2016 Payday Loans Review
First Round Information Requests
Coalition
March 31, 2016

Coalition/C11 1-1

Document:	C11 Financing and Loans Submission	**Page No.:**	1
Topic:	Overall Costs		
Subtopic:	Bad debt costs		
Issue:	Does C11 allege that bad debt costs have risen? If so, why?		

PREAMBLE:

C11 states that:

"...we all know costs have increased over the past years."

Response is found on page 2 of this page titled C11 Coalition Page 1-1 Overall Costs

QUESTION: *

a) Leaving aside operating costs and cost of capital, would it be correct to assume that C11 tracks its bad debt costs?

b) If so, can C11 indicate how it calculates its bad debt costs?

c) Using a consistent methodology for calculating bad debt costs, please provide the calculation of C11 for its bad debt costs/$100 loan for the year prior to the payday loan regulation coming into effect. Please provide audited (preferably) or unaudited information in support of your analysis.

d) Using a consistent methodology for calculating bad debt costs, please provide the calculation of C11 for its bad debt costs/$100 loan for its most recent fiscal year. Please provide audited (preferably) or unaudited information in support of your analysis.

e) To the extent there has been a material change in bad debt costs/$100 loan since the time regulation came into effect, please provide the views of C11 capital on why bad debt costs have changed?

RATIONALE FOR QUESTION:

As Dr. Robinson and Deloitte have confirmed, bad debt costs are the second largest element of costs for payday lenders after operating costs. It is important to understand whether the blanket statement by C11 that all costs have increased over the past years also applies to bad debt costs. If so, it is important to understand why bad debt costs have risen.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Pre-Filed Evidence Page 1-1 Bad Debt

a) Yes we do record our bad debt costs
b) Bad debts are determined by the amount the borrower has borrowed (principal) plus the $17.00 per $100 fee. Bank charges are not included in bad debt equations. Reasons that the loan is not collectable are either the borrower has skipped town and cannot be located or found or the borrower simply refuses to pay by not working within a repayment plan.
c) To research what bad debt costs prior to Regulations we would have to go thru archived documents to retrieve that type of information. In our small office in Thompson MB we have neither the staff or the time to do a search of this extent in the near foreseeable future
d) Borrowers who default; default meaning they cannot pay on time, who place stop payments, who refuse to pay or who close their bank accounts, account for approximately 37% of total operating costs, out of the 37% who default, payment arrangements can be made with approximately 20% of defaulted borrowers leaving 17% as bad debts of total operating expenses
e) Bad debts have not changed significantly over the years. We regret that you understood this to be different when you read our Submission

Document:	C11 Financing and Loans Submission	**Page No.:**	1
Topic:	Costs		
Subtopic:	Bad Debt Costs		
Issue:	What are the implications for bad debt costs, if any, of relying exclusively on employment income in determining how much consumers are eligible to borrow?		

PREAMBLE:

C11 states that:

"...we all know costs have increased over the past years."

In Tab 7 of the Coalition filing, *Manitoba Consumers' Experiences with Payday Loans: Pricing and Practices of Licensed Payday Lenders in Manitoba*, at p. 6 it is reported of C11 that:

"They will only lend on payroll cheques, but in some cases will accept CPP as well. It was expressed that for purposes of their customer's financial well-being, **they do not consider disability, social assistance or CTC as part of monthly income** when determining how much they are eligible to borrow."

Response is found on page 2 of this page titled C11 Coalition Page 1-2 Bad Debt Costs

QUESTION:

a) Can C11 confirm that it does not consider disability, social assistance or CTC as part of monthly income when determining how much consumers are eligible to borrow?

b) If so, does C11 believe that its choice not to consider disability, social assistance or CTC as part of monthly income assists in reducing its bad debt costs? Why or why not?

RATIONALE FOR QUESTION:

As Dr. Robinson and Deloitte have confirmed, bad debt costs are the second largest element of costs for payday lenders after operating costs. As Dr. Simpson has noted based on the SFS survey, it appears that a growing number of payday loans are being made based on government assistance cheques rather than employment cheques. It is important to understand the implications, if any, for bad debt risk flowing from this change in practice by payday lenders other than C11.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-2

a) Disability, Social Assistance or CTC are paid by government agencies to assist the individual in need. Consumers need these subsidy incomes and we will not lend against them.
b) As stated in a) we do not lend on assisted income.

Document:	C11 Financing and Loans Submission	Page No.:	1
Topic:	Demand for payday loans		
Subtopic:	Loan Volumes		
Issue:	Is the alleged increased demand for payday loans reflected in loan volumes?		

PREAMBLE:

C11 states that:

"...we all know that costs have increased over the past years."

"What has changed in the past years is the increase[d] need for pay day loans."

QUESTION:

Response is found on page 2 of this page titled C11 Coalition Page 1-3 Demand for Payday Loans

a) Please provide the evidence C11 relies upon to support its suggestion that there is an "increase[d] need for payday loans"?

b) Would it be correct to assume that C11 tracks its loan volume per store? If so, can C11 indicate how it calculates its loan volume?

c) Using a consistent methodology for calculating loan volume per store, please provide the calculation of C11 loan volume per store for the year prior to the payday loan regulation coming into effect. Please provide audited (preferably) or unaudited information in support of the conclusion.

d) Using a consistent methodology for calculating loan volume per store, please provide the calculation of C11 loan volume per store for its most recent fiscal year. Please provide audited (preferably) or unaudited information in support of the conclusion.

e) To the extent there has been a material change in loan volume per store since the time provincial payday lending rate regulation came into effect, please provide the views of C11 on why loan volume has changed? In particular, please comment upon the impact, if any, on loan volumes of the 5% rate for second loans or the 7 day waiting period?

f) Has the number of "bricks and mortar" outlets operated by C11 changed since the time provincial payday lending rate regulation came into effect? If so, in what year?

RATIONALE FOR QUESTION:

As Dr. Robinson has confirmed, loan volume, operating costs and bad debt costs are three key criteria related to the sustainability of the payday lending industry. C11 has provided an assertion with regard to rising costs but has not commented on the loan volume side of the equation.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-3 Demand for Payday Loans

a) Our observations are from borrowers
   i) Wanting to borrow more than we can lend to them based on Regulations of 30% of take home pay
   ii) Who are borrowing from on-line lenders and mostly un-licensed lenders amounts that far exceed 30% of their take home pay and in many cases exceeds what their take home pay is in a pay period
b) We only have one office located in Thompson MB and volume is determined by the amount (principal) the office has lent out
c) Again as per your bad debt question, these documents are in archives and are not available without a great deal of time to research
d) Volume is privileged information as it is with any other business, volume is not an indicator of profitability
e) We do not have the knowledge that volumes have changed, we indicate on line a) that there is more demand for payday loans. Demand and eligibility are entirely different.
f) As stated on line b) we have only 1 office and it is located in Thompson MB

Document:	C11 Financing and Loans Submission	Page No.:	1, 2, 3
Topic:	Payday loan usage patterns and their implications for costs		
Subtopic:	Repeat loans		
Issue:	Are typical usage patterns one-off loans or are repeat customers more prevalent?		

PREAMBLE:

C11 states that:

> "...we all know that costs have increased over the past years."

C11 states that:

> "... the demographics and average income of clients using the services of pay day lenders has not changed over the past years..."

At pages 2 and 3, C11 also discusses important or emergency situations in which consumers may be requesting a payday loan.

Response is found on page 2 of this page titled C11 Coalition Page 1-5 Repeat Loans

QUESTION: *

a) Would it be correct to assume that C11 tracks the average number of loans per customer?

b) If so, please provide the calculation of the average number of loans per customer for C11 for the year prior to the payday loan regulation coming into effect.

c) Please provide the calculation of the average number of loans per customer for C11 for its most recent fiscal year.

d) To the extent there has been a material change in average number of loans per customer since the time the provincial payday lending rate regulation came into effect, please provide the views of C11 on why there has been a change?

e) Describe how common repeat borrowing is in your operation, e.g., what share of your customers take out what number of loans (say, 1-3, 4-6, 7-9,10-12,12+).

f) We often hear that payday loans are ideal for a person facing a short-term financial gap to fill that gap. Explain how providing a 2nd (3rd, 4th, etc.) payday loan in a short period of time helps and does not harm the client? Would it not be better for the client to get a longer term loan under this scenario?

RATIONALE FOR QUESTION:

As Ernst and Young (2004), Dr. Robinson and Dr. Buckland's literature review have confirmed, the sustainability of the industry depends on repeat customers especially since the operating costs per transaction are much higher for first time customers than for repeat customers. While C11 makes general statements regarding its costs and customers, it does not address this important issue going to the health of the industry. In addition, while C11 articulates one time only events like an emergency, it does not address issues going to the heart of its business model such as repeat loans.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-4 Repeat Loans

a) The answer is no, we do not have a chart with percentage of loans per customer
b) We do not have a system in place to chart that type of information
c) We do not have a system in place to chart that type of information
d) There has not been a change in volume that we are aware of, as explained on other pages, their appears to be more demand which is demonstrated by the appearance of many more on-line lenders reflected on borrowers bank statements
e) Repeat borrowing is somewhat common, we know from common knowledge that very few borrowers borrow every pay period or for that matter borrow each month.
f) Sometimes a borrower needs to borrow for a number of pay periods until they get their feet back under them so to speak. Example of such cases is when a worker has lost time at work due to illness or has had fewer hours during a slow time in their employment. These workers in these situations may have had to exist without much money and therefore have used what the little savings they had. In these cases, a worker may not be able to financially recover in one pay or two pay periods. Years ago we tried offering small loans of $2,500 or less at an interest rate of 12 % per year and with flexible payments. We quickly learned that these loans were a financial disaster, practically every loan we made failed and collecting on them was not very successful. It is not a financial plan for small lenders with shallow pockets.

Document:	C11 Financing and Loans Submission	Page No.:	1
Topic:	Implications of online lenders for the payday lending and loan instalment field		
Subtopic:	The "larger loan instalment field"		
Issue:	What did C11 mean by the "larger loan instalment field"?		

PREAMBLE:

C11 states:

> "What has also changed in the past years is access and services offered by on-line and un-licensed lenders not only in the pay day lending field but also in the larger loan instalment field..."

Response is found on page 2 of this page titled C11 Coalition Page 1-4 Larger Loan Installments

QUESTION:

a) What does C11 lending mean by the "larger loan instalment field" and how is that distinguished from the payday lending field?

b) When C11 uses the term "**larger** loan instalment field" (emphasis added) is it suggesting that the loan instalment field is a larger part of its business?

c) Is there regulation of rates in the "larger loan instalment field"? If so, who regulates rates in the "larger loan instalment field"?

RATIONALE FOR QUESTION:

Both C11 and the CPLA suggest there is growth in the presence of internet lenders in the marketplace. C11 uses a term that the Coalition is unfamiliar with by referring to the "larger loan instalment field". It is important to understand whether the growth in internet loans is restricted to payday lending or is part of a broader dynamic in the marketplace.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-5 Larger Loan Installment

a) We see on bank statements of our clients such names as "Easy Financial", "Aurora Financial" and many more companies lending a range of loans sizes from a few hundred dollars to several thousands of dollars. We do not have firsthand knowledge of these types of lenders, we have seen this past winter a TV program either called "6 x 9" or "Markey Place" where these lenders were investigated by the host of the show and found the lenders to have very high rates and had collecting tactics that would be called very un-ethical
b) We are in the payday loan business and are not in the "larger loan instalment business"
c) To our knowledge the larger loan field has no regulations that we have heard of but again we do not have firsthand information on them either

Document:	C11 Financing and Loans Submission	**Page No.:**	1
Topic:	Demographics, financial assistance void, 5% rate, online and installment lenders		
Subtopic:			
Issue:	Further evidence relating to statements on demographics of payday loan borrowers, financial assistance void, 5% rate, online and installment lenders?		

PREAMBLE:

C11 states that:

> "... the demographics and average incomes of clients using the services of pay day lenders has not changed over the past years..."
>
> **"... pay day lenders exist to fill the void of financial assistance that many working people find themselves in."**
>
> **"It is financially impossible for licensed pay day lenders to sustain a low rate of 5% [for second loans]..."**
>
> "What has also changed in the past years is access and services offered by on-line and un-licensed lenders not only in the pay day field but also in the larger loan instalment field..."

Response is found on page 2 of this page

QUESTIONS: * titled C11 Coalition Page 1-6 Demographics

a) Please provide evidence that the demographics and average income of clients has not changed over the past years.

b) Please provide evidence of a "void" re financial assistance that "many working people find themselves in".

c) Please state what rate is needed, if 5% is insufficient, for an extended loan, and provide evidence including audited (preferably) or unaudited statements that this rate is needed.

d) Please describe the extent to which online payday and installment lenders have "changed"?

RATIONALE FOR QUESTION:

The Coalition is interested in seeing evidence relating to statements made by C11 in their submissions regarding demographics of payday loan clients, the void of financial assistance, the 5% rate and the changes in online and installment lenders.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-6

a) We lend to employed people only, it is a payday loan. We have not seen on bank statements much change in take home pay. We find borrowers are made up of all ages and an equal mix of male and female borrowers. Therefore we can make the comment that demographics has not changed over past years
b) Obviously there is a "void" in the financial needs of working people if there was not a "void" there would be no need of a loan between pay days
c) First we have to be realistic to the way people are. If one lender cannot fill the needs of a consumer, the consumer has many other choices to where they can go to fulfill their money needs. In other words, if one payday loan company cannot and will not give a second loan within the mandatory 7 day period at 5% then a consumer will do the following;
    i) The borrower for their second loan will go to another licensed pay day loan lender, or the borrower will go to an on-line company which is not licensed and which will not follow regulations for their second loan
    ii) If the borrower has to borrow a second loan from a different lender, that lender can lend the borrower an amount of up to 30% of the borrower's net pay since it is the "first loan" from that borrower.
    iii) If the borrower goes on-line for their second loan and this on-line company is not licensed than the on-line lender can and will lend at any rate and at any ratio of the borrowers take home pay
    iv) The impact and protection for the borrower is that the first lender can keep the borrower at the Regulated take home pay ratio with their first and second loan
    v) The risk to the borrower if they are forced to go to other lenders for their second loan is a very real possibility that the borrower will become over-extended and will struggle with their financial commitments
    vi) The benefit to the borrower with working with one lender, should trouble arise with re-payment, the lender and borrower will have a better chance to work out a re-payment plan which may be more difficult to do when there may be more than one lender involved

c-1) "What is the recommended level", as with all things there has to be a balance reached. If the rate is dropped to 15% than the lender has to recover from a drop of income from 17% down to 15%
    i) If the rate is decreased to 15% then the second loan rate should also be at 15%
    ii) The rational is that with a loss of 2% in the first rate the 2nd rate needs to be bumped up to adjust to the loss of income
    iii) The 2nd rational is that the consumer will be better protected if working with one lender and since the 2nd loan is as risky if not at greater risk than the first loan than the rate for the 2nd loan has to justify the risk taken by the lender

d) We think you are referring to un-licensed lenders when in your question you refer to "on-line" payday lenders. What has changed are the numbers of on-line loan providers and installment lenders, the number of these companies are increasing as time goes on

Document:	C11 Financing and Loans Submission	**Page No.:**	2
Topic:	Cash Cards versus Cash		
Subtopic:			
Issue:	Safety, quickness and convenience of cash cards		

PREAMBLE:

C11 states:

> "...using a cash card is safe, quick and convenient for the borrower."

QUESTIONS: Response is found on page 2 of this page titled C11 Coalition Page 1-7 Cash Cards versus Cash

a) Please provide evidence that providing a payday loan in cash form is unsafe.

b) Is C11 suggesting a cash card is somehow "quicker" or "more convenient" than cash? If so, how?

c) Please provide evidence that a cash card is "safe, quick, and convenient."

d) Please explain the different costs you face if you provide loans via cash as opposed to via cash card?

RATIONALE FOR QUESTION:

Regarding C11's statements in their submissions, the Coalition would like to better understand the realities facing payday lenders and borrowers relating to the use of cash and cash cards for payday loans.

RESPONSE:

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-7 Cash Card verses Cash

Crime is everywhere and can be in most neighborhoods, therefore having cash is not always the wisest thing to do. More so if it is obvious a person has cash. It is well known that innocent victims have died at the hands of thieves over a small amount of cash.

a) In Thompson MB where the population is approximately 15,000 people. There are no "Brinks" or other cash delivery service systems in Thompson, we would need to carry large sums of cash from the bank to bring to our office to lend out. Carrying large sums of cash from the bank to our premises on a daily basis for lending would be extremely dangerous, leaving us vulnerable to theft, harm and possibly worse. For these reasons, "safety" for lenders and borrowers a-like, a cash card is the safest option

b) Merits of a cash card;

- for borrowers, the borrower can take the cash off of the card at a time and at a place where it is safe and convenient for the borrower.
- for borrowers who are leaving a lender's property after making a loan, are leaving with confidence that they will not be targeted for theft and personal harm
- Thompson serves the central and northern Manitoba communities where sending cash is not possible, using cash cards for their loans make receiving a loan possible as privately owned ATM machines are located in all small communities
- Borrowers in central and northern communities may not have access to Internet to receive an "e-mail money transfer" but with a cash card the borrower can always receive their loan and get their cash at a local ATM machine.

c) Cost of cash cards, 3rd party card load cost is $3.25 made up by $0.75 by Interact and $2.50 by the card provider company, than there is a $3.00 fee charged by banks or credit unions when using their ATM machines. Banks and credit unions allow a maximum of $400.00 to be withdrawn at any one time.
In summary, the cost to load a cash card is as follows;
$400.00 and under is $6.25
$420.00 and up to $800.00 is $9.25 (allows for 2 cash withdrawals @ $3.00 each)
$820.00 and up to $1,200.00 is $12.25 (allows for 3 cash withdrawals @ $3.00 each)
With privately owned ATM owners, the cost is more than $3.00 per withdrawal; cost will vary from owner to owner. The maximum amount to be withdrawn at any one time on privately owned ATM machines is $200.00

Document:	C11 Financing and Loans Submission	Page No.:	3
Topic:	Impact on borrowers of $15 per hundred		
Subtopic:			
Issue:	Is there evidence to support C11's claim?		

PREAMBLE:

C11 alleges that:

> "...dropping the lending rate to 15% will have very little effect for consumers;"

QUESTION:

a) Please provide any consumer surveys undertaken by C11 prior to March 24, 2016 to support its allegation that "...dropping the lending rate to 15% will have very little effect for consumers".

RATIONALE FOR QUESTION:

In focus groups conducted by the Coalition, some consumers believed that lowering the rate of payday loans would be beneficial to them. The Coalition would therefore be interested in seeing further evidence or information relating to C11's statement that lowering the rate to 15% would have little effect for consumers.

RESPONSE:

Response is found on page 2 of this page titled C11 Coalition Page 1-8 Rate of 15%

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

C11 Coalition Page 1-8 Rate of 15%

A rate change of 2% from 17% down to 15%.

a) The effect on consumers, based on a $300.00 loan, the cost to the consumer is as follows;

i) $300.00 loan at 17% = $51.00

ii) $300.00 loan at 15% = $45.00

iii) This represents a saving for the consumer of $6.00 for the use of the loan for the period of time they have it out. There are many, many consumers who may take 1, 3 or even sometimes 6 loans in a 1 year period which if you add the impact of 6 loans at $6.00 per loan is a saving of $36.00 on an income based anywhere from $36,000.00 to $185,000.00 per year which is equivalent to a half tank of gas in a 12 month period

iv) On the other end of the spectrum, if a consumer borrows twice a month for 12 months at a savings of $6.00 per $300.00 loan, the saving to the client would be $144.00 on an annual basis. Again based on an income of $36,000 to $185,000 those savings are equivalent to 2 or 3 tanks of gas in a 12 month period

v) Consumers are more interested in meeting their mortgage payments, car payments, rent or essential living needs. If surveyed, consumers would rather spend the $36 to $144 than default on a mortgage payment, car payment, rent or skip on essential living needs.

b) The effect on lenders, based on an annual Gross income of $500,000 with a 2% drop in rate represents a loss of Gross annual income of $10,000 There are not many small independently owned companies that can afford a loss of revenue to that extent especially given that expenses continually rise by 3rd parties such as landlords and banks.