THE PUBLIC UTILITIES BOARD OF MANITOBA

APR 7 2016

April 1, 2016

Manitoba Public Utilities Board
400 – 330 Portage Avenue
Winnipeg, MB R3C 0C4
Attn: Darren Christle, Secretary

Re: Payday Loans Review
Order 33/16

Dear Mr. Christle,

Please accept this written submission on behalf of National Money Mart Company (Money Mart) in connection with your review of regulations relating to single pay payday loans. National Money Mart Company operates 21 Money Mart stores in Manitoba that offer single pay loans, and we employ over 100 people throughout the Province.

The Public Utilities Board has convened this proceeding to i) review charges and fees to consumers in connection with payday loans; ii) consider the impact if the maximum allowable rate charged to borrowers in connection with a payday loan is reduced from $17.00 per hundred dollars borrowed to $15.00 per hundred dollars borrowed; and iii) consider the impact if the proportion of a borrower's net periodic pay, which is used to determine the maximum loan amount permitted to be lent to that borrower is reduced from 30 percent to 25 percent.

In connection with your review of the Province's regulations relating to payday loans, a report had been prepared by Dr. Chris Robinson. While we feel that there are a number inaccuracies and unsupported assumptions and conclusions contained in that report, we specifically wish to address difficulties in the following areas:

A. Reliance on Dollar Financial Group's outdated Form 10-K from the period ending June 2013;
B. Inaccurate understanding of The Cash Store acquisition;

C. Costs associated with providing payday loans in Manitoba; and
D. The comparison to TD's overdraft loan charges is inappropriate and disingenuous.

1. Reliance on Dollar Financial Group's outdated Form 10-K from the period ending June 2013.

   To support his conclusions and views, Dr. Robinson relies on data in the Form 10-K from the year ended June 30, 2013 of Money Mart's parent company, Dollar Financial Group, Inc. (DFG), when DFG was a publicly traded company. Much has changed since then that materially impact any analysis of the current situation. In addition, a number of Dr. Robinson's assumptions are quite simply incorrect to such a degree as to render his conclusions inaccurate and materially misleading.

2. Dr. Robinson's inaccurate understanding of The Cash Store acquisition leads to significantly overstated loan volumes. Money Mart's acquisition of The Cash Store Financial (CFS) has brought in far less loan consumer lending volume than was assumed in Dr. Robinson's report. We only acquired 30% of the CFS outlets nationally. Since that acquisition, approximately 1/3rd of the former The Cash Store outlets have been closed. In Manitoba, we acquired six former CSF outlets, and now only two remain open. Therefore all, conclusions based on or relating to this volume assumption are inaccurate and misstated.

3. Dr. Robinson's assumptions of the costs associated with providing Payday Loans in Manitoba. Many of our operating costs have increased since 2013. For example, Employee salaries and costs, a large component of our operating expenses, as well as store leases have increased each year; defaulting customer/bad debt expenses have significantly increased. Our weighted average cost of capital is a multiple of the 7.9% Dr. Robinson suggests and thus any assumption predicated upon a 7.9% cost of capital is simply mathematically wrong. 2014/15 earnings are far lower than 2013, and the cost of running these stores as part of a larger organization requires an overhead allocation and again, Dr. Robinson's analysis is devoid of any such considerations. It is also noteworthy, that any reduction in operating revenue would likely include a reduction in employee head count and/or salaries, which would adversely affect the hundreds of Manitobans Money Mart and other licensed lenders employ in the Province.

4. Dr. Robinson compares the cost of payday loans to the cost of a TD overdraft loan. This is an inappropriate comparison. As Dr. Robinson correctly notes, <u>very few borrowers would qualify</u> for a TD overdraft loan, but he justifies the comparison with a "suppose they could." This is disingenuous at best, fiction at worst. A more appropriate comparison would be the overdraft fee for a single overdraft. A fee of $48 is common. Since this amount is usually charged by the bank on any overdraft above $5, the proper comparison would be $48/$100 compared to $17/$100 for a payday loan. The returned check is a more likely alternative and better comparison for this type of borrower if a payday loan or other short term product would not be available.

Proposal to reduce the Fee Rate per $100 Lent.

A reduction in the maximum allowable rate for payday loans will undoubtedly force a consolidation of stores and lenders in the Province. Access to credit will be further restricted from licensed lenders, forcing borrowers to unlicensed and in many cases unscrupulous lenders in Manitoba, online, and in other countries. To balance the stilted views of Dr. Robinson's report, we urge the board to review the March 26, 2016 study commissioned by the Canadian Payday Loan Association and conducted by Deloitte, LLP looking at the cost to lenders to offer a payday loan in the Province of Alberta. The study (a copy of which is attached) determined the weighted average cost to originate to loan each $100 was $20.74. The Deloitte study is very useful in understanding the actual relevant costs to provide a payday loan, as opposed to Dr. Robinson's strained and clearly biased views and conclusions.

Finally, we believe the current maximum loan amount of 30% of net pay should not be reduced. A maximum loan amount is just that, a maximum. We do not require a borrower to take any specific amount. A higher available amount provides greater flexibility for individual borrowers to respond to their own situation and needs.

Respectfully submitted,

Lester Wm. Firstenberger, Esq.
Senior Vice President, Global Regulatory and Government Affairs

Deloitte.

Summary of the 2015 Survey on the Cost of Providing Payday Loans in Alberta

March 23, 2016

Deloitte.

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March 23, 2016

Canadian Payday Loan Association
Suite 1600, 25 Main Street West
Hamilton, ON L8P 1H1

Attention: The Honourable Stan Keyes, President

Dear Sir:

Please find attached our report on the cost of providing payday loans in the Province of Alberta. We understand this work has been ultimately requested by the Canadian Payday Loans Association (the "Association").

Should you have any questions or concerns, please do not hesitate to contact the undersigned at (780) 421-3651.

Yours very truly,

Deloitte LLP

Jeremy Webster, CA, CBV
Financial Advisory
Deloitte LLP

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1.0 Executive summary

1.01 Deloitte LLP ("Deloitte") was retained by the Canadian Payday Loan Association ("Association") to prepare a report related to the cost of providing payday loan services in the Province of Alberta. This report focuses on private companies providing payday loans in Alberta.

1.02 Deloitte collected financial data and other relevant information about Alberta payday lenders via a detailed survey. Four surveys were sent out to private companies in Alberta who provide payday loans to customers, representing a total of $443,830,902 in payday loans disbursed for the respondent's most recent fiscal year from 185 outlets and 2 online licenses.

1.03 Information received from survey respondents was reviewed in detail by Deloitte in order to assess the reasonableness of the data. This included discussions with all respondents. In all instances adjustments were required to be made to the data provided to ensure the data was consistent and represented the cost of providing payday loans.

1.04 Ernst & Young ("E&Y") released a report ("E&Y Report") in October of 2004 entitled "The Cost of Providing Payday Loans in Canada". This report was also commissioned by the Association. Deloitte has reviewed this report in detail. Based on our review we concluded that the methodology employed by E&Y was sound and appropriate when attempting to determine the cost of providing payday loans. As a result the methodologies and procedures utilized in this report are based on the E&Y study except where noted.

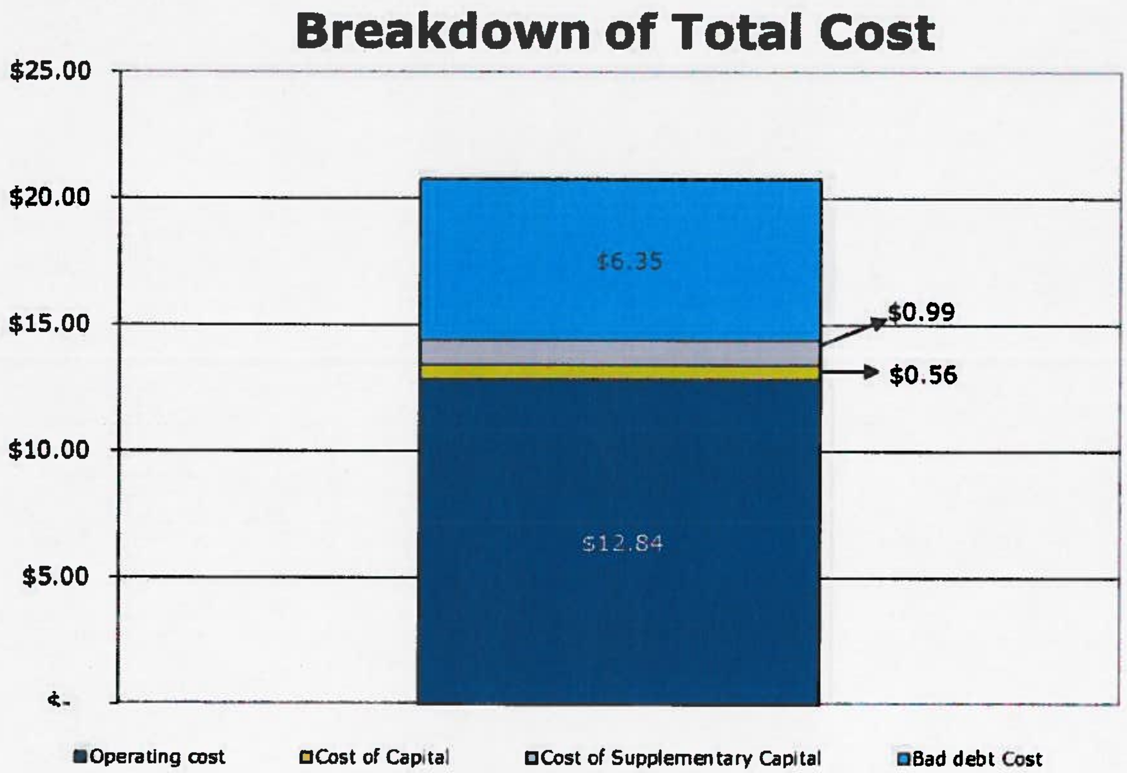
1.05 Deloitte has previously prepared the following reports on the cost of providing payday loans:

- Manitoba, September 2007: "Cost of Providing Payday Loans in Manitoba";
- Nova Scotia, November 2007: "Transactional data report on Payday Loan Providers in Nova Scotia"
- British Columbia, June 2008: "Cost of Providing Payday Loans in British Columbia"; and
- Ontario, October 2008: "Cost of Providing Payday Loans in Ontario."
- Ontario, March 2014: "Summary of the 2014 Survey on the Cost of Providing Payday Loans in Ontario"

1.06 Deloitte's methodology involved segregating costs into four (4) components:

- Operating costs – cost to provide payday loans such as labour, rent, and utilities
- Cost of capital – actual and opportunity costs for providing capital for loans
- Cost of supplementary capital – for infrastructure and working capital
- Bad debt costs – lost principal and operating costs for issuance and processing of loans

1.07 These costs are combined and presented as a 'cost per $100 loan.' This report estimates the cost of providing a $100 payday loan[1] in Alberta to be $20.74, which can be further illustrated as follows:



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[1] We note that our denominator includes all loans where E&Y methodology did not. E&Y included only "good" loans that were not in default, where we have included all loans in our averages.

2.0 Background and purpose of engagement

2.01 Deloitte LLP has been engaged by the Canadian Payday Loan Association ("Association") to prepare a report related to the cost of providing payday loan services in the Province of Alberta. This report focuses on private companies providing payday loans in Alberta. It is our understanding the Association is preparing a separate analysis of public companies operating in Alberta. Internet based lending and the associated costs are excluded from our analysis.

2.02 We understand this report is being commissioned as part of regulatory discussions.

2.03 A "payday loan" means any advancement of money with a principal of $1,500 or less and a term of 62 days or less made in exchange for a post-dated cheque, a pre-authorized debit or a future payment of a similar nature, but not for any guarantee, suretyship, overdraft protection or security on property and not through a margin loan, pawnbrokering, a line of credit or a credit card.[2]

2.04 The purpose of this report is to attempt to gather factual data on the cost of providing payday loans. Deloitte sought to obtain financial and other relevant data from Alberta payday lenders ("payday lenders", "respondents") via survey responses. Four surveys were sent out and four responses were received within the timeframe necessary to prepare the report. This report includes analysis of the data obtained and the results of our calculations using that data; it does not contain or provide an opinion on what is an appropriate rate and/or fees lenders should charge when providing payday loans. It should be noted that as not all payday lenders were surveyed, and not all payday lenders are members of the Canadian Payday Loan Association, the results may not be representative of the industry as a whole. Deloitte reviewed and analyzed all survey responses in detail; however, the data provided by survey responses has not been audited.

2.05 E&Y released a report ("E&Y Report") in October of 2004 entitled "The Cost of Providing Payday Loans in Canada". The E&Y Report was also commissioned by the Association. Deloitte has reviewed the E&Y Report in detail. Based on our review we concluded that the methodology employed by E&Y was generally sound and appropriate when attempting to determine the cost of providing payday loans. As a result, the methodologies and procedures utilized in this report are based on the E&Y Report except where noted. Readers of this report are directed to the E&Y Report for further detail.

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[2] As defined by the Province of Alberta Fair Trading Act, Payday Loans Regulation (Alberta Regulation 157/2009).

3.0 Methodology

3.1. Overall methodology

This report intends to address the cost of providing payday loans in Alberta.[3] Based on our review Deloitte has segregated the costs of payday loans into four (4) components:

- Operating costs
- Cost of capital
- Cost of supplementary capital
- Bad debt costs

The four cost components are combined to generate a 'cost per $100 loan' figure which can be applied to all loans. The 'cost per $100 loan' was used in the E&Y Report and based on discussions with industry participants appears to be the most relevant and accepted measure when assessing costs in the industry.

3.2. Operating costs of payday loans

Based on the survey results, common operating costs incurred by payday lenders include:

- Salaries and benefits
- Security
- Rent
- Utilities
- Insurance
- Credit checks
- NSF and other bank service charges
- Advertising
- Depreciation and amortization
- Provisions for loan losses and doubtful accounts
- Interest
- Taxes
- Franchise expenses

A discussion on provisions for loan losses, interest, and payments to affiliated companies or owners occurs below in Section 3.2.2.

In order to properly determine operating costs they must first be allocated between payday lending and other services, and then reviewed in order to determine whether certain adjustments are required. The allocation of costs and required adjustments are discussed below. After adjusted operating costs are determined the total is divided over all loans issued during the year, then multiplied by 100 in order to determine operating costs per $100 of loan.[4]

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[3] We are not segregating loans into first-time versus repeat loans and rollover/re-write loans as was done by E&Y due to constraints in available data and the fact we are providing an "average" cost over all loan types.

[4] We note that our denominator includes all loans where E&Y methodology did not. E&Y included only "good" loans that were not in default, where we have included all loans in our average.

3.2.1 Allocating operating costs

There are two distinct types of payday loan providers: mono-line and multi-line operators. A mono-line operator is only in business to provide payday loans, whereas a multi-line operator also offers other services such as cheque cashing, money transfers/orders, tax preparation (including discounting), etc. The costs associated with providing these other services need to be excluded from our calculations, as they are not directly incurred to provide payday loans. This infers that a reasonable method must be used to segregate the costs of a multi-line provider between payday loans and all other services.

Three of the four respondents reported that they operate as multi-line providers. In addition, these respondents indicated that they have no precise way of separating costs related specifically to the payday lending portions of their business. They generally stated that they assumed if X% of revenues were generated from payday lending, then X% could be applied to each of the cost line items (with the exception of bad debts where substantially all of these costs relate to payday lending). They also indicated that this may not be entirely appropriate since a higher percentage of time is usually spent on payday lending than other services in comparison to the revenue generated. As a result, splitting costs based on revenue percentage may have the effect of understating the operating costs related to payday lending. However, based on the information available, revenue split appears to be the most reasonable estimation for allocating costs between revenue sources. Therefore, this method was employed by Deloitte.

Deloitte discussed the reported revenues with each of the respondents. In one instance, NSF and court fee revenues which are related to payday lending were recorded in different revenue categories. Deloitte included this revenue in payday lending revenue for the purposes of allocating costs.

3.2.2 Adjusted operating costs

Allocated operating costs were used as a starting point for our analysis. Adjustments were required to help ensure consistency across all payday lenders and that the costs included reflected actual costs required to provide payday loans. Based on the information received, the five main adjustments required are as follows:

- **Provisions for loan losses:** Responses show there are large variations in the methods used by payday lenders to account for bad debts. For example, one respondent did not record a loan as a bad debt until after 180 days while another respondent recorded bad debt immediately. Therefore, we removed the various bad debts costs from our overall calculation of operating costs per $100 loan and calculated them separately based on a consistent method. This is discussed below in Section 3.5.

- **Interest on long term debt:** This expense is considered under the cost of capital (Section 3.3 below) and therefore excluded from operating costs.

- **Payments to affiliated companies (i.e. management fees, royalties, etc.):** These types of expenses are only included in the calculation of overall costs if they represent a transaction which occurred at fair market value and was incurred for business purposes (i.e. the expense would be relatively the same size if made to an unrelated company).

  In one instance, management fees were paid to a related company for planning purposes. This is not a cost deemed necessary to payday lending. The amount was adjusted out of the calculation of operating expenses.

- **Payments to owners:** Similar to payments to affiliated companies, these expenses are only included in the calculation of overall costs if they represent fair market value for the employment services provided. This information was combined to assess the reasonableness of amounts paid to owners/shareholders and make adjustments to fair market value if necessary.

  One respondent classified salary paid to shareholders under this category. However, the shareholders were key employees to the company and worked full time hours, thus the expense was included in the calculation of operating costs.

- **Taxes:** Two respondents were unable to provide us with income tax expense amounts due to the timing of their year-end and income subsequent tax return preparation. Both confirmed their income tax brackets (regular corporate or small business) and agreed that an estimate based on appropriate statutory income tax rates applied their calculated net income were reasonable estimates of their income tax expense.

3.3. Cost of loan capital

In order to issue loans, payday lenders require capital to operate their business. Like other businesses and industries, payday lenders can finance their operations using debt, equity or a combination thereof. This capital has a cost to it in the form of interest paid on debt and payments/dividends or reinvestment to satisfy and provide a return associated with equity contributions.

The cost of capital is determined by multiplying the value of loans by the weighted average cost of capital ("WACC"). WACC represents the weighted blended rate of return required by the equity holders of a business and the interest rate required by debt holders.

Based on the responses received, private company payday lenders in Alberta have diverse capital structures, with debt to equity structures varying widely between the respondents. Additionally, funding comes from a wide variety of sources with very different rates and terms.

The E&Y Report highlights that cost of capital is a relatively small component of the overall cost of providing payday loans. In addition, their report prepares a sensitivity analysis showing the costs based on varying WACC's. Based on our review of respondents' data, and in order to be consistent with the E&Y Report, we have utilized an average WACC of 14% when calculating the cost of loan capital. However, it is likely this is a conservative estimate.

The cost of loan capital is calculated as follows:

Cost of Loan Capital
Weighted average cost of capital (14%)
multiplied by
Average maturity of good loans ÷ 365
multiplied by
100
equals
Cost of loan capital per $100 loan

3.4. Cost of supplementary capital

In addition to borrowing money or utilizing equity to disburse principal on loans, payday lenders must employ fixed assets to operate and must carry cash reserves sufficient to ensure that money is available for new loan requests. These fixed assets and cash balances have associated carrying costs which are referred to as the cost of supplementary capital.

In order to calculate the cost of supplementary capital the net fixed asset balance of each payday lender needs to be allocated to the payday lending portion of the business. Similarly to the allocation of costs, all of the respondents indicated that they have no precise way of separating fixed assets specifically to the payday lending portions of the business. Therefore, net assets have also been allocated to payday lending based on the same methodology as the operating costs.

Secondly, the cash balance of each payday lender needs to be adjusted to reflect only the cash on hand for payday lending. This involves segregating out cash used for other business purposes. Additionally, some lenders hold large amounts of cash on hand to meet upcoming liabilities and obligations or for anticipated expansion. Therefore, we have defined the amount of cash on hand for payday lending to be the greater of:

- Cash allocated to payday lending based on the allocation % used for operating costs; or
- 1/26th of total loans issued in the year

The cost of supplementary capital is calculated by multiplying the supplementary capital by the WACC of 14% which is discussed in Section 3.3.

3.5. Bad debt costs

When a loan goes into default and is not ultimately collected, it is considered a bad debt. For the purposes of this report, bad debt is defined using three components. Firstly, there is the principal amount loaned out that is never collected on defaulted loans. This is by far the largest component of bad debt expense. The remaining two components represent a portion of operating costs and supplementary capital costs that are allocated to these defaulted loans; this represents the share of costs that would otherwise be borne by the loan had it not gone bad. The E&Y Report also included a cost of loan capital charge in their total bad debt costs. As discussed below, we did not define bad debts as those not recovered within 90 days, as this calculation is not possible for us to calculate as the number of days a bad loan is carried was not made available to us.[5]

In regards to the principal component of bad debts, Deloitte's definition is "the principal on defaulted loans which was never ultimately collected." This differs from the E&Y Report which defined bad debts as "the principal on defaulted loans that are not recovered within 90 days". This difference in methodology is due to the fact that some of our respondents could only provide loans ultimately not collected (not just loans not collected within 90 days). In addition, we believe the true cost of bad debts is loans ultimately not recovered, not just those not recovered within 90 days. Based on discussions with respondents only a small portion of loans that are not collected after 90 days in default are ultimately collected. Therefore, the difference in methodology would likely not have a significant impact on the cost calculations.

In regard to operating costs and supplementary capital, since bad debts are never recovered and the revenue is lost, the general rate offered and attained by payday lenders on good loans (loans which do not default) must be sufficient to bear the cost of bad debts on loans that default.

[5] This difference in methodology would not have a significant impact on the total cost of providing payday loans.

The following table demonstrates that when a loan is not collected, not only is the principal not collected, but the operating costs that were intended to be covered by an uncollected loan also are not recovered. The example below is based on a breakeven analysis whereby fees/interest are set to equal costs (and cost of loan capital is excluded):

Description	Amount
Principal distributed and due on 10 loans (loans at $100 each)	$1,000
Fees/interest due on loans, $25 per loan (equal to actual costs per loan)	250
Total due	1,250
Total ultimately collected, 9 loans (9X(100+25))	1,125
Less: original principal amount	(1,000)
Less: actual operating costs, $25 per loan	(250)
Shortfall	$(125)

The above simplified calculation illustrates that the cost of bad debts increases the total cost of providing good loans, therefore the revenue from good loans must cover off these bad debt costs. Stated differently, when a loan is not collected that loan does not go towards covering a portion of its costs. These costs must therefore be reflected as part of bad debt costs and be included when pricing out all loans. Our calculation of bad debts is as follows:[6]

	Cost of bad debts per $100 of loan	=	(Total bad debt costs) X 100 / (Total good loans)
where;	Total good loans	=	(Total principal collected)
and;	Total bad debt costs	=	(Bad debt principal + operating and supplementary capital costs allocated to bad debt[7])

[6] It is important to note that this calculation method was appropriate since none of the respondents operated as a broker. A broker would not lose the principal of a defaulted loan since the third party assumes that risk.

[7] Defined further as operating costs and supplementary capital costs multiplied by (bad debt principal/total volume of loans).

4.0 Discussion of survey results

4.1. Surveys disbursed and returned

Between January and March 2016, four surveys were sent out to four private companies which provide payday loans to customers in Alberta. The surveys were designed in an attempt to ensure that the questions were understandable and that the necessary information to complete the study would be obtained. Deloitte received back a total of four surveys, representing a total of $443,830,902 in payday loans disbursed for the respondents most recent fiscal year.

Some of the surveys contained unclear responses including:

- Missing responses
- Ambiguous answers explaining how costs were allocated to payday lending
- Discrepancies between information included in the survey and financial statements provided
- Unusual balances or costs that appeared to be anomalies

In all instances, Deloitte contacted the companies to clarify and gain comfort over their responses. In certain instances significant further discussions and analysis needed to take place in order for Deloitte to obtain comfort that the responses received were reasonable and could be utilized. In addition, based on discussions a number of adjustments were required on the information received.

After all discussions were conducted, Deloitte determined that all four responses could ultimately be used for the purposes of this report (after making necessary adjustments).

Deloitte reviewed and analyzed all survey responses in detail; however, the data provided by survey responses has not been audited.

The survey and cover letter that was sent is included in Appendix A. The survey contained several questions to assess the reasonableness of responses and was structured to capture information falling within seven (7) main areas:

1. **Organizational structure and business mix.** Questions were intended to gather information regarding the types of services offered by the payday lenders, the number of locations operated, the length of time these locations have been in operation, and the legal structure of the company.

   As mentioned earlier, three of the four of the respondents provided services in addition to payday lending. All respondents run multiple store locations. All four of the respondents operate as incorporated private companies.

2. **Owner compensation.** Information specific to "owner" compensation (including proprietors of the business, partners in the business, shareholders, and their spouses and family members of these positions) was required in order to properly adjust operating costs. This compensation in certain situations, such as tax planning strategies is considered an unnecessary expense to the regular operation of the payday lender. Put another way, the survey requested not only the amount of remuneration to owners/shareholders, but also requested the amount of time that these individuals spend during an average week on the

business. This information was combined to assess the reasonableness of amounts paid to owners/shareholders and make adjustments to the fair market value of those services, if necessary.

3. **Financial statement information.** Recent historical financial information is essential to the calculation and analysis of the cost data. The data also provides vital information regarding the proportion of revenue attributable to payday lending in a multi-service business.

   The respondents' answers indicated that payday loan revenues as a percentage of total company revenues fell within a range with a simple average of 82%.

   Additionally, financial statements are requested in order to help assess the reasonability of the information filled in by the respondents. One payday lender's financial statements were audited, two payday lender's statements were reviewed by external accountants, and one respondent did not have financial statements reviewed by an external accountant, but did provide their statements to a bank or another lender.

4. **Financing/capital sources.** Financing sources were requested in order to gain an understanding of the sources of capital for private payday lenders in Alberta and their cost of capital. As was discussed above, the sources and rates related to capital utilized by the respondents varied greatly.

5. **Product line activity.** This section of the survey was intended to gather information regarding the relative size of each company based on dollar volume and number of loans, as well as the dollar volume of loans that went into default and ultimately were or were not collected. These statistics were used for various calculations, the most significant being operating cost per loan and bad debt cost per loan.

Based on all four responses, Deloitte has summarized the loan statistics in the following table:

Description	Total	Per Store (simple average)
Total dollar volume of loans issued in most recent fiscal year	$443,830,902	$2,008,285
Total number of loans issued in most recent fiscal year	814,891	3,687
Average loan size	528.20	528.20
Dollar value of loans that went into default[1]	80,113,422	362,504
Defaulted loans as a percentage of total loans	18.05%	18.05%
Defaulted loans ultimately collected	51,600,229	233,485
Collected loans as a percentage of defaulted loans	56.73%	56.73%
Defaulted loans ultimately not collected	28,513,193	129,019
Bad debts as a percentage of loans issued	6.89%	6.89%

[1]Defaulted loans represent loans not collected on the due date. Many loans that go into default are ultimately collected.

6. **Returned cheques and unrecoverable debts.** This section of the survey intends to gather information regarding the accounting treatment of defaulted loans and bad debts. It specifically highlighted the fact that there are large discrepancies in the methods used by payday lenders to account for these situations. For example, two of the four respondents writes off loans as soon as they go into default. One respondent indicated that they write off loans between 90 and 180 days after defaulting. One respondent indicated that they do not write-off loans until legal action has been taken.

7. **Breakdown of fees.** Information gathered with respect to fee structure assisted with the general understanding of the industry and in order to assist in assessing the reasonableness of the information provided.

5.0 Results of calculations

5.1. Cost of a $100 loan

Based on the cost calculations, an average payday lender in Alberta incurs costs of $20.74 to provide a $100 payday loan. The table below illustrates the cost structure to provide a $100 loan:

Cost Analysis		
Operating cost per $100 loan	$	12.84
Cost of loan capital		0.56
Cost of supplementary capital		0.99
Cost of $100 loan before bad debt costs		14.39
Bad debt cost per $100 loan		6.35
Total cost of $100 loan	$	20.74

Based on the responses received, Deloitte calculated the average operating cost per $100 loan as $12.84. Cost of loan capital and cost of supplementary capital are average costs of $0.56 and $0.99 per $100 loan, respectively. Average bad debt costs per $100 loan are $6.35.

Appendix A
Survey of Alberta payday loan providers

Thank you for agreeing to participate in this study of payday loan businesses in Alberta.

The Canadian Payday Loans Association (the "Association") has initiated an analysis of the cost of payday loans incurred and a review of the annual income of customers. Deloitte LLP has been selected by the Bishop & McKenzie LLP ("Counsel") to facilitate this process. As part of the review, we will be collecting information on the cost of providing payday loans from lenders across Alberta through an online survey. The information will be presented in a report to the Association.

In order to complete the analysis of lending costs in time to support the Association's review, please complete the survey at your earliest convenience.

This survey will ask you for financial information regarding your business. Please ensure that all data reflects your Alberta operations only and is provided for the most recently completed fiscal year. It will be helpful to have your financial statements on hand while you complete the survey.

Please answer all questions to the best of your ability. Should you have any questions about the study or this survey, contact Kristyn Power at (780) 421-3612 or KrPower@Deloitte.ca

We understand that it is Counsel's intention and the position of Counsel that our work will be covered by the solicitor work-product privilege and other applicable privileges, all information obtained by Deloitte through the survey process will be kept strictly confidential. Information from individual respondents will not be shared with the Ministry or disclosed in the report. The report will only disclose information on an aggregate basis from all respondents. In addition, the report will not list who responded to the survey.

The information you provide will be essential in developing an understanding of the Alberta payday loans industry.

Contact Information:

1. Name of contact person: ____________________
2. Telephone number of contact person: ____________________

In addition to completing the questionnaire, please upload to SharePoint a copy of your annual Income Statement and Balance sheet for the most recent two fiscal years. You could also upload a single annual report document if applicable:

Business Information:

Please note that if you operate in multiple provinces, this survey is intended to collect financial and statistical data for your Alberta operations only.

3. In which jurisdictions does your business provide payday loans?
   - ◯ Alberta only
   - ◯ Alberta and other jurisdictions

4. Do your financial statements reflect results from:
   - ◯ Alberta only
   - ◯ Alberta and other jurisdictions

Organizational structure and business mix:

5. Please identify which service lines your business offers:
   - ◯ Payday lending Cheque cashing
   - ◯ Money transfers
   - ◯ Collateral/pawn loans
   - ◯ Title loans currency exchange
   - ◯ Instalment loans
   - ◯ Card services, reloadable debit card
   - ◯ Tax preparation / discounting
   - ◯ Money orders
   - ◯ Cash for gold/silver
   - ◯ Line of credit
   - ◯ Other (please list all)

   Other:
   ____
   ____
   ____
   ____

6. a) How many stores did your business operate at the end of your most recent fiscal year, and were they business operated or franchised?

   Business operated ____________________
   Franchised ____________________
   Total ____________________

b) Please list the total number of stores that were operating at the beginning of each year listed below.
The total number of stores should equal total number of stores listed in previous question (for most recent year)

2015	
2014	
2013	
2012	
2011	
2010	
2009	
2008	

Owner Compensation:

This section requests information about how the owners of your business are compensated. For the purpose of this section, owners include:

(a) proprietors of the business,
(b) partners in the business,
(c) shareholders, and
(d) the spouses and other family members of proprietors, partners and significant shareholders.

Answers should be based on the financial statements for the most recent fiscal year.

7. In your most recent fiscal year, what was the total remuneration paid to all owners ($)?

8. In your most recent fiscal year, what was the total amount of bonuses/benefits/other compensation paid to all owners? ($)

9. Are benefits paid in the form of compensation or distribution of profits?
   - ◯ Compensation (e.g. salary)
   - ◯ Distribution (e.g. dividends)
   - ◯ All of the above
   - ◯ N/A

10. Please indicate the categories to which your responses to questions 7-9 apply:
    - ◯ Proprietors of the business
    - ◯ Partners in the business
    - ◯ Shareholders
    - ◯ Spouse and other family members of proprietors, partners and significant shareholders

11. Please provide an estimate of the total hours spent on the business in a typical week by the owners in each of the following categories:

	Amount
Proprietors of the business	
Partners in the business	
Shareholders	
Spouse and other family members of proprietors, partners and significant shareholders	

Financial Statement Information:

Please answer the following questions based on your financial statements for the most recently completed fiscal year available.

12. Please indicate whether your financial statements are (check all that apply):
    - ◯ Audited
    - ◯ Reviewed by an external accountant
    - ◯ Provided to a bank or another lender
    - ◯ None of the above

13. What is the date of the year end for these statements? (mm/dd/yyyy) ________________

14. Please provide the business' total revenue for the past year. ($) ________________

15. a) Please provide a breakdown of your business' revenues by business line for the most recent fiscal year.
    If you do not account for payday lending separately, please provide your best estimate (:

	Total Revenue ($)
Payday lending	
Cheque cashing	
Money transfers	
Collateral/pawn loans	
Title loans	
Currency exchange	
Instalment loans	
Card services, reloadable debit card	
Tax preparation / discounting	
Money orders	
Cash for Gold	
Line of Credit	
Other 1	
Other 2	
Other 3	

b) If you wrote an amount under "Other", please specify the type of revenue"
Ex. Other 1 = Parking lot rented out for community events

16. a) Based on your business' most recently completed fiscal year, please present your business' expenses for:
    i) all business lines
    ii) payday lending only

If you do not account for payday lending separately, please provide your estimate

	i) all business lines	ii) payday lending only
Salaries and benefits		
Incentive plan expense		
Security (e.g., armored car service, alarm systems)		
Rent		
Utilities		
Insurance		
Credit checks		
NSF, and other bank service charges		
Advertising		
Depreciation and amortization expense		
Provision for loan losses and doubtful accounts		
Interest		
Taxes		
Franchise expenses (e.g., services to franchises)		
Other		
Total expenses		

b) If the expenses listed above for payday lending activities are not based on actual results (if they are estimated), please describe the method of estimation:

17. Please list your business' assets at the end of the most recently completed fiscal year:

	Amount ($)
Cash	
Accounts receivable – payday loans	
Accounts receivable – other	
Prepaids	
Inventory	
Net fixed assets	
Other	
Total assets	

18. Please list your business' liabilities at the end of the most recently completed fiscal year:

	Amount ($)
Accounts payable	
Salaries payable	
Other payables	
Inter-business liabilities	
Long-term debt	
Shareholder loans	
Other	
Total Liabilities	

19. Please list your business' equity at the end of the most recently completed fiscal year:

	Amount ($)
Capital stock/paid in capital	
Retained earnings	
Net income for the year	
Other	
Total equity	

20. Based on your financial statements for the most recent fiscal year, please describe and list the amounts of any unusual, non-recurring or one-time revenues or expenses incurred.

Financing/Capital Sources

21. For any debt held by the business (e.g. line of credit, term loans, leases, shareholder loans, etc.) and other capital sources (e.g. common shares, preferred shares, convertible debt) provided by third parties, please describe the source of the funds and the cost including interest rates, fees, dividend payments, etc.

Capital source - Description of terms (cost)

E.g. Term loan - payable in 1 year ($4,000 @ 5% interest)

Product Line Activity

Please answer the following questions based on your most recently completed fiscal year

22. a) Please provide the total number and value of payday loans issued or brokered. Please ensure the total value includes only principal advances and excludes fees and other charges.

Number of loans issued (#) ______ Total value of loans issued ($) ______

b) What is the average term (number of days) for payday loans? (#) ______

c) Of the total number of payday loans issued, how many loans were issued within 24 hours of repayment of a previous loan (same customer)? (#) ______

d) Internet lending - what is the value of payday loans that were issued or brokered through your internet lending operations (if applicable)? ($) ______

e) Internet lending - what are the number of payday loans that were issued or brokered through your internet lending operations (if applicable)? (#) ______

f) Internet lending - what were the total expenses attributed to running online payday lending or payday loan brokering operations? ($) ______

g) Internet lending - please list the categories of expenses that can be attributed to online payday lending or payday loan brokering operations ______

h) What is the $ value of payday loans that went into default (e.g. cheque returned NSF)? ($)

______

i) What are the # of payday loans that went into default (e.g. cheque returned NSF)? (#)

______

j) Of the total value of payday loans that went into default, what is the $ amount that was ultimately collected, not including fees and interest? ($) ______

k) What is the average number of days required to recover default loans? (#)

______

Returned Cheques and Unrecoverable Debts

23. a) For financial accounting purposes, do you write off payday loans in default at the time the cheques or pre-authorized debits are returned as uncollected?
    - ◯ Yes, we write them off as bad debt immediately
    - ◯ No, we do not write them off as bad debt until after a period of time

    b) If you do not write them off immediately, how many days after the cheques or pre-authorized debits are returned do you write them off as bad debt? (# of days) What is the process?
    N/A if not applicable

Breakdown of Fees

Please describe your fees for the following:

24. a) Total cost of borrowing a payday loan. As per the Payday Loans Act, the total cost of borrowing *includes all fees:*
    E.g. $21 per $100 loan

    b) Default charges for payday loans, including NSF cheques:

    c) Interest and other charges on defaulted payday loans:

Borrowing Patterns

25. What are the total number of customers/borrowers that borrowed payday loans through your business in the last fiscal year? (#)
    Does not refer to total number of loans. If a customer takes out 4 loans over the year, he/she still counts as one customer.

26. For the last fiscal year, how many customers/borrowers took out:
Total should match the answer for question 18

	Number of customers/borrowers
1 loan	
2-4 loans	
5-7 loans	
8 or more loans	
Total customers	

27. If values in the last question were estimates, please describe method used to estimate values. Otherwise, please leave this question blank

Appendix B Restrictions and qualifications

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