
Written Submission on Payday Lending

Background

SEED Winnipeg is a non-profit charitable organization. We work to reduce poverty and support community renewal by assisting low-income individuals, groups, organizations and economically distressed neighborhoods to improve their social and economic vitality. We have been working to address the harmful impacts of fringe financial services for over two decades. SEED was a member of the Alternative Financial Services Coalition which was established in response to the departure of banks and the subsequent proliferation of fringe financial service in the North End. This work led to development of the Community Financial Services Centre (a precursor to the Citizen's Bridge project) and the introduction of a range of financial empowerment initiatives for low-income community members including:

- Financial literacy programs
- Matched savings programs (Saving Circle, Individual Development Account Program and the Inner-City Home Buyer IDA Program)
- Access to benefits and government entitlements
- Access to financial services for the unbanked and underbanked

These initiatives have been developed in partnership with Assiniboine Credit Union and a range of community based organizations. Thousands of financially vulnerable community members have accessed these programs through SEED and our partner organizations. At present SEED works with over 50 partners in Manitoba to deliver these programs.

Impacts of Payday Lenders

In our work with community members, we have continued to witness the negative impacts associated with the business practices of payday lenders. Many financially vulnerable community members turn to these lenders when they are in crisis and do not have a full understanding of the terms and conditions of these loans and the potential adverse impacts on their financial stability. Some of the negative impacts we have observed include:

- Forgoing necessities such as food or jeopardizing housing by delaying rent payments in order to make payments on these high cost loans
- Becoming trapped in a cycle of accessing additional loans to make payments on previous loans
- Negative impacts on credit history which prevent participants from accessing loans for productive investments such as a down payment for a home purchase
- Repeated NSF/overdraft charges caused by payday loans leading to account loss, derogatory credit histories and further financial exclusion

Recommendations

SEED supports more stringent regulations that would reduce the cost of borrowing and the amount of a loan that borrowers can access. However, the regulation of payday lenders only provides a partial solution. As described in the recommendations below, it is essential for the Province to adopt a holistic approach to address this issue.

Maximum Allowable Rate

Recommendation #1: Reduce the maximum allowable rate to \$15 per \$100.

Proportion of Loan to Net Income

Recommendation #2: Reduce the potential loan amount to 25% of the current net income of the borrowers.

Other Issues

A financial empowerment approach provides a promising framework for addressing structural barriers and building capacity that reduces the vulnerability of low-income community members to payday lenders. The table below provides recommendations based on the five pillars of financial empowerment.

Pillar of Financial Empowerment	Recommendation
Consumer Protection	Recommendation #3: Enact regulations for products similar to payday loans to better protect consumers by reducing the maximum allowable rates and ensuring full disclosure of terms, rates and fees in an accessible and standardized format.
Safe and Affordable Financial Products	Recommendation #4: Invest in the development and delivery of alternative models that will allow low-income community members to access affordable credit.
Financial Literacy and Coaching	Recommendation #5: Invest in the expanded provision of accessible financial literacy and coaching supports for low-income community members through a network of trusted community organizations.
Taxes and Access to Benefits	Recommendation #6: Invest in the expansion of supports through community organizations and large scale service delivery systems to enable more low-income community members to file their taxes and access government entitlements and benefits.
Savings and Asset Building	Recommendation #7: Invest in the expansion of community based programs that support saving for contingencies and productive assets.