

**Manitoba Consumers Experience's with Payday  
Loans  
Research Study  
Public Utilities Board Hearing  
Presentation  
April 2016**

**Produced and Presented  
by:**

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# Presentation Outline

## 1. Methodology

## 2. Findings

- Participant Demographics
- Borrowing Practices
- Push Factors
- Delivery of Services
- Participants Knowledgeability of Product
- Alternatives Discussion

## 3. Conclusion

# 1. Methodology

## Research Tools

1. Survey (24 questions and delivered online using SurveyMonkey applications and in-person by Research Assistants)
2. Semi-structured interviews (focused on repeat borrowers and on-line payday loan borrowers)
3. Focus group (focused on discussing alternatives to payday loans)

## Participant Recruitment

- Printed newspaper ads
- Posters
- Flyers
- Facebook targeted ads
- Community organization Facebook pages
- Soliciting payday loan consumers outside of outlets in Winnipeg.
- Community based organizations; (SEED, Norwest Co-op Community Health Centre, West Broadway Community Ministry, Wii Chilliwaakanak, and Opportunities for Employment)

# 1. Methodology

## Outlet Selection

- Google search engines.
- 18 payday loan outlets were targeted
- First week of data collection explored peak times and customer volume of outlets
- Factors that were noted while collecting in person surveys were; volume of customer traffic for each outlet, which and days and times were busiest for each outlet
- RA's weekly updates which guided the composition of the structured scheduling of data collection each week.

Location
2188 McPhillips
1353 McPhillips
1321 Archibald
413 Selkirk Ave
1038 St. James Ave
3137 Portage Ave
647 Portage Ave
879 Portage Ave
253 Osborne
990 Portage
620 Dakota
1740 Pembina Hwy
215 Henderson Hwy
311 Henderson Hwy
294 Portage
485 Ellice Ave
1376 McPhillips
1676 Main Street

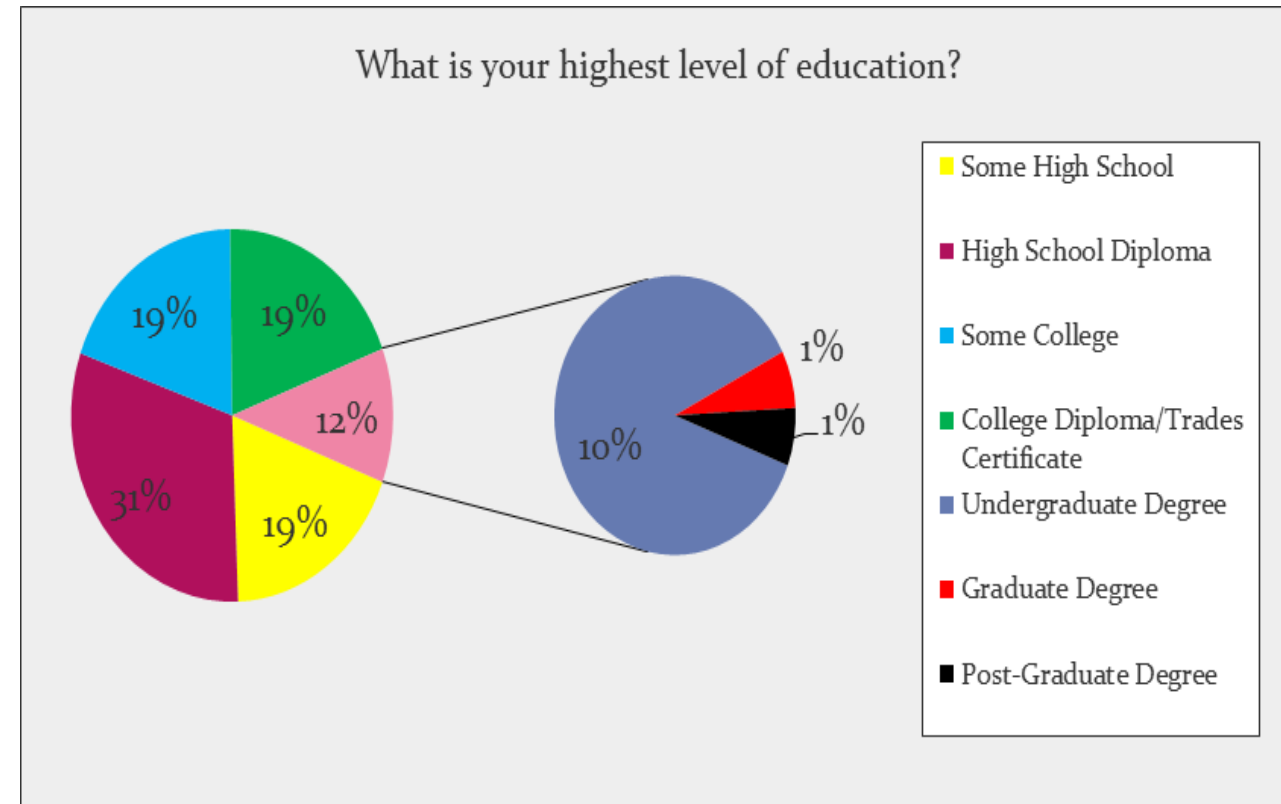
## 2. Findings – Participant Demographics

- Survey Participants N= 130 (On-line survey n=21; In-person survey n=109).
- Interview Participants N=9
- Focus Group Participants N=7

### Participant Demographics – Survey Respondents

- 50% (n=65) male, 49% (n=64) female, 1% (n=1) other
- Aboriginal (48%, n=54), 27% (n=30) Caucasian
- 48% (n=62) Single/Never Married, 25% (n=33) Married/Common-law, 23% (n =30) Divorced/Separated, 4% (n=5) Widowed
- Lived in apartment (43%, n=55), row house (41%, n=52)
- 83% (n=108) rented their housing
- 60% (n=77) did not have any children under the age of 18 living in their household.
- 50% (n=64) were employed full-time
- 31% (n=40), highest level of education was a high school diploma, followed by 19% with some college education and 19% college diploma or trade certificate
- 72% (n=62) annual income was below \$40,000 a year

Survey respondents educational level, N=129



## 2. Findings – Participant Demographics

### Participant Demographics – Interview Respondents

- 67% (n=6) were between the ages of 40 to 59
- 56% (n=4), earned \$15,000 to \$34,999 a year
- 67% (n=4) Single
- 50% (n=3) did not have any children under the age of 18 living in their household

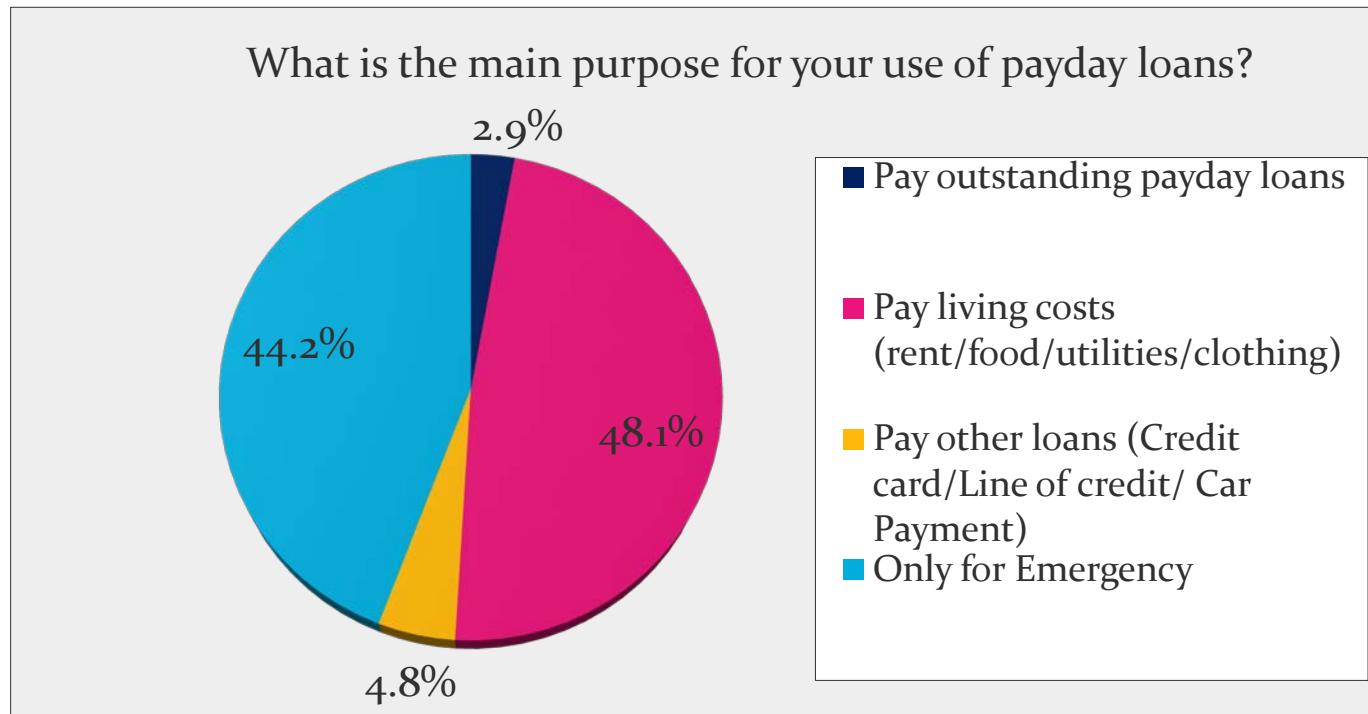
### Participant Demographics – Focus Group Respondents

- 86% (n=6) were 49 years or older
- all focus group participants earned \$25,000 or less in a year
- 43%, (n=6) single
- 29% (n=2) were unemployed, 29% (n=2) employed full-time, 29% (n=2) retired, and 14% (n=1) seasonally employed
- 86% n=6, did not have any children under the age of 18 living in their household

## 2. Findings – Borrowing Practices

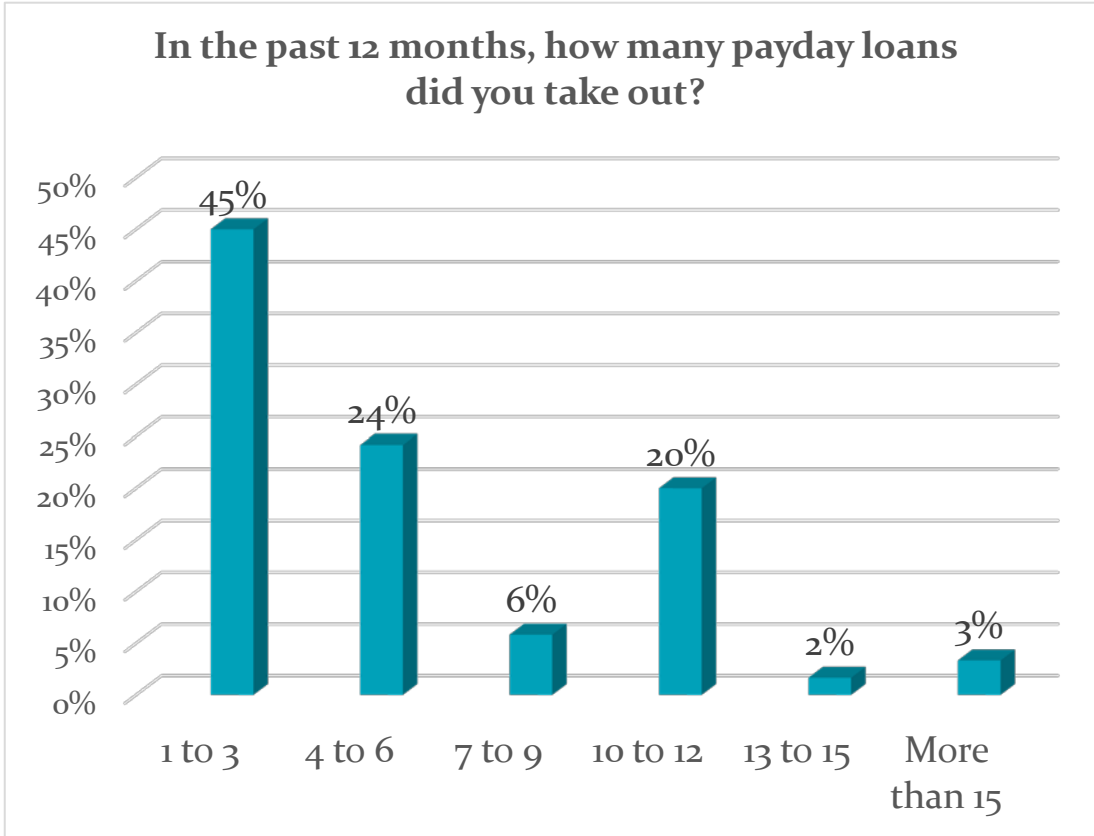
- 48% (n=50) of survey respondents main use for payday loans is to pay living costs (food, rent, utilities, clothing)
- 58% n= 62, based their payday loans on their payroll cheque
- 21% of survey respondents used other types of cheques such as spousal support cheque, Canadian Pension Plan (CPP) cheque, disability cheque, student loan bursary, and GST cheque

Survey Respondents Main purpose for Payday Loans, N=104



## 2. Findings – Borrowing Practices

Survey Participant Payday Loan Tally over a 12 month period, N=120



Survey Respondents Reason for repeat use of payday loans

What was the reason for your repeat use of payday loan services? Please select all that apply.	Total	%
<b>Answer Options</b>		
Could not pay the first loan and meet current expenses	17	38%
Experienced unexpected expenses	21	47%
Emergency	16	36%
Unexpected unemployment/lay off	2	4%
I like payday loans	6	13%
<b>answered question (N)</b>	<b>60</b>	



## 2. Findings – Borrowing Practices

### Repeat Borrowing Cycle

*“Because, it’s just that cycle or grabbing money and then that first time it’s good because you have extra money but then come payday, you have that extra bill to pay that you didn’t have before. And then, it’s kind of like, well now you pay that bill and you have less money for other stuff and then you kind of keep doing it, so once your even it’s best to just stay away from it, but..... I mean not everyone who needs a payday loan is bad with money. But it’s more common. I find that if your kind of careless with your money you are going to find yourself in that cycle, so. If I could budget in the first place and keep to it, there’s a good chance I wouldn’t need Money Mart.”*

- Interview Participant 9, on-line and in-person payday borrower

*“I am still not getting paid that much, I am giving them more money. You know, next paycheck. So I’m paying them, you know obviously that’s what happened but it can make it hard to get out of that hold then. Because then you have no money and you need to get another one. The cycle continues.”*

- Interview Participant 6, repeat borrower

## 2. Findings – Borrowing Practices

### Timing of the payday loans conflicted with other living costs

*“If you borrowing money, say you borrow \$700.... Well now 2 weeks later you have to pay 700 back. But it might fall to your rent payment coming up, if you pay the \$700 back, you just got no money to pay the rent, or money for gas or anything else. So you might have to re-borrow maybe 400 back just to tie you over. So you know the amount might be little overwhelming to pay them back in one pay check as opposed to dragging over two.”*

- Interview Participant 7, on-line and in-person repeat borrower

### Use of another payday loan to pay for a previous payday loan

*“It depends how small my cheque is. Around Christmas time, the end of summer, because once summer comes I’m laid off from my job. So if I have a loan in the middle of June, I need to pay it off before the end of June, I will take one to pay off the other. And one lets me extend it over the summer, because they know my...the factor of earnings. So I take from Money Mart to pay...no, I take from Cash Mart to pay for Money Mart. Money Mart’s the one that will not extend it. It’s due it’s due and that’s it.”*

- Interview Participant 1, on-line and in-person repeat borrower

## 2. Findings- Rational Borrowing Behaviour

*“But you know they do offer me more. You know like I said I’ll borrow maybe 100 or 150 which I did. They’ll say you know you can borrow more, they’ll tell you more like 200 or something. They’ll tell me if you want to borrow. I just say no. Knowing I have to go back to pay them”*

- Focus Group Participant 7

*“We use it as a bridging gap... But we’ve got to be careful on when you want to take it out, because you’ve got to think about it very carefully. Like yesterday, they were going to give me \$380, and I said ‘you guys are crazy, I just want \$150’. And so I ended up taking \$200. You know I was surprised. I don’t know why they wanted my money more. That’s crazy I thought.... Like I have a budget. And the budget has to be balanced in order for me to succeed a month. Because I’m on E.I. eh, I’m unemployed. I have to really think about my money.”*

- Interview Participant 8, repeat borrower

## 2. Findings – Push Factors

- Unexpected layoff or decrease in work hours
- Conflicts in income and bill payment schedules
- Mismatch of products offered by banks to suit consumer's needs
- Poor budgeting skills
- Feelings of marginalization from mainstream banks

*“I did my first one and I broke my wrist in the fall. And so I have been doing them every month now because I am working less, I can't fully work in my job because it is a very hands on physical job. So my hours got cut like in half. I was full time but now I am part time. It is basically so I can get food until my next pay cheque because my pay cheques were totally going for bills. So I didn't have money for food.”*

- Interview Participant 6, repeat borrower

*“There was actually a period of time in 2014 where I actually switched jobs. And I actually had a fairly massive boost in income. It was so major I actually did not have to go to payday lenders for six months. Not through a design, it's not like I said “wow that's it, I'm done with these guys”, no it was just I literally had enough money to live on, and enough money for luxury spending and so I literally did not need them.”*

- Interview Participant 5, repeat borrower

## 2. Findings – Push Factors

### Conflicts in income and bill payment schedules

*“Well I work at the school division, been doing it for 24 years, almost 25 years, and every summer I have to still wait 6-8 weeks to get my first unemployment cheque. So I apply at the end of June with the school division for unemployment, and I don’t get my first cheque until the 22<sup>nd</sup> of August for the last 23 years, and then come September 7<sup>th</sup> when I go back to work, I get one cheque from unemployment because I have got a full-time job, so they cut me off right away. So I have to wait almost 8 weeks, I get 2 cheques, and then I get cut off... So if they would give me a cheque right away at the end of June, then I wouldn’t have to go in to payday loans for the summer, because I would be able to function.”*

- Interview Participant 1, repeat borrower

*“What happens is I have bills that are due certain days and like my CPP doesn’t come in until like the next day so you kind of have to, and I don’t want anything to go NSF. Maybe 2 or 3 times that it happened. Then you have to pay the extra 48 dollars at the bank, which you know, it all adds up. I mean it’s not a lot of money but it is for me because of my circumstances so. I’d rather do that [pay \$11.00] then pay \$48.00 every month. Every time I have an NSF, its \$48.00 at my bank.”*

- Interview Participant 3, repeat borrower

## 2. Findings – Push Factors

### Mismatch of products offered by banks to suit consumer's needs

*“Well, any personal loans when you getting a line of credit, they wouldn't even allow an overdraft, a \$50 overdraft. I think the minimum they allow you is \$500. I don't need a \$500 draft. I just need 50 bucks to do me good. You know, they don't deal with small amounts. It seems like they are more interested in if they have lots of money and you don't have lot of money. My child's care assistance takes out my rent and I am left with like 298 bucks. Which last at least for 3 weeks until my child benefit comes through. .... It doesn't leave you with very much. You just need a couple of cash for something, you can't borrow it from the bank because you have to take a huge loan and the thing is you don't want anything big, Just something small. And the banks are unwilling to do that.”*

- Interview Participant 4, repeat borrower

*“Like I said the whole scenario with these companies [mainstream banks] is that I need the money now not 2 weeks from now after you have jumped through hoops, you know signed off my right arm, my kids college funds so you can borrow \$500, you know what I mean? Even my bank, TD, when you borrow, I don't need \$200,000.”*

- Interview Participant 7, on-line and in-person repeat borrower

## 2. Findings – Push Factors

### Feelings of marginalization from mainstream banks

*“You walk into a bank, first you got to make your appointment 3 days in advance. You go to the Cash Store, get in and out half an hour, you got your money. ... I don’t feel belittled when I walk in there. You know, I’m actually treated with respect because I’m a frequent customer. They don’t make you feel like you’re anything less than an appreciated customer. You go in and get your money, it’s all good. You walk into a larger branch, you know and they say we will see you in 20 minutes and you sit in the lobby and someone shows up and they look down their nose and ask, ‘What can you do for us?’... Like I said I think they are offering a more human service than the banks do. The banks only cater to people who have money, not to people who don’t.”*

- Interview Participant 7, on-line and in-person repeat borrower

## 2. Findings – Push Factors

### Poor budgeting skills

*“I was actually declaring bankruptcy so I had massive short-term money liquidity problems. And so I thought, not immediately, but after actually making some efforts to go through my conventional bank to get a line of credit, which was denied obviously because of my bankrupt status, I thought of payday lenders. And so, yeah, they fulfilled my needs in terms of increasing my short-term liquidity.... But basically I was seeking what I thought was a very small line of credit – \$1000 – which would have been more than enough in terms of what I needed and I was denied because of my bankrupt status. I was a bad credit risk to put it mildly.”*

- Interview Participant 5, repeat borrower

*“I want to use my own bank. I have a bank account at BMO. I would love to deal with them rather than payday company but the downfall is the credit rating.”*

- Focus Group Participant 6



## 2. Findings – Delivery of Service from Payday Loan Outlets

- Convenience
- Time factor
- Not having to wait in line or not having to make appointments to get the services
- Location of payday lender outlets

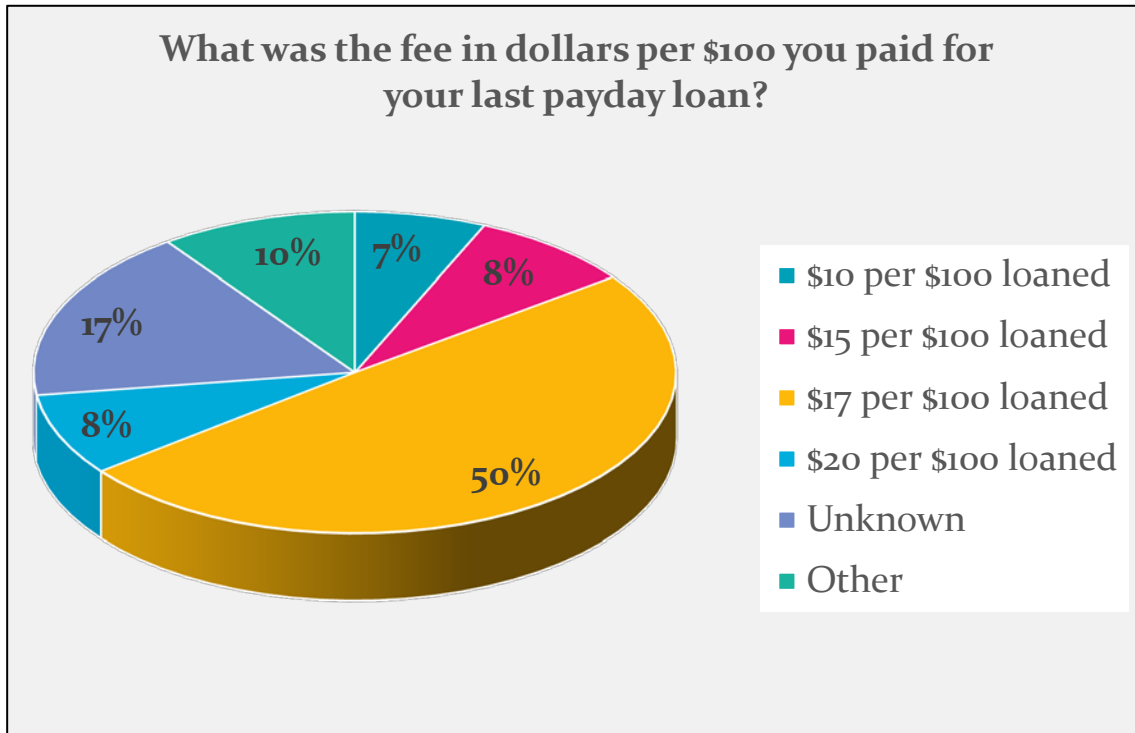
*“The hours are flexible, there’s no doubt about it. Especially the one at 24 hours is pretty awesome because you know when you come from out of town you want to do something. They’re all over. They’re accessible all over, like there’s just one right behind here. Actually there’s two in this area.”*

- Interview Participant 8, repeat borrower

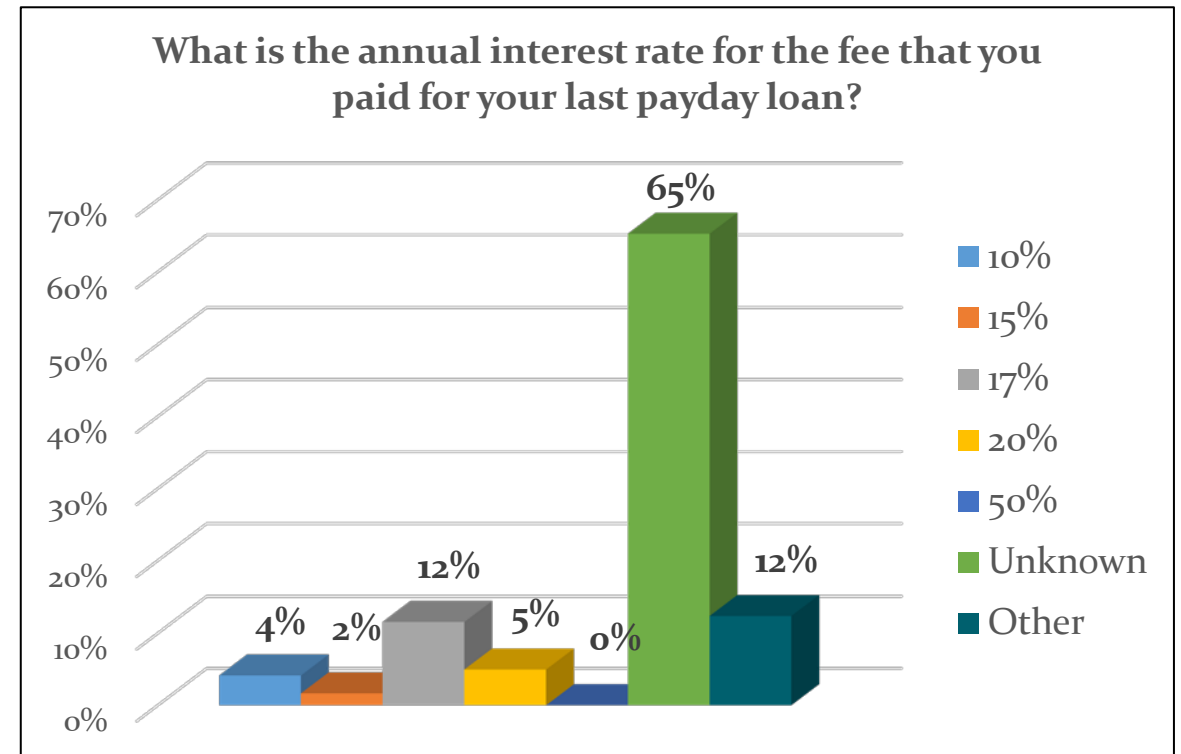
## 2. Findings – Consumers’ Knowledge of Product

- Majority of participants did not have an understanding of the annual interest rate fees (Annual Percentage Rates, APR).
- 50% (n=60) of survey respondents stated they paid \$17 per \$100 on their last payday loan
- 33% (n=3) of interviewed participants understood the APR rates applied to their payday loans - all long-term payday loan users

Survey Respondents Knowledge of Fee in Dollars per \$100, N= 121



Survey Respondents knowledge of Annual Interest Rates, N =121



## 2. Findings – Alternatives to Payday Loans Discussion

- ‘No other options’
- Payday loans were a last resort
- Charitable organizations such as the Salvation Army
- Pawn shops
- Banks were not seen as an option by participants due to their poor credit rating status.
- Family members or friends

### Alternatives Example Discussed with Focus Group Participants

- State of Colorado example
- United States Consumer Financial Protection Bureau Proposal
- Vancity Product
- Three Options for Borrowers: A) Financial education on budgeting, financial planning, savings, credit, and investments , B) Secured credit cards that enable you to build a credit rating, and C) Savings plans (e.g., pre-authorized monthly debits) enables you to save money and draw on it rather than a loan when the need arises

## 2. Findings – Alternatives to Payday Loans Discussion

### State of Colorado Example:

For the last five years the State of Colorado in the US has mandated that payday lenders move to a 6 month loan product with installment repayments.

“No I wouldn’t go for it. Just because I mean you’d be paying a constant interest rate that would be constantly added on to your bill. That’s just something I wouldn’t’ do. You would pay it every single time you make a payment obviously the interest rate is in there. I just want something that just for a month where I can pay it back and be gone.”

- Focus Group participant 2

“Yeah I agree with that. I kind of just use them when I’m in a bind. So instead of having to think about it for six months. It would be nice just to pay it off and be ok for a little bit.”

- Focus Group participant 3

## 2. Findings – Alternatives to Payday Loans Discussion

### United States Consumer Financial Protection Bureau Proposal:

The United States Consumer Financial Protection Bureau proposed that payday lenders either underwrite their loans or limit their customers the number of rollovers followed by a 60 day ‘cooling off’ period.

*“It seems like if someone can’t pay at two months you know, it’s it seems them pretty harsh to give them another two months after with no loans after obviously. If they still haven’t been able to pay it that’s not really going to change over that two month cooling period.”*

- Focus Group Participant 3

*“I think that would dramatically reduce the interest therefore and they would pass that on to the borrower, the consumer. Because you can certainly see where they’re trying to go with that if they’re trying to put that in. Government works for the people bearing in mind the institution and its kind of genius actually in my mind. Yeah it’s fair... the saying give someone enough rope they’ll hang themselves.”*

- Focus Group Participant 5

## 2. Findings – Alternatives to Payday Loans Discussion

### Vancity Example:

Vancity Fair & Fast Loan™ (<https://www.vancity.com/Loans/TypesOfLoans/FairAndFastLoan/> accessed December 11, 2015)

- 19% interest
- Flexible payback schedules: 2 months to 2 years
- Build better credit: help establish credit history. Loans repaid earlier than the two month minimum term may not significantly improve a member's credit history as credit bureaus are built over time
- Quick approvals: Same day approval
- Fair service: considers more than just credit history
- Annual Percentage Rate (APR) is compounded monthly, not in advance

*“I like it. I like the fact that it’s going to establish a credit rating. So you’re paying a little bit high interest but the advantage is you establish credit. Which can be used at a mainstream institution or for a car loan... If this was offered to me and they said at the end of your 6 month loan for \$700 if that went to and gave me credit points I would jump on it because at the end of the day that’s what the reason I’m in my mess is because of poor credit at mainstream institutions...You have to be rewarded with credit points. It’s just a horror to be paying these interest rates for nothing. Nothing other than to get another payday loan. It’s not helping your financial situation one bit. And I don’t mean to speak for the group but it’s a trap... The only reward is that you can go back to that same lender and do the exact same thing over again. So they’re leaving the lower income people to fight a losing battle.”*

*-Focus Group Participant 6*

## 2. Findings – Alternatives to Payday Loans Discussion

### Three options for borrowers:

- A. Financial education on budgeting, financial planning, savings, credit, and investments
- B. Secured credit cards that enable you to build a credit rating
- C. Savings plans (e.g., pre-authorized monthly debits) that enable you to save money and draw on it rather than a loan when the need arises

### Feedback varied

Basis for this variation:

- previous borrowing history
  - employment status
  - income levels
- 
- Majority of participants did not support Option B
  - Option C, creating a savings plan, and Option A, education of financial planning, were not perceived as options to meet the needs of the participants.
    - many focus group participants stated they did not have additional funds to put into a savings plan

## 2. Findings – Alternatives to Payday Loans Discussion

### Three options for borrowers;

*“A, I would like to do except for the fact I’m on such a tight budget , so very low income so there’s no point to doing it. B, I’ve already got one, like [another participant] said that’s what got me into the trouble to begin with. The savings plan I just don’t have enough money to just think about doing anything like that. Every bit of money I have goes towards what I need. I budget everything.”*

- Focus Group participant 2

*“Yeah I wouldn’t mind getting some information about budgeting and stuff. That might be helpful. Credit cards, no thank you. Savings plans, well yeah it’s really hard for us to save anything especially I have a 15 year old who keeps wanting stuff all the time... Now I have to concentrate on paying off our Shaw bill so we can get our internet and TV back.”*

- Focus Group Participant 7



## 2. Findings – Alternatives to Payday Loans Discussion

### Participants Suggestions for Alternatives

- Lower Interest Rates

*“10% even is much more reasonable.... The only thing I’d stress is maybe to get them to lower the interest rates on these payday loans. Practical. I mean. It’s always the poor people that gets the shaft it seems like. We’re paying higher interest because we’re poor.”*

- Focus group participant 6

- Flexibility of Payment & Building of Credit Rating

*“So flexibility to pay via a minimum payment or more. And you would have to coincide with earning credit. To kind of copycat what the mainstream banks used to do with the smaller loans.... If we did a 6 month pay back and borrowed a little bit more and stretched over 6 months, at the end of that 6 months you’ve shown them you didn’t default so ok. Give me another one and let’s do this twice in a year and at the end of that year perhaps go to a mainstream institution. And say look I’ did this.... There’d be a light at the end of the tunnel. Because of the credit score that you could add to your credit score and make you less of a credit risk. That would be the ultimate goals. Because then you can get away from the payday loan. But I’m not suggesting that happens after one loan in one 6 month or 3 month payback period. I’m suggesting over a period of time. Could you imagine the credit I would have? I’ve been using this service for 7 years. My score, my rating would be high! Banks would love to have me as customer.”*

- Focus group participant 5

## 2. Findings – Alternatives to Payday Loans Discussion

### Participants Suggestions for Alternatives

- Role of Mainstream Banks

“I thought there has to be something they can do for people who have come from good situation who have just fallen into bad situations. It’s hard. It really is. It’s horrible. Like the person said, even an overdraft, a lower overdraft like somebody like you and I could afford. Not some ridiculous amount like \$500 when you don’t have a means to cover that...Every month its bank fees. It’s ridiculous the amount of bank fees they charge you at some banks.”

- Focus group participant 2

“I would like to see, if a customer came to them saying I’ve been using payday loans in my case for seven years, not every month, but if I was in my month thing and many of my friends are month to month to month because of the interest rate. I believe your institution, who you’ve been loyal to, should look into ways to help you out. Even a simple phone call to MoneyMart.... By not given you an overdraft and continue to charge your service fees. It just boggles my mind. The personality of mainstream of mainstream financial institutions. It’s horrible.”

- Focus Group Participant 5

### 3. Conclusion

- Payday loans are used for a variety of reasons, at different frequencies, and for different periods of time.
- Push factors that contributed to participants' use of payday loans included financial constraints, poor budgetary skills, and changes to employment scheduling and pay.
- Majority of participants were mindful in their borrowing practices.
  
- Prominent theme role of mainstream banks;
  - mismatch of products offered by mainstream banks and the needs of participants.
  - feelings of being marginalized by mainstream banks in comparison to payday loan lenders.
  
- Findings from this report should be used as a guide to inform policy and to develop suitable alternative products in order to meet the needs of consumers who use payday loans.
  
- Further research is needed in order to understand payday loan consumers' experiences outside of Winnipeg and to better understand consumer's experiences with on-line payday loans.