Response to Further PUB Queries
Chris Robinson
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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.

The Coalition's Response

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.

Dr. Robinson's Response

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.