably risky. Bad debts are a significant expense, but there is no reason to suppose that they will fluctuate very much. Once the business is established, there is no evidence that its volume should fluctuate very much, either. The evidence is that volume continues to rise, except for the temporary drop in Rentcash results when it stopped allowing rollovers.

Ultimately, the proof is in what choices the individual investors are making. What alternative uses did they have for the money they put into the payday loan business and what would those uses have earned? I cannot put any better interpretation than to consider what I would want as a premium, given over 30 years of experience in making equity investments, sometimes highly undiversified, risky ones. I think a 7% return is reasonable for the risk in the payday lending business. On the other hand, I am quite willing to accept that other investors might want to earn 10% in real terms for the risk undertaken. A 10% real return is a 95% premium on the TSX alternative. I cannot see any justification for an expectation higher than that rate of return on an investment in a payday loan business, or indeed in any business.

PUB/COALITION – 40

a) Referencing p. 5, para. 4, Dr. Robinson identifies the U.S. as the "obvious" comparative jurisdiction under the second method. Explain why the U.S. market is comparable.

Response

Dr. Robinson

Most areas of Canadian public policy use the US for comparisons. Both countries have federal systems, and payday lending falls under state/provincial jurisdiction. English is the common language. Canada's largest alternative financial services provider, Money Mart, is wholly-owned by a US company, Dollar Financial Group. We both have democratic governments. The payday lending industry started in the US, probably in 1989 in Missouri. The business model is the same in both countries. The regulatory issues, and the responses to them, have been the same. Some states have effectively banned payday lending, as Quebec has. Most have regulated it, with rate caps, rollover limitations and limits on loans sizes, just as Manitoba has done. The rate caps are generally lower than Canadian ones, the loan size limits are almost always lower and the rollover provisions seem to be less restrictive in some states, and prohibitive in others. The industrial organization is a bit different, because there is more concentration in Canada, with the three largest lenders – Money Mart, Cash Store/Instaloans and Cash Money being more dominant and appearing in more places than the largest US chains. This concentration ought to lead to lower costs for payday loans in Canada, but has not because of the lax regulation in the provinces other than Quebec and Manitoba.

PUB/COALITION – 41

a) Are operating costs of payday lenders different in the U.S.? Please specifically discuss business tax, minimum wage, and employer contributions to employee benefits.

Response

Given the complexity and size of the question, we are not able to present a thorough answer within the existing time constraints and under the existing budget. We note that there have been a diversity of contrasting opinions expressed on the issue. These opinions may be linked to the political views of of the authors.

Dr. Robinson indicates that he disagrees with the approach of separating out costs and drawing conclusions. In the answer set out below, he notes tthe operating margins for Dollar Financial Group's Canadian operations are superior to both its US and European operations. He notes as well that even were average DFC revenues lowered to the $15 dollar per hundred range common to many US states, the operating margins for DFC in Canada would still be superior to those in the US.

Dr. Robinson

The best I can do is compare the US and Canadian segmented results for Dollar Financial Group, since this will minimize accounting differences and Money Mart is the largest single operator in Canada. Refer to Appendix E for a table of 2010 and 2011 results.

These results do not show the operating cost, but they do show the operating margin for Europe, Canada and the US. Operating margin is before income tax, and while they do not explicitly identify it, it should also be before interest expense. The most notable fact is the vastly higher operating margin in Canada, compared with the US and Europe. Revenues rose by an astonishing amount, and the operating margin increased. Money Mart clearly has a license to print money in Canada.

If we want to compare overall operating costs, we should reduce revenues to be comparable to the US. I will do this in a very simple fashion that will nonetheless reveal the difference. A common rate cap in the US is 15%. The rate cap in Ontario, which is by far the largest volume province, is 21%. To simplify this analysis, I assume that the average of all the Canadian provinces is 21%. Reduce the consumer lending revenue figures for Canada by six percentage points of 21, which is a proxy for reducing revenue to the same level per loan as a US store would collect, on average. This would reduce revenue by 6/21, which is 28.6%. Then adjust the operating margin by deducting the percentage effect. What is left is an operating margin as if prices were roughly at US levels, but costs are still Canadian. In 2010, the reduction in consumer lending revenue would be $42,285 (all figures in thousands). This is 15.3% of total revenue for Canada, and hence reduces the operating margin to 33.5%. In 2011 the reduction in consumer lending revenue would be $48,811 and operating margin would be reduced to 33.8%. These values are still far higher than the US (21.2% and 26.4%) and slightly lower than the European figures (35.6% and 32.8%). It seems that operating costs for Money Mart in Canada are much lower than they are for DFC Global in the US. Since the US wing of DFC continues to operate and DFC is expanding rapidly in Europe, this evidence supports a conclusion that the US rate caps are appropriate and the Canadian rate caps are much too high. I do note that the European operations are more difficult to compare with Canada, because they are expanding, and might possibly show higher operating margins after growing pains are finished.

PUB/COALITION – 42

a) Referencing p. 5, para. 5/bullets, please clarify Dr. Robinson's initial fee for default re: "$20 + NSF cost". Does Dr. Robinson agree with the current default fee regulation in Manitoba? Explain.

Response

The Coalition

The Coalition will consider Dr. Robinson's advice carefully and provide a final position in closing submissions.

Dr. Robinson

Parkland provided evidence that seems to show the banks are charging more for NSF cheques than current default regulation allows. Normal business practice in Canada is to charge anyone who defaults on a cheque at least the entire cost to the business of the bank's default charge against the supplier. These charges will increase over time. I recommend that regulation 15.4(1) be rewritten to allow full cost recovery, perhaps requiring the lender to give the borrower a photocopy of the bank debit charged to the lender. My proposed rule in 2008 included an additional charge to compensate for the work the lender has to do, but the regulations include charges for either default or extension loans, and so the extra $20 I recommended is not necessary.

PUB/COALITION – 43

a) Referencing Dr. Robinson's report p. 8, Table 1, Footnote 4, explain the statement respecting the inclusion of Cash Store and Instaloans in the list. Explain specifically how these businesses provide a product "virtually identical" to a payday loan.

Response

Dr. Robinson

I have not gotten a consistent story from Cash Store as to what it actually does. As I understand their explanation, I think it suggests that it is opening a bank account for the client, and the client can then immediately take money as a line of credit on that bank account. No security is required, no credit check is required. The line of credit limit is based on the borrower's next paycheque. For the first 10 loans, at least 90% of the line of credit must be repaid on or before the next payday. For subsequent loans after 10, the percentage of the paycheque that can be borrowed through the line of credit is increased and the percentage that must be repaid by the next payday is reduced.

For the first 10 loans this is virtually identical to a payday loan. It continues to be very similar even after the first 10 loans, since everything is based on the paycheque and the payday.

The charges are very high. The borrower has to pay a monthly maintenance fee on the account, interest on any drawings on the line of credit and fees for the debit card that Cash Store loads with the borrowed amount. The cost of credit exceeds the Manitoba limits, it seems, although as I have said elsewhere, Cash Store refuses to provide the precise cost to a borrower until the person has actually committed to open the account and take out a loan.

PUB/COALITION – 44

a) Referencing Dr. Robinson's Report p. 9, para. 2, provide available market information as to the comparative volume of internet loans made in Manitoba from 2008-2013.

Response

Dr. Robinson

Such data is not available. This question might be directed to the CPLA, which may have at least some information, or to the internet lenders who are licensed in Manitoba.

PUB/COALITION – 45

a) Referencing p. 10, para. 2, Dr. Robinson's premise is that "a payday lender has to get most of the business from frequent repeats..." . What is the source evidence for this premise?

Response

Dr. Robinson

This is not a premise, it is an integral part of the business. The evidence is given in my original reports and again in my response in this proceeding to PUB/COALITION IR 20 and 21.

PUB/COALITION – 46

a) Referencing p. 11, section on inflation, does Dr. Robinson or CAC have any data on borrowing patters of consumers, as to whether they include a hedge amount re: their needs (borrow somewhat more than their immediate requirements). Comment on the effect on the inflation argument if a “hedge” approach is already taken by consumers.

Response

Dr. Robinson

I am not aware of such data and I would be surprised if a credible source exists. Credit card debt and overdrafts are tied to immediate purchases, until the consumer fails to pay them off. Borrowing on a line of credit can also be timed to match immediate needs. Term loans of any size are usually related to a specific purchase. This leaves payday loans as the only common consumer loan that could include an amount that might or might not be needed for future consumption. Consider the circumstances, however. The average payday loan is 10 - 12 days in duration. Many of the borrowers are paid every two weeks, or twice a month, and hence the loan cannot be much longer than that. A payday borrower will not take out the loan until all the money has run out, and the very short time frame left until it must be repaid allows reasonably accurate budgeting. It is not very meaningful to talk about a hedge to cover unknown future cash needs when the future is only a few days in length. A corporation might issue $100 million in debt to cover somewhat uncertain cash needs for the next five years, but that situation is in no way analogous to family finances.

PUB/COALITION – 47

a) Is the inflation/borrowing premise automatic regarding borrower consumption?

Response

Dr. Robinson

No, a family could always change spending behaviour and require more or less next year than it did this year. A change in real consumption, that is consumption after inflation effects are removed, could lead to a change in the amount a family borrows, whether through payday loans or any other form of debt. Since we know from the answer to Question 17 that consumer debt is rising faster than incomes, we know that on average the size of consumer loans is rising faster than the inflation rate. I think it is reasonable to expect that the size of payday loans is therefore rising faster than inflation. However, what the PUB might want to know is how loan size has behaved as a time series over the last 10 years. The CPLA members could provide that data, but they were unwilling to give it to us in 2007-08. The PUB could ask them to provide it now.

PUB/COALITION – 48

a) Respecting The Report on Mystery Shopping Payday Lending & Payday Lending – Like Outlets in Winnipeg, and beyond the recommendations in the report, are there any specific public policy considerations arising from the findings that Professor Buckland and/or CAC Manitoba wish to advance to the Panel in this matter?

Response

Dr. Buckland

No additional recommendations but I would like to elaborate on "A second recommendation is that regulations be broadened to encompass payday loan-like products". Based on this research and other research, there is evidence of a proliferation of credit products which regulators must be aware of so that regulations can be efficiently and effectively designed, *i.e.*, regulations that are tied to a particular product will soon become obsolete.

The Coalition

Here are some public policy considerations of the Coalition:

- The provision of clear, understandable information regarding the costs and requirements of payday loan products by alternative (payday) lenders.
- Training to ensure that staff representing alternative lenders understand, and can explain, the above costs and requirements, and that they have the time and appropriate environment where this can take place, with a view to protecting the personal information and privacy of their customers
- The regulation of new products in the marketplace that are "payday loan-like", but do not currently comply with the legislation
    - Alternative lenders now offer a myriad of services, from bank accounts, to currency exchange to lines of credit. Some of these, namely Lines Of Credit are troubling in that they may be seen as exploitive and circumventing the regulations. LOCs in particular revert to the 59.9% APR, have significant fees attached and encourage "rollovers". CFCS has seen clients who have secured 4 concurrent LOC's from different branches of the same payday lender. Widening the regulations to include these products needs to be considered.
- Ensuring that decisions related to the use of funds for consumer education are made in a transparent manner with appropriate stakeholder input.
- The provision of loans to clients with income sources other than employment
    - This practice needs to be explored from two perspectives:
        - CFCS has seen clients where EIA or CPP, OAS, or disability income has been used to secure loans. These are all low/ fixed income clients. Provincial regulations under the *Employment and Income* Act prohibit EIA funds being used for anything other than intended purposes, which would not include loan repayments.
        - However consideration must be given to the rights of EIA recipients to credit when necessary. This issue might be more a function of the EIA system where it is extremely difficult to obtain additional funds on short notice.

PUB/COALITION – 49

a) Respecting the Report on the Exit Interview of Payday Loan Customers, and beyond the recommendations in the report, are there any specific public policy considerations arising from the findings that Professor Buckland and/or CAC Manitoba wish to advance to the Panel in this matter?

Response

The Coalition

See response to # 48 above.

Dr. Buckland

The exit interview information reinforced results from the mystery shopping and supported the recommendation about ensuring that all fringe bank loan products, not just products that fit a tight definition, be regulated. This includes fringe bank 'lines of credit,' loans in lieu of government entitlement cheques, rent-to-own, pawnshop loans, etc.

Also, researchers were surprised at the high non-response rate to the exit interview. One hypothesis is that customers feel shame about using payday loans and thus avoid talking about them. We could not test this hypothesis but we think that, in light of the non-response rate, this should be explored. This is because if customers feel shame about using a product that could prevent them from taking action if they face a debt problem.

PUB/COALITION – 50

a) Referencing "The historical development of the payday lending outlets in Winnipeg", how is the area identified as "downtown" Winnipeg accounted for in the data? Is there a difference in socioeconomics or behaviour characteristics between downtown borrowers and inner city borrowers?

Response

For the purposes of this study, the city was divided into inner-city and suburb, where the inner-city conforms to the core area as defined by the Core Area Initiative. Thus downtown and inner-city fit within the inner-city in this report.   We have not have sufficient data on this question to answer whether there is a difference in socioeconomics or behaviour characteristics between downtown borrowers and inner city borrowers.

PUB/COALITION – 51

a) Does CAC and / or its experts have any information or data available regarding provision of payday loans in Southern Canadian rural/Northern Canadian rural areas (including small urban centres) and the characteristics of lenders and borrowers in these geographical locations? Please provide available information including information specifically for Manitoba if available.

The Coalition

CFCS does operate in rural Manitoba. We have encountered clients with payday loan debt issues. However the number is very small and we note no discernable differences between these and our urban clients. Northwest company is often the only agency providing financial services in First Nation and other remote communities. It acts as a financial institution, cashing cheques, providing credit, and holding funds.

Winnipeg Harvest is consulting with rural foodbanks on the information they have, if any, related to payday loan recipients. The Coalition will report back if information becomes available.

For the purposes of responding to this information request, the Coalition did an internet search of the rural payday lenders to examine their hours of business and the scope of services they offer. It is hoped that this will provide insight into the business model employed in rural communities. The Coaliton also did a preliminary internet search of the services offered by Northern Stores and Aski Financial to determine whether their financial services are in any way analogous to those offered by payday lenders. The review was conducted quite quickly and the Coalition reserves the right to provide additional information if it becomes more available. The results of the survey conducted by one of our Mystery Shoppers and an articling student at law are provided in Appendix F.

PUB/COALITION – 52

a) Should the rural/urban distinction be considered in the review of policies or laws and regulations with regard to payday loans in Manitoba? If so, please explain and provide specific details.

Response

The Coalition

The Coalition appreciates the opportunity to respond to this question. We would, however, like to have the opportunity to discuss this further, in the light of reviewing the written responses of other interveners, before responding.

Dr. Robinson

I do not believe that any distinction should be made between rural and urban borrowers or payday loans made in the two areas. Quite aside from the difficulty of defining boundaries between the two when telephones, internet connections and car travel are universal, any change that attempts to set different rules to help one group has much wider and possibly undesirable effects on all payday borrowers.

The CPLA brief recommends raising the fee cap so that more lenders will enter the business, or the existing lenders will expand their services. This argument fails to acknowledge the basic reality of the economics of payday lending. A payday loan store is a small business, and the key success factor for most small businesses is achieving enough volume of sales to cover the fixed cost of opening the doors every day. Payday lenders are no exception, as I testified before the PUB in 2007-08. Their annual reports and the Ernst & Young study cited previously show that 70 – 80% of the costs are the operating costs of the stores. The average store will make between $500,000 and $2,000,000 of loans in a year. If the revenue is 17% of loan volume, that is a total sales volume of $85,000 - $170,000 p.a. Even if the revenue cap were at the unreasonably high Nova Scotia level of 26%, those volumes would still yield only $130,000 - $520,000 p.a. gross revenue. You could think of it a different way. If the average loan size is $400, these average stores would make 1,250 – 5,000 loans p.a. The stores are usually open seven days a week, minus a few statutory holidays. Let us suppose that they close one day a week plus statutory holidays and are open only 300 days per year. The stores would make an average of four to 15 loans per day. By any measure, these are very small businesses. If you add cheque cashing and various other financial services, you cannot even double the volume of business.

This leads to several further observations. First, increasing the price of a service that is not a luxury will reduce the volume in the long run. Payday borrowers will have to pay more, there will be more defaults and the debt traps will get larger, faster. Only a relatively small proportion of the population uses payday loans, and they have a finite amount of money that they can spend on payday loan fees.

Second, let us look at the current population of urban areas that do have payday lenders. Population figures are from the 2011 Census. Only three centres seem to have enough people to support the number of payday lenders in them. It seems reasonable to assume that the smaller centres are also drawing on a rural population from a substantial distance around them. What will happen if the rates are raised to 21% from the current 17%? First, the 66% of the population who are in the three centres that have enough population to support the existing stores will pay an extra 4% on their loans. In 2008 in my submission to the PUB I estimated the total loan volume in Manitoba at $102 million. The CPLA is free to provide evidence that this estimate is wrong, but without other evidence, my estimate is all we have. Inflation of about 2% p.a. would have raised this number to approximately $113 million. Suppose every person in Manitoba had access to a payday lender today, but without rate increases only 66% of them would have access tomorrow – the residents of Winnipeg, Steinbach and Brandon. The payday borrowers in those three cities would pay an additional $2.7 million p.a. in fees. The borrowers in the smaller communities will also pay 4% more on every loan, but the CPLA argument is that they would pay this figure rather than lose the service. All of the analysis in this paragraph assumes that no loans are currently made over the internet to residents of smaller communities, and that is clearly untrue.

Payday Lenders and Population of Cities and Towns

	2011 Population	2013 Payday Lenders	Lenders per capita	% of Population
Winnipeg	730018	39	18718	60.4%
Brandon	53229	5	10646	4.4%
Steinbach	13524	1	13524	1.1%
Portage	12996	3	4332	1.1%
Thompson	12839	3	4280	1.1%
Winkler	12005	0		1.0%

Selkirk	9934	2	4967	0.8%
Dauphin	8251	2	4126	0.7%
Morden	7812	0		0.6%
The Pas	5689	2	2845	0.5%
Flin Flon	5592	3	1864	0.5%
Swan River	3859	1	3859	0.3%
Internet		2		
Manitoba	1208268	63	19179	

Third, look at the number of people per store in the smaller communities. Clearly, volume is a more critical issue than the price. A rise in price will not induce payday lenders to set up shop in every hamlet in Manitoba. If there is to be payday loan service in the small communities it will have to come via the internet, the telephone or a general store that already sells groceries, hardware, gasoline, clothing and who knows what else. The baker who cannot get enough business in a small town to survive does not suddenly become a success by increasing his prices by 25%.

The one concession the PUB could make is to lower the registration fee the government charges for stores operating in small centres. I do not recommend this, but at least it would not have the effect of overcharging consumers in larger centres that a rise in the fee cap would have.

PUB/COALITION – 53

a) Have any other Canadian jurisdictions identified or addressed rural/urban distinctions in the payday loans industry? Please provide available information.

Response

The Coalition

We are not aware of any Canadian jurisdiction that addresses rural/urban distinctions. Time has not permitted a review of the legislative regimes in Canada or the United States in that regard. We will conduct a brief review to determine if any restrictions are identified. We reserve the right to provide further information in this regard.

PUB/COALITION – 54

Please produce any information, including papers, studies or data which CAC has on the financial literacy of Canadians or any initiatives underway in Canada / Provinces of Canada, including Manitoba, to address financial literacy of the general public and *financial services consumers.*

Response

STUDIES;

Please see PUB/Coalition 16.

INITIATIVES:

Community Financial Counseling Services provides financial literacy programs to a broad range of Manitobans, both in Winnipeg and rural communities, including community groups, service organizations, employee groups, professional organizations, and in schools. CFCS uses a "Behaviour Economics" approach, which not only deals with the basics of financial management but also the psychology of how we relate to money and the factors that influence our financial decisions debthelpmanitoba.mb.ca

CAC Manitoba facilitates workshops on credit reporting and credit scores, entitled *Knowing the Score.* The goal of these is to enable consumers to take better control of their individual credit file by understanding how their payment choices affect their score.

The Manitoba Financial Literacy Forum is composed of representatives from a wide range of private and public agencies providing financial services. Their focus is to further the recommendations of the Task force on Financial Literacy. Both CAC Manitoba and CFCS have representation in this organization. The Forum produced a 2013 Financial Literacy Calendar. More than 5,000 copies were distributed to the public. A 2014 calendar is in development

The Securities Commission of Manitoba has produced two financial literacy workbooks:

- *Make it Count* for elementary school students.
- *I Am Worth It* for women.
- These are both available at www.msc.gov.mb.ca

The Securities Commission also has undertaken an excellent poster campaign to help make people aware of outlandish claims in advertising.

Canadian Federation for Financial Education has produced a financial literacy workbook 'Money and Youth" that is being distributed to all grade 10 students in Manitoba.

Financial Consumer Agency of Canada (FCAC) has a financial literacy website aimed at youth called *the City*, and a workbook entitled *Financial Toolkit*. CFCS assisted in a Canada wide evaluation of the Toolkit this past year. FCAC spearheads annual activities for National Financial Literacy Month in November

The Canadian Centre for Financial Literacy has developed a *Community Facilitators Toolkit*, which is a training program for financial literacy facilitators www.theccfl.ca

Social Economic Development Canada (SEDI), working with TD Bank, has funded a large number of financial literacy projects over the past two years. They are listed on the SEDI website

SEED Winnipeg provides financial literacy workshops as a part of its asset building programs.

Credit Counseling Canada, the national association of non-profit credit counseling agencies, develops and coordinates financial literacy endeavours for its members across Canada, particularly for National Financial Literacy Month.

The *Financial Forum,* held every two years, brings together academics in Human Ecology from across Canada to discuss issues related to financial literacy and family finances. This forum was held in Winnipeg in September of 2012.

Response to Further PUB Queries
Chris Robinson
June 24, 2013

PUB/Coalition – 55.

Please produce any data which CAC has and which discloses average annual number of payday loan borrowers per store and average annual number of payday loans per store in Manitoba, or in any other Canadian province.

<u>The Coalition's Response</u>

To answer this question fully would require information disclosure from the CPLA. The Coalition requested loan volume information from the CPLA but the CPLA has declined to provide the information.[1] The information requested will be provided in three stages:

(i) Dr. Robinson will provide an estimate from the 2007-08 proceeding;

(ii) Dr. Robinson will update his estimate based on more current data;

(iii) Dr. Robinson will comment on the Money Tree information.

<u>Dr. Robinson's Response</u>

i) estimate from the 2007-08 proceeding

The following material is a complete copy of one of my responses to PUB questions posed to the Coalition during the 2007-08 hearings. It is the first step to understanding the analysis.

PUB/Coalition II 4 Reference: PUB/Coalition B9 (from 2007-08 hearing)

Please comment on the impact on competition that would result from the reduction in the number of payday loan outlets and creation of a small number of large entities offering payday loans in Manitoba. Would this increased level of concentration harm consumers?

I cannot answer this question accurately because the Board has not specified how many outlets it thinks will close. The number that will close depends on their individual cost functions and loan volumes, and this information is not available to me. Furthermore, the Board's decision on the allowable level of fees will affect how many outlets close.

1 The Coalition notes that it recommended there be cross examination associated with the hearing. Better information may have been available if parties had the right to cross examine. The Coalition renews its objection to the absence of cross examination.

My answer to this question will therefore contain many assumptions and estimates. Nonetheless, I think that my answer will provide some insight for the Board. Let me set out a reasonable scenario.

First, I will estimate the size of the payday loan market in Manitoba using the best information I have from public sources, the DT report and the responses to the first round of questions to the other intervenors.

	# of stores	Volume	Total
Money Mart	18	$3,000,000	$54,000,000
The Cash Store/Instaloans	26	1,200,000	31,200,000
Cash Money	5	716,000	3,580,000
Mogo	3	716,000	2,148,000
Sorensen's	3	716,000	2,148,000
Fast Cash	3	716,000	2,148,000
Single stores	9	716,000	6,444,000
Manitoba Total	67		$101,668,000

The counts for the stores come from the CPLA Submission, except that The Cash Store now reports having 26 stores, instead of the 25 shown in the CPLA list. Money Mart is not participating as an intervenor in this Hearing and hence I cannot ask it for information. I am using the national volume per store calculated in my response to PUB/Coalition 1-B13. Rentcash reported in its first round responses that it made 78,907 loans in Manitoba in 2007 (9 months annualized) of an average value of $385, which yields a per store loan volume of $1.168 million. I rounded this up to $1.2 million for the same reason as I increased the value for Money Mart in PUB/Coalition B12, though I did not repeat the calculations, just estimated the increase. The DT (Deloitte Touche evidence from 2007 proceeding) report did not include either Money Mart or The Cash Store/Instaloans. While I reject the DT report as seriously flawed, its loan volume result is the best estimate I have of loan volume for the remaining stores, at $716,000. Put all this together and I get a Manitoba payday loan market of $102 million, as shown in the table. For a check on how reasonable this is, I can look to the relationship between Manitoba and Canada on a population basis. Quebec does not allow payday loans, and Manitoba's population is 5% of the population of the rest of Canada. In my original report to Industry Canada I estimated the national payday loan volume at $1.7 billion in 2004. Considering the rapid growth in the business and the more recent values I have, I would now estimate the volume to be $2 billion. The Manitoba total I have estimated is about 5% of that national estimate.

I can draw a strong conclusion from this table immediately. Money Mart and Rentcash already dominate the Manitoba payday loan market. The table shows them with 84% of the current payday loan volume, which is much higher than their proportion of the number of stores (44/67 = 66%). My estimate cannot be very far wrong. Any changes to the market caused by following my recommended tight fee cap that closes the small players will not have a very great effect.

Let me take this down to the community level, which is also a partial response to PUB/Coalition II-6. First, in the spreadsheet that responds to PUB/Coalition II-15, I provide an analysis of a single store with $750,000 loan volume, and the high end of my cost function and fee recommendations. Such a store has a small negative net economic income of $2,616. This is close enough to zero that this scenario suggests the store is viable economically. Since the DT average sales value is $716,000, and it does not allow for the fact that some of the stores have probably not yet reached a mature sales volume, I can reasonably conclude that very few stores will close if the high end of the fees is what the Board chooses to mandate. Such a decision would not provide much benefit to Manitoba consumers.

Let me instead assume that the Board chooses a somewhat tighter standard, without specifying it exactly. Let me further assume that the nine single stores close down, and Fast Cash closes down, for a total of 12 store closures. Mogo and Sorensen are part of chains with more stores outside Manitoba, though they are not very large. Money Mart, Rentcash and Cash Money are ranked first, second and third in Canada.

What will happen to the loan volume of the closed stores? How much is their loan volume? Let me also assume that their loan volume is $500,000 each, which is why they cannot continue. Eight of the 12 are in Winnipeg and so their volume of $4 million is easily transferred to other stores. I will assume the remaining chains capture the total Winnipeg volume in proportion to their total store numbers out of the total of 55 now remaining. Customers in Winkler, Steinbach and Flin Flon are out of luck, since there is only one store in each town. Perhaps they will petition the legislature for relief from this disastrous loss. I assume their volume disappears. The 12th store is in Brandon, where only Money Mart and Rentcash operate; so they each pick up another $250,000 volume. The pre-transfer store average volume for Money Mart and Rentcash isn't changed by these manipulations, since I took it from exogenous sources. The assumed value of $716,000 for the other stores was an average that included the stores with only $500,000 annual loan volume. Once I assume that 12 stores have this lower volume, it implies that the volume of the other stores that are part of the private company sample of DT, must have had higher volumes. The following table makes all these changes and shows the new market for payday loans. Note that the total declines by $1,500,000 for the lost volumes in Winkler, Flin Flon and Steinbach.

	# of stores	Volume	Total	% of Total
Money Mart	18	$3,086,616	$55,559,091	55.5%
The Cash Store/Instaloans	26	$1,282,343	33,340,909	33.3%
Cash Money	5	$1,024,364	5,121,818	5.1%
Mogo	3	$1,024,364	3,073,091	3.1%
Sorensen's	3	$1,024,364	3,073,091	3.1%
Manitoba Total	55	$1,821,236	$100,168,000	100.0%

The volume for the smaller chains is now seen to be about $1 million per store, which should allow them to continue with fee caps that are lower than the loosest limits that I provided in my recommendations in PUB/Coalition 1-B-18. Any further tightening will not affect the availability of payday loans to Manitoba consumers unless Money Mart or Rentcash close stores, since Cash Money, Mogo and Sorenson operate only in Winnipeg. The volume on further closures will transfer to the biggest players, making them more profitable and more able to provide loans at lower rates.
[end of quoted material. Note that "DT" refers to the Deloitte Touche report commissioned by the CPLA for the Manitoba hearing. DT purported to show the payday lending business in Manitoba, but the respondents were only the small players, excluding Money Mart and Cash Store/Instaloans and probably excluding Cash Money, though I could not determine that for sure. As a result, the numbers the report presented were strongly and deliberately biased to show poor performance and low volumes, because the big successful players were not in the sample. I accepted the DT volume number as representing the small stores only.]

I submit that I predicted what has happened. The PUB chose a relatively tight fee cap, even though it is still higher than virtually all the US state caps. Some of the smaller stores have closed. There are no longer stores in Winkler or Flin Flon, and Sorensen's and Mogo have left. Money Mart, Cash Store/Instaloans and Cash Money have not changed their outlet numbers much. A few smaller operators have opened for business, but the total number of small players has declined.

ii) estimate for the current proceeding

The PUB has asked now (PUB/CAC #55, 2013) for an estimate of number of loans and borrowers per store. We don't have those values. However, they can be reasonably estimated. The first step is to recalculate the dollar volumes, following my work from 2007-08. Dollar Financial does not report as much detail in its 10K filings in 2012 as it did in 2007 and so I will have to make some assumptions to estimate it. It appears from my estimate for 2012 that my original estimates in 2007-08 were far too high for Money Mart, and hence my estimate of total loan volume in Manitoba is likely too high. However, I also believe that my estimates for Cash Money were too low, which would partly correct the error.

Let me estimate the pieces of the total and then put them together in a table.

Money Mart's 10K for 2012 reports Consumer Lending revenue of $181,489,000. Money Mart owns 474 stores and franchises another 14 (Money Mart is buying back its franchises and aims to become solely an owner-operator in Canada). In their financial statements, they do not consolidate the franchise revenues and expenses, they report the franchise fee revenue as other revenue. The loan revenue per store is thus $181,489,000/474 = $382,888 per store. We can convert that to an estimate of loan volume by dividing by the percentage fee charged. The weighted average fee cap for Canada is 21.8%, and Money Mart is in all markets. So an estimate of loan volume per store is $382,888/.218 = $1,756,368. However, this is "good" loans only. Bad debt loans are not included in revenue. In 2007-08 the loan loss rate at Money Mart was around 1.3 – 1.5%, but I believe it has gotten worse, though I cannot give a precise number because Dollar Financial doesn't report it for Canada. Let us assume it got a lot worse, to 5%. Then the total loan volume, including bad loans, would be $1,756,368/.95 = $1,848,808. Money Mart has been opening stores in other provinces recently and hence its total revenue will include some stores operating only part of 2012, and some stores that have not yet reached their full sales potential. The Manitoba stores are quite stable, and Money closed one this year. I will somewhat arbitrarily estimate that the Manitoba stores will on average issue $2 million per year in loans, with the Winnipeg stores likely to be higher and the stores in other centres lower.

Cash Money operates only in Winnipeg, which is a denser market that will generate more volume per store than the average. Cash Money seems to be a direct competitor to Money Mart, but tends to be in the larger markets whereas Money Mart will take on smaller markets to some extent. I will assign Cash Money a volume of $2.1 million per store.

Cash Store Financial does provide loan volumes. It has been opening stores very rapidly for many years and now has more stores than Money Mart. The result of this rapid growth will accentuate the tendency for total revenue to understate the Manitoba revenues, since the stores in Manitoba have been open for longer than the average and should be at full volume. Cash Store reported in its most recent Investor Fact Sheet (http://www.csfinancial.ca/CorporateInformation/Investors/FinancialReports.aspx, Financial Reports, Q2 2013 Investor Fact Sheet, accessed June 24, 2013) quarterly loan volumes for the last four quarters in millions of $186, $203, $207 and $200, for a total of $796 million. In the same Investor Fact Sheet it reports 536 stores, which is significantly higher than the 511 at the previous fiscal year end. We can estimate average volume per Canadian store at $796,000,000/536 = $1.485 million. As I did with the Money Mart figures, I will arbitrarily adjust that upwards to $1.6 million to allow for the maturity of the Manitoba stores.

Finally, the other stores that are single owners or small chains. One of them claims volume has dropped since the regulations were enacted. The Deloitte and Touche report gave an average revenue of $716,00 in 2007, and inflation would raise that figure by about 12% from 2007 to 2013, or about $802,000. Two of the very small volume locations, Flin Flon and Steinbach, have closed since 2007, but I don't know if they were part of the Deloitte and Touche study. Some of the small stores are in the denser Winnipeg market. I will guess that $800,000 is reasonable for the smaller players, on average.

These figures then yield the following table, which is an update on my work from 2008.

Table 1: Estimates of Annual Manitoba Payday Lending Volume as of June 2013

	# of stores	Volume (millions)	Total (millions)	% of Total
Money Mart	19	$2	$38	38.7%
The Cash Store/Instaloans	23	$1.6	36.8	37.5%
Cash Money	5	$2.1	10.5	10.7%
The rest	16	$0.8	12.8	13.1%
Manitoba Total	63		$98.1	100.0%

There has been seven years of inflation since my original estimate of a loan volume over $100 million, which suggests I was too high originally, entirely because of a higher estimate for Money Mart, or else Money Mart volume has declined significantly. There is another possibility, which it is I simply cannot estimate. Internet lending volume has increased substantially, according to Dollar Financial in its 2012 10K. Internet volumes for Cash Store and Money Mart are included in the totals I used to estimate their loan volumes. Two of the “small” players in Manitoba are purely internet lenders, and for all I know they could be doing $5 million each instead of $800,000, which would put my Manitoba estimate for 2013 in line with my estimate for 2007.

The CPLA submission of statistics from Nova Scotia can be used to calculate total loan volume for Nova Scotia. There are 51 stores in Nova Scotia. There were 172,023 loans in the most recent 12 months, and the average loan was $433.64, which gives a provincial total of $75 million. The ratio of Manitoba population to Nova Scotia population in the 2011 census (see Table 3 below) is 1.31. Multiply 1.31 X $75 million = $98 million, which is my current estimate for total Manitoba volume. The Nova Scotia per store volume is $1.462 million. Working backwards, the estimated Manitoba average volume per store is $1.556 million.

We can then use this Manitoba total loan volume, the number of stores and an estimate of average loan size to estimate the number of loans per store. Nova Scotia average loan size is $433.64, which is best single current estimate. I would have estimated it between $385 and $450 for Manitoba, which is quite a wide range. The calculation is then (Loan volume/number of stores)/(average loan size) = average number of loans per store.

If we further want to know the number of borrowers, we need to know how many times a borrower repeats in a year. The Ernst & Young study says 15 repeats for each customer, which is not exactly the same as number of loans to customer, but shows how prevalent repeat borrowing is. PPL says the number of loans per borrower has been declining and is now 6.78. US data on bank payday lending says that in 2011 the median borrower took out 13.1 loans. The following Table 2 shows estimates of the number of loans per store and number of borrowers per store.

Table 2: Estimated Number of Loans and Borrowers Per Store in Manitoba, 2013

Average Loan Size	Estimated Number of loans per store	Estimated Number of Borrowers per store: 6.78 loans each	10 loans each	13 loans each
$385	4,040	596	404	311
433.64	3,587	529	359	276
450	3,457	510	346	266

The Average Rate Cap for Canada

The CPLA declined to calculate it. Table 3 shows the calculations for unweighted average and average weighted by population. The unweighted average cap is 22.6% and the weighted average cap is 21.8%.

Table 3: Unweighted and Population-weighted Average Rate Cap for Canada

	Population 2011 Census	% of total	Rate cap	Weighted Mean
Ontario	12,851,821	0.515	0.21	0.108
BC	4,400,057	0.176	0.23	0.041
Alberta	3,645,257	0.146	0.23	0.034
Manitoba	1,208,268	0.048	0.17	0.008
Saskatchewan	1,033,381	0.041	0.23	0.010
Nova Scotia	921,727	0.037	0.25	0.009
New Brunswick	751,171	0.030	0.24	0.007
PEI	140,204	0.006	0.25	0.001
Total	24,951,886	1		
Unweighted Mean			0.226	
Weighted Mean				0.218

iii) **Insight from the Money Tree**

General Comments

1. Bravo to Money Tree. It has provided the most insightful and useful discussion and information I have seen from any payday lender or the CPLA, in this review and the previous 2007-08 hearings.
2. Money Tree is checking credit with Transunion. Transunion, is one of the two main personal credit record agencies. As far as I know, no other payday lender does this; it is a hallmark of payday lending that the only checks are identity, address, bank account and pay stub.
3. Money Tree has a very low default rate for a payday lender.
4. Some of Money Tree's other policies, like very limited lending to those on restricted fixed incomes, are different from what we have heard elsewhere.

Money Tree Revenues and Lessons from the Numbers

The total revenue figures do not agree with the information provided on payday loans in detail. For example, look at the response to question 2(d), for 2012. The company granted 3,607 loans with an average value of $276. The product of these two numbers is a total loan volume for the year of $995,532. The revenue on this loan volume, leaving aside any penalties, etc., would be $169,240 if every loan was charged 17%. The answer to question

4(a) says that 2012 total sales was $1,166,356.53. The normal interpretation of sales when a dollar sign is attached is that it is sales revenue to the company, but clearly that is not the case. The “sales” figure in 4(a) must be volume of transactions, not the revenue or fees charged. This figure does not agree with the number that is the product of the number of loans and average loan size, and so the “sales” figure must include cheque cashing volume. It also doesn’t quite agree with the 87.6% figure that Money Tree says is the percentage of its revenue that comes from payday lending, and so we can infer that 87.6% is based on actual revenue, not the dollar value of the loans plus the dollar value of cheques cashed. Let me summarize the information we have for Money Tree.

Money Tree Revenue and Volume					
	2012	2011	2010	2009	2008
Total Volume	$1,166,357	$1,019,879	$1,791,446	$1,742,228	$1,706,740
Change in Total Vol.	+14.3%	-43.1%	+2.8%	+2.1%	
# of payday loans	3,607	3,251	3,936	4,620	5,399
Change in # of loans	+11.0%	-17.4%	-14.8%	-14.4%	
Payday lending volume	$995,532	$871,268	$1,491,744	$1,450,680	$1,419,937
Change in payday vol.	+14.3%	-41.6%	+2.8%	+2.2%	

First, the drop in loan volume is not just due to fewer loans. Contrary to what we would expect with inflation, the average value of loans declined. The large decline in volume in 2011 over 2010 is due more to reduced loan size than to reduced number of loans. Furthermore, loan volume declined in 14.4% in 2009, before the Manitoba regulations were enacted. We do not have pre-2008 values, but what we see is also perfectly consistent with a peak in loan volume due to the financial crash of 2008 (peak time for payday loans is around Christmas) and then a reduction in 2011 when the economy in Canada was recovering and people had fewer financial problems.

Loan volume has started to rise again in the most recent year, with 11% more loans written. Second, payday lending is most of the business, and cheque cashing is the rest of the business.

Take a look at the following excerpt from the 2012 10K of Money Mart, with my addition of a third column on the right that is the percentage of total revenue in 2012.

Canada revenues:	2011	2012		
Consumer lending	$ 170,667	$ 181,489	56	%
Check cashing	73,379	74,291	23	%
Pawn service fees and sales	30	76	-	%
Money transfer fees	19,203	22,316	7	%
Gold sales	14,767	13,810	4	%
Other	32,556	34,309	10	%
Total Canada revenues	$ 310,602	$ 326,291		

The revenue base for Money Mart is much more diversified. Money Tree is almost totally reliant on payday lending, with a small amount of cheque cashing.

We learn two lessons from Money Tree's submission that relate to the basic economics of most businesses, and are particularly critical for a small business.

First, economy of scale is essential for a small business to survive. This translates into getting enough volume to cover fixed costs. A payday lender's fixed costs are rent and labour, which are fixed because otherwise you cannot open the doors in the morning. Then, a larger chain can advertise more efficiently.

Second, economy of scope is also essential. In most small retail businesses, this means cramming as much as possible into the retail space in such a way that the average ticket size is increased, and/or the fixed costs of the staff and rent are selling lots of different things in order not to be idle at any time. I always think that a patisserie ought to also run a gelateria, because then it will have a more steady volume of sales. A payday lender cannot force the loan sizes or frequencies higher, but it can offer more services that the same clientele will need, and that is what Money Mart is doing. We also observe other variations in Canada and Australia, most commonly pawnbroking and used goods retail stores that also offer payday loans (e.g. Cash Converters, now in Canada, started in Australia). In Manitoba, one payday lender sells used furniture, and in 2008 there was one that was primarily a florist.

<u>What is the point of everything I have written?</u>

Money Tree appears to be an honest small business struggling to succeed. Nonetheless, that is not a sufficient justification for imposing higher costs on a disadvantaged part of the population, when more efficient alternatives exist that can operate with lower payday loan rates, as we see in Manitoba and throughout the US.