MANITOBA PUBLIC UTILITIES BOARD

Re: 2016 PAYDAY LOAN REVIEW

Before Board Panel:

Karen Botting - Panel Chairperson

Regis Gosselin - Panel Member

Anita Neville - Panel Member

Susan Proven - Panel Member

Allan Morin - Panel Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

April 13, 2016

Pages 239 to 530

APPEARANCES

Kathleen McCandless	)Board Counsel
Byron Williams	)Coalition
Katrine Dilay	)
Stan Keyes	)Canadian Payday
Patty Ko	)Loans Association
Danielle Gaudreault (np)	)C11 A1 Financing
	)& Loans

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
1	The Coalition to reconcile the apparent differences between the data reported by PEW at slide 32 of Dr. Buckland's report in terms of usage of online lenders with the narrative presented by the presenter Policis on April 12	293

--- Upon commencing at 9:31 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone, and welcome to the second day of the 2016 Public Utilities Board payday loan hearings. To begin with, I'm going to be turning the mic over to Ms. McCandless, the Board counsel, to enter three (3) exhibits on the record.

And then we're going to call upon Mr. Williams, representing the Coalition comprising the Consumers Association of Canada, Winnipeg Harvest, and the Community Financial Counselling, to introduce his expert witness panel who will give testimony this morning.

So, Ms. McCandless, would you like to begin?

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair. Good morning, members of the panel. Before we proceed with the evidentiary portion of the hearing, I would just like to enter three (3) exhibits on behalf of the Board from yesterday's proceedings.

The first will be PUB number 11, and that's the book of documents of PUB counsel.

--- EXHIBIT NO. PUB-11: Book of documents

MS. KATHLEEN MCCANDLESS: The second will be PUB-12, and that is the document that was provided to you by Ms. Ellison, information on Policis and Ellis -- and Anna Ellison credentials. That's number 12.

--- EXHIBIT NO. PUB-12: Document from Policis credentials

MS. KATHLEEN MCCANDLESS: And number 13 will be a copy of Ms. Ellison's PowerPoint presentation from yesterday. Thank you.

--- EXHIBIT NO. PUB-13: Copy of Ellison's PowerPoint presentation

THE PANEL CHAIRPERSON: Thank you very much, Ms. McCandless. Mr. Williams, would you like to take over and introduce the panel, and they can begin their testimony?

MR. BYRON WILLIAMS: Yes. Thank you. And -- and, Ms. McCandless, if -- if -- Madam Chair, through you to Ms. McCandless, I know we have at least one (1) copy of Exhibit 11. I'll perhaps confer with you at the break and see whether any of the other witnesses -- so we'll just follow up that with you at the break. Okay?

And, Madam Chair, there is one (1) exhibit that we'd like to introduce this morning. Hopefully it should be on your desk. It should be a -- a three (3) page document in plain white paper called United States pay Stone -- Payday Loan Regulations.

--- EXHIBIT NO. CAC-37: Three (3) page document: United Stated Payday Loan Regulations

MR. BYRON WILLIAMS: And I just want to indicate that you'll recall from Appendix 3 of Dr. Robinson's evidence, he presented some information about the American marketplace derived primarily by the -- from the 2014 report of the Centre for Responsible Lending. And then we were honoured with a number of Inf -- Information Requests by the CPLA, being 1-20 to 1-26.

So we provided the link to that report, but we -- given the tight time frames that's all we felt able to do, but subsequent to the, Dr. Robinson was -- was able to go to a website and then try and follow up with a -- a more updated, and also a more complete report. And we trust it will be of benefit to the Board. And he cannot certainly speak to that when he -- when he provides his information.

And I'll also indicate to you that when -- when we -- in terms of Dr. Robinson's PowerPoint, which I believe is Exhibit 36, he will be making a verbal correction to it -- sorry, an oral correction to it on slide 9 when we come to it.

It's -- it went to print a little quick and so we have a correction for that. If the Board wishes we can provide a substitute page, certainly to the Board secretary, so that the exhibits are in proper order. We thought we'd given out enough paper yesterday that -- we certainly could -- could provide you with that paper, but we thought a -- a verbal corr -- an oral correction would be more appropriate and we would just physically correct the actual exhibit.

THE PANEL CHAIRPERSON: I think an oral correction would be in order, but a paper copy to the secretary would be appreciated. Thank you.

COALITION PANEL 1, RESUMED:

ZOE ST. AUBIN, Resumed

JERRY BUCKLAND, Resumed

CHRIS ROBINSON, Resumed
WAYNE SIMPSON, Resumed

PRESENTATION BY PANEL AND EXAMINATION-IN-CHIEF BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Okay. And thank you for that. And, Dr. Buckland, I've talked enough. Why don't we give you a turn.

DR. JERRY BUCKLAND: Thank you very much.

MR. BYRON WILLIAMS: Oh, if I might, I apologize. I -- I just can't stop. I did want to introduce two (2) research assistants who stood out in the cold this winter, out -- in minus 30 degree temperature, I'm told, outside Payday Lenders, and those are Evan Sinclair and Sandra Weibe, and they're in the first row there.

So I just wanted to acknowledge and -- and thank them for their -- their hard work.

DR. JERRY BUCKLAND: Good morning, Madam Chair and Board members. I'm very pleased to be here to share results from some of the work that I've been involved in. And so I will first of all talk about the research method -- methods that we've used as a -- as a team to pull together the research results.

And then I'm going to go on and talk about the literature review. And I want to particularly highlight what the literature is saying in terms of how consumers have been affected by payday loans and specifically look at the repeat loan issue.

So by way of beginning, in terms of this -- this team before you, we come from a variety of disciplinary backgrounds including finance, economics, sociology, and economics. And we bring to our research study both a theoretical interdisciplinary ss well as a methodological interdisciplinary.

And I'm going to focus more -- my comments on the methodological diversity that we've brought to this subject. It's not to say that we don't also bring a theoretical diversity, but I want to focus on the methodological diversity.

And so what we have here is a team that brings expertise in econometrics that enables us to look at national survey data. We have expertise in sociology and qualitative research methods, which enables us to do qualitative research and dig very deeply into what consumers of payday loans are -- are thinking.

And we have finance expertise, which has enabled us to look very deeply and clearly at the finances of the payday loan industry in -- in Canada. So we have brought the combination of quantitative methods and qualitative methods to understand as best we can the payday loan industry. And I guess I would say that I feel that this is one (1) of the strongest methodologies in terms of understanding a social problem or -- or a social program, a situation.

Oftentimes, national-level data is unavailable to look deeply at certain issues. And so we're limited to what's available nationally. However, we can efficiently and I think effective -- effectively use qualitative methods to reinforce the results from quantitative data analysis.

So I think the qualitative methods and the quantitative methods can really reinforce one another. And what we've used in this project is the concept of triangulation.

And it's a -- it's a basic idea that is embedded in mixed-methodology research, and that is it's often difficult to get sample sizes and randomized trials. Therefore, another way to enhance the validity of our results, often it's randomization and large sample sizes that can provide validity of results.

Rather than doing that because of the limitations of data, we used mixed methods and we triangulate. And what we look for is whether the results from our different methods are consistent. And when the results from different methods are consistent, then that lends to the validity of the results.

And I think that what you'll see in our presentation is that the results that we've got from our different methods do support one another and therefore provide a valid and reliable understanding of the payday loan industry and of payday loan consumers.

So that's basically a background statement about the research team.

What I'd like to do now is to move into my discussion of the literature review that I did in October through November primarily, but did some additional work in early 2016, looking at the academic and some policy research relating to payday lending.

And so I just mention here how I did this. I've used academic databases. I particularly draw on Econlit which I think is a very high-quality database that covers both economic and interdisciplinary journals using terms like "payday loan," "payday lender," and a variety of others.

I focused the research on literature since 2010. One (1) of the differences I've noticed in the literature -- in this literature review is that I see a maturing of the literature in relationship to payday lending. And there's two (2) monographs I wanted to point to: Carl Packman's Payday Lending, and Mehrsa Baradaran's How the Other Half Banks.

There's a -- a maturing of the literature on payday lending in the sense that now there's actually full books that are looking at payday lending. In previous iterations of my literature reviews on payday lendings, I didn't find that level of sophistication in the academic literature.

So clearly, the -- the literature is emerging to be more sophisticated, and I think that's reflecting the consolidation, the maturing of the payday loan industry with its chronic -- the chronic challenges that it faces.

Another point that I wanted to note was that I find that, in the literature today, there's less focus on an issue that was very -- very much topical in the early days of the literature, and that's the spatial analysis. Like where do payday lenders locate?

And so the literature I think has more or less come to a -- sort of a conclusion about where the location of payday lenders is. And so we don't see quite as much investigation on that front, although there are still some studies. But that's one (1) of the other changes I noticed in the literature.

So I wanted to then talk about sort of four (4) key pieces that seem to be highlighted in the literature. Now, some of this will be referred to by others on the team, for instance, industry profitability and growth and corporatization and online lending, Dr. Robinson will be referring to. Consumer experiences with payday loans will be discussed both by Dr. Simpson and Ms. St. Aubin. And -- and then the impact of regulation on payday lending.

But those are kind of the four (4) key pieces I wanted to talk about. I want to focus especially, as I mentioned before, on consumer experiences with payday loans.

Just to back up for a moment, I think that for me, a really helpful way to try to understand an underlying socioeconomic process that I -- I think helps explain the -- the rise and the consolidation of payday lending, as well as other kinds of financial products, is this idea of financialization. Some call it financial innovation.

And I think financialization is a powerful process that's happening in both rich countries, the global north, and poor countries, the global south, and it's manifested in things like payday lending in rich countries and mobile banking in poor countries. And what it has to do with, I think, is this powerful phenomenon of both the expansion of financial products.

And when I'm talking with my classes, I ask them, you know, How many financial products do you have? And a homework assignment, go and ask your parents how many financial products they had when they were your age. And we often have a really interesting conversation of -- of that comparison, because it's -- it's notable the number of financial products in people's lives have really increased.

So we see that in our lives. And there's evidence of financialization in terms of that facet of it. The other facet, a -- a common definition of 'financialization' is how financial motives increasingly drive consumers, and this idea of money becoming more of a driving force in -- in our decision making.

Now, I'm not saying this is good or bad. I'm just -- I'm suggesting that this is an underlying social phenomenon that I think helps to explain the rise in consolidation of payday lending.

Payday lending is a mature industry, and one that faces chronic challenges associated with critics' claims that the product harms its customers through location strategies, high fees, repeat loans, and now new problems associated with internet payday loans.

So in terms of industry dynamics, and I know that Dr. Robinson will be talking about this further, I see evidence that the size of the older markets, like Canada and the US, that those are plateauing, and that there are new areas where payday lending is growing in -- in Britain and Eastern Europe, Australia, New Zealand.

And I happened to be in South Africa last October watching the world rugby games, and there was an advertisement for a payday lender, so that's why I put South Africa there. So clearly, there's an expanding geographic scope of payday lending.

In addition, we see a corporatisation of payday lending where, in the early days, I think a larger share of the market was held by small one (1) off outlets, and now the rise of the corporation in terms of the control of most of the market where the corporation is also -- is taking advantage of economies of scale, so they're able to operate across many outlets.

And they're taking advantage of economies of scope where they're offering additional products that their staff are in -- able to provide without raising the -- their costs.

So that's the next point, that increasingly, payday lenders offer a variety of services. I note that one (1) major payday lender is now getting involved in pawn lending, for instance, income tax preparation services, a variety of additional types of services.

I mean, in some ways, I know that payday lending is still their main revenue source, in many cases. But the fact that they do so many other services suggests to me that payday lender, maybe it's not a complete enough name. And then, of course, we're -- we're all aware from presentations yesterday of the growth of the internet payday loan sector.

So one (1) estimate of the US industry is that it's worth the market value, a hundred billion. This is from Baradaran's study. Now, I wanted to note that I've added to my slide that the estimate Baradaran gives for the annual volume of lending is $40 billion. So I just added that to my slide recently. You won't see it in the printout. And the outlet numbers have risen from ten thousand (10,000) nine (9) -- in 1999 in the US to twenty thousand (20,000) by 2005.

And also in Canada, the indu -- the number of outlets is estimated between twelve hundred (1,200) and fifteen hundred (1,500). And I also wanted to mention, I've changed my slide in comparison to what you've got in the printout, that it's the value of annual lending is estimated at 2.5 billion per year, not the market value, but the value of the annual lending.

Okay. So I think kind of a core part of what I wanted to talk about this morning is the -- the question of: Do payday loans benefit consumers? And I want to start off with reference to a -- a study by John Caskey, and I apologize. There's an error there. His study was not in 2101. His study was in 2010. I apologize for that. And it was republished in 2012.

John Caskey is a noted expert in the --

in the US in the area of fringe banking and payday lending. He wrote the kind of early book on -- pioneering book in the US on fringe banking. And as I mentioned, a noted expert. What he did in 2010 was he reviewed the literature on randomized control trials, or quasi experiments, that seek to assess the impact of payday lending on consumers.

And he -- this is a long and very important study that he did, but he came to the conclusion that looking across these randomized control trials and quasi experiments, it is difficult to come to a conclusion as to whether or not payday loan clients are benefited, or whether or not they're harmed by payday loans on average.

So I think this is an important starting point, and I would just like to now make the point before I go onto Melzer's study, that the argument that payday loans benefit some consumers, I -- I see no evidence that would refute that. I -- I have not seen evidence in the literature that I've studied that payday lending does not benefit any consumers. I -- I don't see that.

And so I think John Caskey's point is a good one. It's -- you know, looking across all these studies. However, and -- and the -- the point that

Melzer raises is that there are -- there is evidence, and I think good evidence, that some consumers are not benefited from payday lending, and it's specifically consumers who are vulnerable.

What I'm -- what do I mean by 'vulnerability'? Well, it would be someone who's probably lower income, lower asset level, someone who may have limited access to mainstream banking, and someone who gets into a repeat borrowing cycle. And I guess -- well, Melzer is -- I'll read his quote:

> "There is evidence that the expansion of payday credit aggravates financial difficulties at least for a subset of borrowers."

So whereas Caskey is looking at the population of payday loan borrowers overall, Melzer is saying: Let's look at a subset of the borrowers. So if we can't make a general conclusion about all payday lender -- payday loan clients, what can we say about a subset? And he's saying that for that subset, there is evidence that they are harmed.

I would also want to highlight work by PEW Charitable Trusts, which I believe is a responsible and reputable organization in the United States that undertook a major study back in 2013, which I think we'll be talking about more. And their -- their research was done since John Caskey's review, and it involves surveys, focus -- and focus groups of payday loan clients.

One key result that they came to is that payday loan clients themselves, in quote:

> "...experience complicated and conflicted feelings."

This is because the borrowers have, in quote:

> "...appreciation for friendly service, dismay with the high cost, and frustration with the lengthy -- with lengthy indebtedness."

End of quote. So now I'd like to look at the -- the issue of repeat borrowing in -- in more detail. So the repeat borrowing issue has -- I would say is part of the chronic challenge that the payday loan industry has -- has struggled with. And in the early days, the issue was related to the issue of rollovers. Rollovers were this special thing that regulators quickly addressed and disallowed by requiring cooling off periods and -- and disallowing rollovers.

So a rollover was when you weren't able

to pay your loan when the deadline came, and there -- and you were able to "roll it over", and what would happen is they would add on additional fees. In some cases, it would be very large fees that would raise the APR dramatically.

So that was stopped early on. However, the literature still finds that the issue of repeat borrowing is -- is a problem. So another quote I'd like to read by Lawrence and Elliehausen. Lawrence and Elliehausen have been following the payday loan industry for a long time. And so, quote, they say:

> "Reliance on payday loans for an extended period of time seems contrary to the short-term financing intention of the product and may exacerbate rather than relieve financial problems some -- some consumers face."

So I think this really bring -- brings to the core a -- a key issue in my mind, and that is for the repeat borrower, is the payday loan product really the one that best aligns with your financial needs, or is there another kind of product, or another kind of activity that would be more suitable?

Baradaran, in -- in her recent book,

argues that:

"Payday lenders do not underrate
their loans, and that this -- and
that this is an inherent weakness of
the payday loan model."

So Baradaran argues that one (1) of the reasons why people get into a repeat loan cycle is because payday lenders, unlike other lenders, do not critically assess the borrower in the sense of, Are they able to repay the loan? They're not looking at that ahead of time. They're -- they're simply asking for certain requirements, a bank statement, employment cheque, and ID.

They're not looking at the ability of the borrower to repay the loan. So she's arguing that this is an inherent weakness in the payday loan model and one (1) of the reasons why there is a group of repeat borrowers, some of whom are quite vulnerable.

She argues that:

"Payday lenders do not check the
creditworthiness of borrowers, do
not test the difference between
insolvent and illiquid people, so
that it is not a good credit model."

So the --

MR. REGIS GOSSELIN: I -- I just have a question on the first bullet there. "Do not underwrite their loans." Could you -- okay. I'm sorry about that. So the -- the first bullet there, "They do not underwrite their loans."

Could you explain that, please?

DR. JERRY BUCKLAND: Yes. So for most lenders, they will assess the creditworthiness of their borrower and whether or not the borrower will be able to repay, and only provide the loan when the borrower is -- provides evidence that they can repay.

With the case of payday lenders, they don't assess the creditworthiness of the borrower. The borrower comes with a bank statement, an employment cheque, and ID. That's -- that's all that's required, generally speaking, to get a payday loan.

MR. REGIS GOSSELIN: But usually when we talk about underwriting a loan, it means that you're bearing the -- you're bearing -- you're providing funding to go with the loan. This seems to suggest that the funding is coming from somewhere else.

Is that -- am I misreading the...

DR. JERRY BUCKLAND: Can I ask Dr.

Robinson to reply?

DR. CHRIS ROBINSON: We're simply talking a matter of language here. The common use that you're referring to of underwriting, you're thinking of this outside provider. But the technical term in finance actually just means assess the value of something that's being offered or the value of the credit.

The same thing, for example, in insurance, that's all. It's just definitional.

MR. REGIS GOSSELIN: Although, there is evidence, as I recall, in the material that -- that they are just a storefront, that somebody else is providing the funding to go for the loan. They're just -- they're just collecting a fee.

DR. CHRIS ROBINSON: May I answer that? As it happens, in Manitoba, as far as I'm aware, as far as anybody is aware, that model, the broker model that was Cash Store Financial is not operating in Manitoba. I'm not aware of it actually operating anywhere in Canada.

Ontario, for example, banned it explicitly in its laws as a -- because of Cash Store. There may be somebody somewhere who's doing that, but I'm not aware of anybody.

DR. JERRY BUCKLAND: Thank you very much. So what Baradaran argues is that payday lenders do not -- or are generally speaking, not able to distinguish between the insolvent borrower and the illiquid borrower.

And so the insolvent borrower is -- is one who will have difficulty repaying and therefore might get into a repeat loan cycle because they can't repay the first loan. The illiquid borrower is the one that -- that will be able to repay, simply facing a liquidity problem in the short term.

Some borrowers who will be unable to pay off the loan unrealistically think that they can pay off the loan, principal and interest, in two (2) weeks.

And this has been identified as a problem by the PEW Charitable Trust's research, and that without the idea of caveat emptor, buyer beware, that oftentimes, consumers will rely on payday lender's information, and they will not have sufficient information themselves to understand the consequences of taking out that loan and how they will repay it at the repayment deadline.

So PEW, in one (1) of their studies, found that 54 percent of borrowers relied "completely" on payday lenders for information about the payday loan.

Some borrowers find the ease with which they can access payday loans as part of the problem, as it creates a temptation they cannot resist.

So just some data in terms of the repeat loan issue. And -- and again, I think Dr. Robinson will be referring to -- to this issue as well. So for instance, the US literature has identified repeat borrowing as a common situation.

The -- the US Consumer Financial Protection Bureau found that:

> "The median borrower in the CFPB sample took out ten (10) payday loans from a single lender during the year, paying four hundred and fifty-eight dollars ($458) in fees alone for a three hundred and fifty dollar ($350) -- three hundred and fifty dollars ($350) in no -- non-churn principal."

So that amounts to quite a substantial fee, which would be another important critique of the payday loan model for the vulnerable repeat borrower.

Another source of data from state

regulator databases finds that borrowers take out nine (9), on average, three hundred and forty-six dollar ($346) loans per year involving five hundred and four dollars ($504) in fees.

The PEW Charitable Trust research finds borrowers take out eight (8) eighteen (18) day, on average, three hundred and seventy-five dollar ($375) loans in one (1) year and owe five hundred and twenty dollars ($520) in fees.

And then a study from the Center for Financial Services Innovation found that borrowers take out eleven (11) loans in one (1) year. And Advance America, the US's largest payday lender, reports its clients, on average, take out eight (8) loans per year.

So in the US, there is considerable evidence that repeat borrowing is quite common.

Back to kind of the -- the concept of payday loans and repeat borrowing. A PEW Charitable Trust research project investigated consumer motivation behind borrowing many loans in a short period of time.

And they point out the following factors, and -- and that is that consumers needing cash to meet an urgent expense, 37 percent of borrowers said that they would accept a loan on any terms offered.

So in some cases, there is a desperate need for -- for a loan. However, the loan does not seem to resolve the -- the core issue that they're facing.

In Canada, the data are more limited. And I think you'll hear from us as a team that this is one (1) of the things that we would really strongly recommend, that there needs to be better data on payday lending and repeat borrowing for Canada.

In terms -- and Dr. Simpson will be talking about very recent research that he and Dr. -- Khan Islam have done.

But in terms of the lit review, there was a Financial Consumer Agency of Canada-sponsored survey that was undertaken by Ipsos-Reid that found that 52.4 percent of respondents who took payday loans reported taking out a payday loan at least twelve (12) times per year, that they had a household income of less than thirty thousand dollars ($30,000).

So of the group that reported taking out twelve (12) payday loans per year, 52.4 percent had incomes less than thirty thousand (30,000). So this study found evidence that it was a more vulnerable group is income is an indicator of vulnerability who were relying on multiple loans.

Dr. Simpson and a former PhD student in 2013, using the 2009 Canadian financial capability survey, found more evidence that repeat borrowing is more common among poor and modest income and asset holding Canadians as compared to the non-poor.

And recently there is data from two (2) Provincial regulators, Consumer Protection BC. They provided data that finds that the average annual number of loans per borrower in the Province has moved from five point nine (5.9) in 2012 to five point four (5.4) in 2013 to four point three (4.3) in 2014, so it's -- it's actually gone down slightly.

The number of individuals with more than fifteen (15) loans in one year increased by 34 percent to nine thousand (9,000) people. So in terms of fifteen (15) loans or more, that's -- there's been an increase in people doing that.

Nova Scotia's regulator noted that for 2013 and 2014 52 percent of all payday loans were repeat loans of some type, and those 30 percent received eight (8) or more loans. And I quote:

"It is estimated that these borrowers which total about five

thousand (5,000) individuals
received an average of thirteen (13)
loans each in addition to the
initial loans."

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Dr. Buckland, could I just stop you there for a moment? Is this type of information about repeat loans available from -- in Manitoba?

DR. JERRY BUCKLAND: As far as I know, it's not available. We did ask the Consumers Bureau. And they -- they were not able to provide us this data.

MR. BYRON WILLIAMS: Thank you.

DR. JERRY BUCKLAND: Thank you. So moving on from the question of: Do payday loans benefit consumers in terms of the repeat loan issue? I wanted to make a couple of comments about privacy issues and internet lending. So I think there was some reference yesterday to the issue of privacy and an -- anonymity. And -- and I think it's a really -- it's a -- it's a fairly complex and important issue.

And in my own research, I do know that fringe bank clients -- by, "fringe bank," I mean the kind of broad category of financial service providers which include payday lenders, rent to owns, cheque cashers, pawn shops, that there's evidence some of those clients prefer anonymity as compared to mainstream bank clients.

So, in some cases, operating through a fringe bank, there is a benefit for them because they prefer anonymity. Now, that's not always the case. Some fringe bank clients are interested in -- in a person relationship with their banker and anonymity isn't as big an issue, but it's kind of a complex point. But privacy, of course, is an issue for everyone.

We know that payday lenders require some personal ID. They require bank account statement, in some cases, references and, in some cases, request a social insurance number. So these are some of the privacy issues that we noted in -- from the literature.

And we also realize that internet lending presents another kind of layer of challenge here. And so --

MR. BYRON WILLIAMS: Doctor, sorry, just before we come on -- go on to this very important point, if we could just go back to -- to the point about requiring social insurance numbers. Apart, Dr. Buckland, from the literature review, what, if any, work did your research do in terms of inquiring of payday lenders in Manitoba, whether or not they were requesting social insurance numbers?

DR. JERRY BUCKLAND: Yes. Well, we -- we looked at that issue in a couple of different ways. So through the literature review, we -- also in our field research where we spoke with people through questionnaire and interview and focus group that question came up.

And, in addition, we had one (1) of our research assistants contact payday lenders operating in Manitoba and specifically asked them what kind of information, personal identification information is required.

MR. BYRON WILLIAMS: And that researcher, did they identify who they were performing the research for?

DR. JERRY BUCKLAND: Yes, they did.

MR. BYRON WILLIAMS: Okay.

DR. JERRY BUCKLAND: Okay, so just moving on then to the online payday lending issue which I know was raised yesterday. I wanted to start by reading a quote which I think is fairly important to -- to mention. This is a quote from a study that was completed just last year, and it is, quote:

"Online trends younger to people who are more comfortable with e-commerce as a safe platform. It also trends slightly higher in income, but many of our online customers are also in store customers."

End of quote. The report adds, quote:

"Ease and speed of service trumps price. That's a general rule in all e-commerce."

End of quote. So I think this is a really important point regarding interret -- Internet borro -- payday loan borrowing. I have not seen evidence of vulnerable people more likely to use Internet lending. It's not to say they don't. It's to say I have not seen evidence. The evidence that I have seen is that it tends to be younger, those who are more comfortable with e-commerce, and those with slightly higher incomes in terms of that income group that use payday lending.

So in terms of online payday lending, I guess we -- we see a series of challenges. Some are unique to online payday lending, some that are consistent within store payday lending. For instance, asymmetry of information. In some cases, depending on the information the consumer provides, the relationship between the lender and borrower could be quite asymmetrical. Now, I have to say that I'm talking hypothetically.

And this is one of the challenges with Internet payday lending. A lot of the research, including the study that I referred to by Denise Barrett Consulting, a lot of the studies on Internet lending, they don't actually take out a payday loan. So a lot of the reporting on Internet lending is based on reviewing websites, in some cases doing follow-up phone calls, but there's very limited data where people actually take out payday loan -- Internet payday loans in a research-method approach.

So that's one of the limitations certainly I have. My -- my point with asymmetric information is that there is a situation where if the consumer provides a lot of information, and there have been studies that in some cases require the borrower to provide Social Insurance number, bank account number, there is a possibility where the borr -- sorry, the payday lender has quite a bit more information about the borrower than the borrower has about the payday lender, especially if it's offshore, or...

So clearly asymmetry of information could be a poss -- a problem for the Internet borrower. The costs, of course, are different as compared to the store front. The literature points to probably lower operating costs but higher default rates.

The lead generator issue is, I think, an important one to think about in terms of Internet lending, and the lead generator is essentially a company that has a strong web present -- web presence that's able to attract customers to their website, and then collect information from that customer, and then direct that person to a payday lender.

So they're not actually a payday lender. They're collecting information but there is a cost to lead generation, and that could then affect the price the payday loan client pays.

We -- we heard about the unlicenced issue, and the study that I mentioned earlier, Denise Barrett, they find that the online unlicenced payday lenders typically don't follow regulations. And then there's evidence from one (1) US study that Internet payday lenders have some fairly troublesome practices in terms of repeat borrowing.

For instance, where the default for the borrow -- borrower is to sign up fo three (3) consecutive payday loans. And it's only if you carefully read the agreement and make an alternative choice other than the -- the default that you would have one (2) payday loan. So there's some concerns on -- on that side.

So then another area that I think is very interesting, I'm kind of shifting gears here now to the area of consumer behaviour. And so it's another very, I think, important area to understand payday loan consumer behaviour. And there have been a -- a number of studies that have looked at consumer behaviour and -- in relationship to -- to payday lending.

And one (1) of -- a -- a very recent book on what's called scarcity, and the book argues that people of all income and asset groups face scarcity at different times. This -- this particular book's at -- book looks at the scarcity that low-income people face.

And what they argue is that when people face scarcity -- and scarcity's broadly defined: Energy, time, concentration. When we face those kinds of scarcities, we -- the argument is, we tend to tunnel. They use the concept of tunnel.

And what they mean by tunnelling is that we narrow our focus on certain issues and we exclude looking at other issues. And this tunnelling enables us to make decisions, but sometimes those decisions can hurt us in the long-term.

And so this -- this analysis, then, has been applied to payday lending and the repeat vulnerable borrower will make a decision that will assist them in the short-term by providing them with cash for their daily need, their emerg -- emergency expense. However, it's got longer term consequences.

So they aren't able to repay the loan and they get into a -- a repeat borrowing cycle. So this is, I think, a really -- I -- I find it a helpful way to look at consumer behaviour. And I'm -- I'm of the view that we all, like, regardless of income asset position, we all face scarcities and we all face tunnelling. But I think this is particularly helpful to understand vulnerable consumers' use of payday loans when they're possibly finding themselves into a repeat borrowing cycle.

Literature on -- on the concept and measurement of financial literacy is also, I think, relevant to this study. And so there's -- there's a variety of studies that have looked at financial literacy, and specifically financial literacy of low-income people, financial literacy of people who use payday loans.

And what we see is that the literature finds a correlation between low income and low financial literacy, and the literature finds a correlation between low income and increased use of payday loans. Now, I think that this is a -- an important concept, but it's quite complicated, and there's many intricate pieces to this.

And so I have -- I've done research looking at financial literacy specifically of low-income Canadians, and I think that it's very important to note that there's -- the research finds that low-income Canadians have financial literacy for the -- their needs. They have the literacy that -- that enables them to achieve their goals.

Now, this is not necessarily what is sometimes termed advanced financial literacy, but many low-income Canadians don't need advanced financial literacy, because that has to do with asset protection, asset -- increasing your assets.

And so I -- I would like to say that

there -- there is important literature in this area, and that the literature does find that payday lend -- payday loan clients do sometimes struggle with financial literacy. And therefore, this feeds into this whole idea of behavioural studies, and the need may be for certain kinds of approaches to be developed to enable consumers to get maybe just-in-time information to make good decisions.

So a final kind of series of slides on regulatory changes and the impact of payday loans -- the impact of payday loan regulations on consumers. There was reference to this yesterday. The different regulatory regimes that you see in different countries, there was reference to the US yesterday.

I'm referring here to another study by PEW Charitable Trusts. They've looked at the impact of different regulatory regimes in the US, which they call permissive, hybrid, and restrictive.

Permissive regulations are -- they define as regulations that essentially allow the payday lender to operate largely based on their own business model. Rate caps are very high.

Hybrid models are where there are some limitations in terms of the business practices. For instance, rate caps might be set at something near an efficient lender model.

And then restrictive regulatory regimes are where essentially, payday lenders are disallowed from operating. Sometimes the cap's at 36 percent APR.

And so PEW has done a -- a very interesting study looking at the impact of different regimes on consumers. And I also wanted to mentioned that there is currently quite a bit of debate in the US about the payday loan regulations.

And the Consumer Financial Protection Bureau, which is the bureau that is responsible for overseeing financial service regulation in the US, they're -- they've got a proposal right now for some changes in terms of fed --federal regulation.

And that's going to be coming up very soon, like a -- a draft plan. And then of course, there's the Colorado model, which is quite an innovation in regulatory regimes in the US.

Then some points about what is the impact of different regulations in terms of the impact on consumers, so for instance, price cap regulations. What the PEW Trust research found was that when the caps were put in place, payday lenders typically moved to that cap. Whether they were below it or above it, they -- they moved to that cap.

In terms of limits on amount borrowed, whether it's to do with the percentage of income or different kind of limits, the evidence that I've seen is that these limitations are not particularly binding, because people have a way of -- of getting around those limitations, going to another borrower, et cetera.

In terms of rate caps in payday loan use, there's limited evidence that restrictive caps do not lead consumers to reliance on the underground money lending. So I -- I've not seen strong evidence that, in the face of restrictive rate caps, people are largely moving into an underground money-lending market.

And this is, I thought, a worthwhile slide that I wanted to show from the PEW Charitable Trust's 2014 study that looks at these three (3) different regulatory regimes: permissive, hybrid, and restrictive.

And if you look at the final column, the borrow from online or other, you see that the -- the national rate is 1.48 percent, and then the rate for permissive states is one point three-seven (1.37) as compared to the rate for hybrid, one point two-eight (1.28) and restrictive, one point five-eight (1.58).

So the difference between the permissive and restrictive states is very limited, meaning that where the caps are restrictive, people in -- in this study are not moving en masse to internet lending.

MR. BYRON WILLIAMS: Dr. Buckland, just so I could make sure I understand this -- this table, first of all, this was from PEW from 2014?

DR. JERRY BUCKLAND: Yes, that's correct.

MR. BYRON WILLIAMS: And it's from adults reporting payday loan usage?

DR. JERRY BUCKLAND: Yes.

MR. BYRON WILLIAMS: And if we look at a hybrid -- hybrid state, what that's -- what that's showing us is, in the PEW results, in terms of the percentage reporting they were borrowing from online or other sources, it was 1.2.8 (sic) percent.

Is that right?

DR. JERRY BUCKLAND: Correct.

MR. BYRON WILLIAMS: And in terms of the definition of "permissive," "hybrid," or "restrictive" as developed by PEW, what would best apply to Manitoba?

DR. JERRY BUCKLAND: I -- I think Manitoba would be considered a hybrid --

MR. BYRON WILLIAMS: Okay.

DR. JERRY BUCKLAND: -- state.

MR. BYRON WILLIAMS: And just moving up one (1) line to the 2014 PEW research, for permissive states, the borrowing from online or other was 1.37 percent report -- adults reporting?

DR. JERRY BUCKLAND: Correct.

THE PANEL CHAIRPERSON: Okay. Thank you.

MR. REGIS GOSSELIN: I'm trying to relate what you're saying here to what we heard yesterday from the Policis group, the representative from Policis group.

Could you -- could you draw for me your -- your observations regarding what they provided as information regarding the impact of permissiveness otherwise to online lending and what you're -- what you're showing us here?

MR. BYRON WILLIAMS: And -- and, Mr. Chair, we're happy to let Dr. Buckland and the other witnesses respond. I will note just two (2) things. Policis was a presenter, so we -- again, we didn't have a chance to -- to test their information. And there was also an important federal regulatory decision about the data relied upon by Policis through clarity that at some point in time we're certainly happy to share with -- with this Board.

MR. REGIS GOSSELIN: Yeah, no, I -- I understand that you may want to consult the group and come with -- but I -- what I --

MR. BYRON WILLIAMS: And it's -- it's certainly fine. I ju -- I just want to -- the -- we -- we would -- happy to respond orally, all of them, right now. I just wa -- we'd like an opportunity to provide an undertaking. And we would like to -- the opportunity to share an important regulatory finding from November and December of 24 -- 2015 in terms of clarity, which was the primary source relied upon by Policis.

MR. REGIS GOSSELIN: No, I -- I would much prefer having a more reasoned response to this. But, you know, frankly, the concern I have is the results I saw yesterday are anchored up here. And I would like to get, you know, a more -- a more complete discuss around that, what we're -- the -- the difference between those results we saw yesterday and what we're seeing here.

MR. BYRON WILLIAMS: And we're happy to do that. And -- and if I could -- and this is -- we're always at the direction of the panel. I'd invite Dr. Simpson, Dr. Buckland and Dr. Robinson to -- to provide their comments. I can provide, if the Board would like, the decision from the Consumer Financial Protection Bureau at the break or when the Board considers it appropriate.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: If you could -- sorry, if you could answer Mr. Gosselin's question at this point, we'd appreciate that.

DR. JERRY BUCKLAND: Oh, sure. Well, I -- like, in terms of the methodology used for this study, I -- I feel -- I feel very confident in it. And, like, basically what they did in this study was they piggybacked onto a very large survey, national sample survey, questions on payday lending.

And then where respondents indicated that they had taken out payday loans they did a followup survey. And, in addition, they did some focus group conversations, as well.

And as a result, I believe that -- that

these data are -- are strong. And I would say that they're consistent with the lack of data that demonstrate a massive increase in using internet lending or a large increase in using illegal money market sources.

I mean, that -- those are the two (2) common arguments, that too restrictive regulations will lead people either to the internet or to the illegal money market. And until now, I have not seen strong evidence. Instead, I find that this is a very convincing survey that finds that in restrictive states, there hasn't been a major move towards interlet -- internet lending.

In Canada, we have a situation -- a similar situation in the sense that Quebec has res -- restrictive regulations. They have a 35 percent usury ceiling which disallows payday lenders from operating. And I have not seen strong evidence that there's a huge move to internet lending or illegal money market use in Quebec.

And so that's -- that's my view. Did you want the other panel's views?

MR. REGIS GOSSELIN: You know, any observations you might -- you might provide would -- would explain the data we're seeing relative to the data we see -- we saw yesterday I think would be -- would be important, but, you know, we can wait until you have a more measured response to -- to the issues.

I guess you will acknowledge thought that the online lending is in its infancy relative to payday loans. And so the data we're seeing to-date may not reflect what ultimately will become a mature market which would provide different data, I -- I suspect, than what we're seeing up-to-date -- up to now rather.

DR. JERRY BUCKLAND: I -- I think that -- I think that you're right that Internet payday lending is relatively new. I'm not convinced that it's going to be -- it's going to grow immensely.

I'm -- I'm especially doubtful about the -- the vulnerable repeat borrower making a transition to the Internet because of the connections with certain demographics that typically aren't connected to the Internet, so lower income, lower education, less likely I think to -- to make that shift.

MR. BYRON WILLIAMS: Mr. Chair, if I -- if I could suggest, It -- we're -- we always try to be responsive. It might be helpful because we were taking a bit by surprise yesterday, we've done a fair bit of research late at night and early in the morning. We are consulting with reliable American sources.

And then we do have, as I said, an important decision of the consent order by the Consumer Financial Protection Bureau that we wish to share. And I think for efficiency purposes, we could try and put it together in a -- in a package and then be open to -- to any questions, if -- if that is of assistance to the Board.

THE PANEL CHAIRPERSON: Okay, thank you, Mr. Williams. We'll follow that method.

MS. SUSAN PROVEN: I -- one (1) more -- get this going, and that is as a sociologist we have two (2) really restrictive Provinces in Canada, Newfoundland and Quebec. And I wonder if your team ever looks at, aside from the alternatives, the fact that these -- these two (2) Provinces are kind of special in that they're so culturally different from the rest of Canada.

Like are there some cultural or some community sociological reasons why they might not go there to payday lenders, or to the Internet? Are there some community influences in these Provinces that might keep them from going out there for the loans?

DR. JERRY BUCKLAND: Well, I -- that's an excellent question, and I don't know. I don't have the evidence. I think it's a -- it would be a fascinating study. If I could point to the Pew researchers again because what they did was they also looked at across these regulatory regimes, What do people do where they don't have access to payday loans?

And what they found was that people would typically spend less. They would borrow from family or friends. They would go to a pawn broker. And so there were other ways that they were able to meet their financial need.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Dr. Buckland, just before you go on from this slide, would it be fair to say you're not trying to disregard issues relating to on -- online lending? You're trying to provide a nuanced approach to them?

DR. JERRY BUCKLAND: Absolutely. And I -- I think we need more data in regard to Internet lending. So just a final few slides that I have, kind of summing up what -- what I found.

And that is that the literature on payday lending find that it is a mature industry, and it faces chronic challenges. Repeat borrowing continues to be a major concern, and this problem is well documented in the US. Repeat borrowing points to the need for additional regulation of the sector to protect the repeat borrower. Data on the issue in Canada are sufficient to demonstrate that action is needed, in my view.

While there are limited data about online lending, what data are available does point to a higher risk for consumers. However, and again in my view, this should not be used as a rationale for not regu -- regulating physical payday lending, and I think part of the -- my argument there is that the more vulnerable repeat borrower is more likely to go to the physical branch. And, you know, as best we can, I think both sectors need to be regulated.

In Canada we need more data to determine the extent of the problem. There's a clear need for government to collect these data so that careful analysis can be done. Federal agencies such as the FCAC, Financial Consumer Agency of Canada, or the Consumer Measures Committee, an industry Canada-based committee, are obvious choices to make -- to take on this task. And I believe that the Manitoba Consumer's Bureau has membership on the CMC.

The state-based and varied regulation of payday lending industry in the US has led to a number of interesting studies. While impact assessments cannot definitively determine whether or not payday loan -- loans benefit consumers, it is clear that some consumers repl -- relying on repetitive borrowing, accessing their loans online, tunnelling as a result of personal or professional pressures may be harmed by payday loans.

The situation calls for continued regulation of payday lenders. It also suggests that governments should more carefully examine other fringe financial institutions such as rent to owns. Moreover, efforts to fill the banking service gap that payday lenders are filling must be addressed by mainstream banks through, for instance, the access to basic banking regulations.

And finally, consumer education that draws on insights behav -- from behavioural economics is clearly in order. So thank you very much.

MR. BYRON WILLIAMS: Madam Chair, the

next two (2) speakers are Dr. Simpson and Ms. St. Aubin. I suspect they probably would take collectively about an hour, maybe a bit less, maybe a bit more. But it's just -- I think they fit nicely together, so I'm just seeking your guidance in terms of what would be an appropriate time for a break.

We could do Dr. Simpson right now if you like, or we could do a break and then have them back to back. It's -- it's totally up to you.

THE PANEL CHAIRPERSON: I think it would be good to take a break now for fifteen (15) minutes and then we'd have the two (2) of them present together for the hour and that would probably take us close to lunchtime.

Thank you very much. So we'll take a fifteen (15) minute break and return at ten (10) to -- a little after ten (10) to 11:00. Thank you.

--- Upon recessing at 10:35 a.m.

--- Upon resuming at 10:57 a.m.

THE PANEL CHAIRPERSON: Okay. I think we're ready to begin again.

MR. BYRON WILLIAMS: Thank you, and -- and --

THE PANEL CHAIRPERSON: Mr. Williams, thank you. No, go ahead.

MR. BYRON WILLIAMS: Sorry, Madam Chair. I should -- I should note that Ms. Desorcy has joined us. I think she -- she had a lot of fun on hydro issues yesterday, so today is a payday lending issue.

And the court reporter kindly reminded me that my undertaking was absolutely lacking in precision so I will try and state it as -- as I understand Chairperson Gosselin's question to the Coalition panel of witnesses. It was to reconcile the apparent differences between the data reported by PEW at slide 32 of Dr. Buckland's report in terms of usage of online lenders with the narrative presented by the presenter Policis yesterday.

Is -- that's my understanding of the undertaking? If -- if that would -- and I -- thank you.

--- UNDERTAKING NO. 1: The Coalition to reconcile the apparent differences between the data reported by PEW at slide 32 of Dr. Buckland's report in terms

of usage of online lenders
with the narrative
presented by the presenter
Policis on April 12

THE PANEL CHAIRPERSON: Okay. Thank you, Mr. Williams and I think now we can continue with the testimony.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, thank you. And, Dr. Simpson, when you're ready to proceed.

DR. WAYNE SIMPSON: You have the wrong one up. There we are.

MR. BYRON WILLIAMS: Do -- do you not feel confident to present Ms. St. Aubin's results, Dr. Simpson?

DR. WAYNE SIMPSON: I think I -- I feel more comfortable with mine, but subject to check.

MR. REGIS GOSSELIN: Mr. Williams, I wonder if I could just interrupt you for a second. I hope that you're not restricting -- unduly restricting your response to the Policis results.

In other words, I want to make sure that we -- we cover the waterfront in terms of what --

what was in that presentation and some of the conclusions that were drawn so that we're getting a balanced -- a -- a balance of viewpoints about that --

MR. BYRON WILLIAMS: So I'll restate. I think we'll keep that first part of the undertaking, because I think that accurately reflects the first question that you posed.

If so -- and if I could, we'll put Part B to the undertaking, which is to provide a prelim -- preliminary critical analysis of the presentation of data, the conclusions drawn from that data, and the reliability of the sources presented in that data.

Would that be satisfactory?

MR. REGIS GOSSELIN: I think that would be -- that would be quite useful, I think.

MR. BYRON WILLIAMS: That may affect our budget for this hearing slightly, but...

THE PANEL CHAIRPERSON: Okay. Thank you very much, Mr. Simpson. Please continue.

DR. WAYNE SIMPSON: Okay. Can you hear me? Fine. So I guess in terms of Dr. Buckland's mixed methodology, this is the quantitative methods, phase 1. I think there -- there are other phases from Dr. Robinson to follow.

And this is using the existing survey

evidence from Statistics Canada to look at payday lending. And in this, I've had the assistance -- the good fortune to have a PhD candidate that I'm supervising, Khan Islam, who's doing primarily work on microcredit in developing countries, but has also done some work on relating that to payday lending in developed countries.

And he's quite familiar with the data and has done the analysis under my supervision -- direction. So I'd like to thank him for his -- his efforts.

So essentially, this is looking at the two (2) surveys that have been looked at at other reviews of payday lending. In 2007, I did a -- an analysis of the survey of financial security, and in 2013, another PhD student, Dana Bazarkulova, who has completed her PhD and left the university.

And I did a -- a study on the Canadian financial capabilities survey. And in this one, we look at the new versions of both those surveys. And they're related, but slightly different surveys.

They both take the labour force survey as their -- their frame and draw individuals in order to assess in the first case the Canadian survey of financial capabilities, the knowledge of financial matters and instruments, and ability to apply this knowledge in decision making.

And in the survey of financial security, looking at assets, debts, employment income, and education to understand how families deal with economic pressures.

And so they're related surveys. They ask different questions, but there's a considerable amount of overlap, as I'll show. And this gives us a chance to both update these surveys and see what -- if there are some trends, and see if there's any new developments in -- in those areas.

And in some sense, they're along the lines of the PEW Trust study in the US, which piggybacks on these kinds of omnibus surveys done by the federal government. But they don't probe into payday lending in the fashion that it does, and that would be a nice addition to the -- to these kinds of analyses.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Dr. Simpson, just before you leave that point, I wonder if you could elaborate just a bit more in terms of the type of probing that might provide additional helpful data for those seeking to understand the -- the phenomena.

DR. WAYNE SIMPSON: Well, those who are identified as payday lenders in the Statistics Canada surveys and in the omnibus US survey that PEW Trust uses are -- there are a series of -- a very short series of questions asked in these, as you'll see, in these surveys.

In the PEW Trust survey, they followed this up -- now, the omnibus survey didn't, but PEW trust did -- and asked a series of more probing questions about the nature of the lending, whether they borrowed from storefronts or online, more on the bas -- on the nature of the repeat lending and so on.

None of that information is available in detail from these surveys. There is a little bit of information on repeat lending in the Canadian financial capabilities survey, as I'll show, but it -- it is certainly more limited than -- than we would like, as you'll see.

MR. BYRON WILLIAMS: And just the last point. And I promise I won't interrupt very much more as we go along. But if I could just ask, in terms of the general reputation of the Statistics Canada, I wonder if you have any general comments about that?

DR. WAYNE SIMPSON: Well, the

advantage of using Statistics Canada's data is that it's -- I think it has an international -- a well-deserved international reputation for data collection, so its -- its methodology and experience I think is -- is unparalleled. It probably is as good a job as you can do with the proviso, of course, that neither of these surveys is specifically focussed on payday lending. It is one (1) of many questions they ask about people's ability to cope with pressures and their ability to deal with their -- with financial matters.

And so it is -- it -- there's useful information here. It's collected in, I think, the best methodology possible. There's a nice ability to compare what you see with payday lenders, with people who aren't payday lenders, and draw a contrast. But, as I said before, the -- the probing that somebody like Pew Trust has done in the US would obviously enhance what is available to us.

MR. BYRON WILLIAMS: Thank you. And please proceed.

DR. WAYNE SIMPSON: So the next slide. This is the payday loan question.

"In the CFCS, did the respondent or other household members take a

payday loan in the previous twelve
(12) months?"

So the reference here is to households. And we'll stick pretty much to household references because that's the basis on which things have been questioned. And -- and from the standpoint of in -- income inequality and other sorts of considerations about consumption and so on in economics, households are usually considered to be the best unit to consider.

There we find 4.2 percent reported that they were payday -- use -- payday borrowers using payday lending services. In the SFS, the 2012 survey, it asked, In the past three (3) years, has anyone in your family borrowed money through a payday loan? The difference between households and families at this level are probably irrelevant. There are some definitional differences, for example, that StatCan uses, but they're pretty comparable.

And they found that 2.8 percent of people were payday loan borrowers. The advantage of using the SFS is it identifies -- it's a big enough sample, and it identifies the provinces. So we're able to pick out a Manitoba sample, which, as you'll see, is quite modest, thirty-three (33) payday borrowers.

And we're careful about how we analyze that, so we do a little bit different things, limiting the number of statistics that we use. But I think we're able to draw some conclusions about Manitoba both in terms of its comparability to other jurisdictions in Canada, the rest of Canada we use as the comparator, and also its -- the differences that are -- are there.

The next slide, please. So we look at the standard issues of income and -- and assets in terms of what we might think of as vulnerable populations, and also wealth or debts, and access to credit. Then look at the characteristics of borrowers, education, age, family structure and ethnicity, to a limited extent, as it's available in the surveys.

This issue of compete borrowing has become fairly prominent, and so we look at that insomuch as the CFCS allows us to look at a little bit. Major source of income, where I think there are some interesting results and development. And then we look at some regression analysis, which allows us to look at the various factors and how they influence payday loan borrowing and the extent of borrowing, the frequency of borrowing using standard regression techniques appropriate to this kind of data.

The next slide, please. So in terms of income, the CFCS allows us to look at income nationally. It doesn't break it down by -- by province. And we don't think the regional breakdown is particularly useful. So this is just a national breakdown.

The blue is the non-borrower sample, and the red bars are the payday loans borrower sample, users of payday lending. In each case, it's a percentage of households on the vertical axis. And on the horizontal axis, we've broken up the households into what we would call the five quintiles. So there's 20 percent of households in each sample, but, of course, it differs depending upon whether you're a payday loan user or not.

And so what we find here is that if you look at the lowest income group, thirty-two thousand (32,000) and less, there isn't a great deal of difference between the -- the payday loan group and the non-loan group, and I think has been referenced many times. There are some requirements in payday lending that -- that suggest that the poorest households sometimes don't qualify.

But if you look at the next two (2) groups, the group from thirty-two (32) to fifty-four thousand (54,000) and from fifty-five (55) to eighty thousand (80,000), those are the groups where the payday lending sample is more prominently displayed. In other words, as I say in the headline, they form the lower -- lower income but not the poorest households.

And certainly there are some -- as there was references to this yesterday, references to clients being nurses, teachers, other professionals, skilled tradesmen, and so on, with relatively high household incomes. You can see that that's not entirely excluded on the right-hand side there. Some of the payday lending sample is from households with income -- with incomes over a hundred and twenty thousand dollars ($120,000). Next slide.

For the Survey of Financial Security, we simply looked at the means. Again we're thinking about the Manitoba sample which is quite small, so it was trying to limit the number of statistics. If you take a sample of thirty-three (33) and cut it five (5) ways into five (5) quintiles you've got pretty small sample sizes, and -- and pretty unreliable numbers. So we're not going to do that.

We're just going to look at means. And we're going to look at the 2005 and 2012 Survey of Financial Security, and then we're going to look at a comparison between the rest of Canada and Manitoba on the right-hand side.

So you can see that in all cases the mean income for the payday loan sample, which is now the blue sample --I'm sorry, the -- the two (2) studies switch colours. I -- I think Excel defaults in here. So the -- the blue bars are the payday loan's borrower's sample, and the red bars are the non-borrower's sample. And you can see that there are certainly income differences -- mean income differences between the two (2) groups. Slightly smaller in 2012 than in 2005.

When we look at Manitoba versus the rest of Canada, this is interesting because in fact the gap between the two (2) is smaller still. The gap between the users of payday loans and the non-users is only 12 percent in Manitoba, and it is 42 percent in the rest of Canada. And that is primarily due to the lower incomes of the non-borrower sample in -- low -- lower mean incomes in -- in Manitoba. Next slide, please.

MR. BYRON WILLIAMS: Dr. Simpson, can

you go back to that point for just a second? So -- and directing your attention to the last two (2) columns, and the last comment you meant -- said is the -- the mean sample for the non-borrower is -- the income is relatively lower in Manitoba.

Is that what you said, Dr. Simpson?

DR. WAYNE SIMPSON: Yes. I mean, mean incomes in Manitoba are lower than the rest of Canada. And so it's not surprising that the non-borrow -- borrower sample is -- has a lower mean income. It's maybe slightly more surprising that the borrower sample has a similar and slightly higher mean income than it does in the rest of Canada.

Again our ability to probe this is somewhat limited by essentially the size of the Manitoba sample because it is small. We thought it would be of interest, you know, to the panel but it has to be interpreted cautiously simply because it's not very big.

Should I go on from there? Okay. So let's look at financial assets. Here again there's quite a clear difference. If -- now the -- what we've done is break this up into the -- into six (6) financial asset categories; less than ten thousand (10,000), a series of categories from ten thousand

(10,000) up to a hundred thousand (100,000), then a category for a hundred thousand (100,000) and over.

The payday loan sample is -- is red again because this is the CFCS. The non-borrower sample is blue. And you can see that the payday loan sample is predominantly in the category with low financial assets, less than ten thousand (10,000). In fact, forty (40) -- almost 47 percent compared to 25 percent of the non-borrower sample.

And correspondingly there's lower percentages of the payday loan sample in the other asset categories from ten thousand (10,000) to a hundred thousand (100,000), and over a hundred thousand (100,000). Although interestingly there is, again, this significant sample of people who actually have a fairly substantial amount of assets and they're still payday loan borrowers.

And this refers to this comment that's been made a couple of times about a -- a subset of borrowers facing financial disadvantage. They are on the left-hand side, but not on the rig -- presumably not on the right-hand side. We don't know their stories, we just have a statistical picture, but certainly they have substantial financial assets.

Next slide. And then we look at the

structure of debt in the survey financial security and here there's a pretty consistent picture across. We look at the two (2) surveys in whole and then we look at the rest of Canada versus Manitoba for the -- using the survey financial security and there's a pretty consistent picture of the -- those who do not own a home in the payday loan sample being roughly 70 percent.

So most people in the payday loan sample do not own a home. Now, I emphasize this is the group that do not have a home or a mortgage, right. So the blue bars indicate that only about 30 percent, the remainder, have a home or a mortgage.

Whereas in the non-borrower sample that's much, much smaller. Only 30 percent roughly don't own a home. About 70 percent do. And that's pretty consistent across the country including Manitoba.

So this is a significant factor in -- in -- it seems in -- in payday lending. You can apply causation, but it's -- it's a factor. And then the use of credit cards again here in terms of access to credit. There certainly is a difference between the non-lender sample, which is again, the red, and the payday loan user sample, which is the blue.

Most of the non-borrower sample, around 90 percent have -- use -- have credit cards and the access to credit that that implies. And around 60 percent of the payday loan sample, slightly less in Manitoba, have credit card access.

Then we turn to demographic characteristics, looking first of all to education. I'm never quite sure how to interpret education results, because we know that there's a strong correlation between education and earnings and income.

And so certainly part of that is that if you have higher education you'll likely have higher income. And if you have higher income you'll like have the sorts of access to credit and build up assets and so on that make it less likely that you might use -- have need of payday loans.

So there's all of that conflated in here. There's also some con -- some thought that this has something to do with the way in which people approach their business affairs and so on. And I leave -- you know, I'd simply leave the numbers there that if we look here at this slide, we're just looking at the payday loans group. And we're looking at the 2009 and 2014 financial capability surveys.

You can see that the majority, around

50 percent of the -- those who use payday loans in both surveys have high school or less. A smaller group have some post-secondary and a very small group, around 15 percent, have a university degree.

That number, in terms of those who have high school or less, has fallen a bit, perhaps in line with the -- with growing graduation rates, but is still quite large. Then just looking at the next slide with the SFS at those who have a university degree, you can see that pretty consistently in terms of the two (2) surveys, 2005 and 2012, and the rest of Canada, which is simply a composite of the 2012 except Manitoba, about 29 percent of the non-borrower sample, the red bars, have university degrees. Only about 12 percent of the blue bar, the payday loans user sample.

And that is dramatically lower in the Manitoba sample with the caution that this is a -- a small sample, so its reliability is not high, but I think there's a striking difference there in -- in the Manitoba sample in terms of those with a university degree.

Other demographic characteristics, I'll simply list some of the other things that we -- that are in the papers -- reports. In terms of age, payday loan borrowers tend to be older in the sense that there aren't many in the eighteen (18) to twenty-four (24) category. And they tend to be, in terms of family structure, married, from larger families and responsibility for children.

And also from the SFS, they likely -- they're more likely to be lone parents, which is not identified in the Financial Capabilities Survey, and that's especially the case in Manitoba.

The payday loan borrowers are also more likely to be Aboriginal and immigrant, although the proportion of Aboriginal has declined from 2009 to 2014 across Canada in the Financial Capabilities Survey.

We're not able -- with a sample of thirty-three (33) payday loan borrowers, the fraction of that that would be Aboriginal or immigrant would be so small that I -- I really don't think those numbers can be presented.

Then there's been a fair amount of discussion and concern about repeat lending. So here's the numbers on the frequency of borrowing from the Financial Capabilities Survey. The Survey of Financial Security does not ask anything further than, Did you take out a payday loan in the last three (3) years?

The Financial Capabilities Survey says, Over the twelve (12) months, how many payday loans have you taken out? Now, it's a pretty crude cut because it's simply, Did you take out zero, one (1), two (2), or three (3) or more?

And so what we report here for the 2009 and 2014 surveys, of those who took out a payday loan, used payday loan services, what proportion took one (1) in twelve (12) months, two (2) in twelve (12) months, or three (3) or more in twelve (12) months?

And I think one (1) common feature here is that, if you look at the one (1) time figure, it's around 25 percent. About one quarter (1/4) of the households took a single payday loan during the period.

About -- the other 75 percent were repeat borrowers. Now, I'm not sure how -- there's not much probing here. There's simply a supplementary question: How many payday loans did you take? I'm not sure how people would interpret that.

I don't think there's been enough probing to really pull those numbers together, but it shows that about 75 percent of the borrowers are -- are repeat borrowers. That's the kind of estimates you get from the Financial Capabilities Survey.

Then there's a more complicated slide, but I think this one's quite interesting. This one is -- is two (2) -- two (2) graphs, because I want to compare this trend over time of the Financial Capabilities Survey.

So the top one is the 2009 survey results, and the bottom one is the 2014 survey results. So I'm going to go -- I'm going to take the elevator from the top one to the bottom one once or twice just to -- and look across.

The top one -- both graphs look at major sources of income. Now, the question that's asked is: List your major sources of income.

For most people, that's only one (1) source, depending upon your stage of life and your circumstances. For some, it's more than one (1). So there's -- it -- it adds to more than a hundred (100), but I think it's quite revealing.

So, for example, in the top graph, what -- what we're getting -- and it's -- we're doing this for the number of times they reported borrowing, right? So we're doing it for the people who reported once, people who reported two (2) borrowing in -- two (2) payday loans over the one (1) year period, and the ones who did three (3) or more loans.

So if you look at the upper left-hand bars, the blue bar says that of those who reported one (1) payday loan in the 2009 survey, 72.37 percent listed as their major source of income wages and salaries.

Of those who reported -- the red bar says of those who reported (2) loans in that twelve (12) month period in the CFCS, 59.46 percent reported wages and salaries as their major source of income.

Then of those who repeated -- reported three (3) or more times borrowing, 71.65 percent said that their major source of income was wages and salaries.

And then, if you look across that graph, there are the other sources of income that were reported for one (1) -- people borrowing once, twice, or three (3) or more times.

And those include self-employment, investments, social assistance, employment insurance, pension, public pension income -- CPP, QPP -- or old age security and the guaranteed income supplement. And then finally, private pension income, RRSPs, RIFs, and other private pension income.

And what I want you to do now is look at that left-hand bar in the 2009, the 72.37 percent for the wages and -- reporting wages and salaries as a major source of income for those who took out one (1) loan, and go down to the 2014 graph. And you can see that that has fallen slightly to 68 percent, just fallen slightly.

So of those who took out one (1) loan reported in the 2014 CFCS, 68 percent said their major source of income was wages and salaries. The interesting part occurs in the -- not so much even in the second bar, which is the number of people who took out two (2) loans -- that's fallen from 59.46 to 55.08 -- but the number who are borrowing three (3) or more times, so these would be the heavy repeat borrowers, I guess.

And this, as much as we have information here, has fallen from 71.65 percent to 48.78 percent, according to the CFCS. So the question then is -- is: What is the source of income that those people are reporting? You know, where have those people gone in terms of income?

Now, these are different people in the two (2) surveys. And we could, you know, compare some of their characteristics and so on. But I think the interesting thing to look at here is the two (2) -- the -- where I've circled the bars. And that is that a lot of the source of income has migrated to social assistance in the case of those who have borrowed three (3) or more times. That's gone up from -- in 2009, it was 18 percent -- 17.97 percent. It's up to 30 percent.

And if you look at the other one, it's public pension income, which, in -- in -- particularly in -- in both the -- two (2) loans and three (3) or more loans. It's gone from 17.81 percent for two (2) loans in 2009 to 33.05 percent, citing that as their major source of income. And for three (3) or more loans, from 3.91 percent to 15 percent.

So combined, they've gone from what, roughly 21 percent to 48 percent of the borrowers. So there's some pretty big changes there in terms of the source of income. And just in terms of the qualitative evidence we were gathering and impressions that the team had, we thought this was an important piece of information to bring to the -- the Board that we had not investigated in -- in the earlier reports.

The next slide. So then we have finally some regression analysis. With the kind of data we have, we can look at the dependent variables, and we essentially have two (2). We're lim -- much more limited than -- than the PEW Trust, because Stats

Canada hasn't probed the payday lending sample.

We have information on whether or not they took out a payday loan in both the CFCS and the SFS, the two (2) surveys. And for the CFCS, there's additional information. If you took out a loan, how many loans did you take out? So we have some additional information that we could also relate to what we call the independent variables, the various factors, to see if some of them leap out as having higher impact and more significance when the other factors are considered in the fashion that regression analysis does.

And we use probit regression because we're dealing with a -- a variable, which is, Did you take out a payday loan or not, yes or no. That is -- essentially, we're assigning to that some sort of probability. So we're saying that, well, if you had a certain characteristic, so you're more or less probable to take out a payday loan.

And when you're dealing with probabilities, you need to do some things to regression that makes sure that it looks like a probability. And I think probably the most accepted approaches to this are probit and logit. Economists have a preference for logit -- probit analysis simply because it uses normality assumptions that are normal distributions in -- in the error terms that are more consistent with what we think is likely to be the case.

Logit and probit analysis typically give very similar results, so the -- the debate is -- is essentially an academic one, not a practical one. So we're going to look in the next slide --

MR. BYRON WILLIAMS: Dr. Simpson --

DR. WAYNE SIMPSON: Yes.

MR. BYRON WILLIAMS: -- just before you leave this page, 1), just for the court reporter, if -- if one were trying to spell logit, would that be L-O-G-I-T?

DR. WAYNE SIMPSON: Logit, yes --

MR. BYRON WILLIAMS: Logit.

DR. WAYNE SIMPSON: -- L-O-G-I-T.

MR. BYRON WILLIAMS: Okay. And then, secondly, a -- a humble question, rare for me. Why -- why would one even -- why -- why don't we just report the numbers? Why -- why would we go through a regression analysis?

DR. WAYNE SIMPSON: When we report the -- the numbers we reported so far, we're simply looking at -- at one variable in relation to another.

In this case, did you borrow -- take payday loans, and if so how does this characteristic say something about the difference between those who did and those who didn't?

With regression analysis, we're looking at a whole series of variables and how they have impact, given that we're adjusting for the impact of the other factors. So it allows us to separate out those factors that are -- perhaps are more important than others. And we'll see that there are some examples in the results where a factor that -- that seems to be important may not be quite as important as we think.

And -- and one (1) example somewhat surprisingly is -- is income, which doesn't come out as being as important as you might think it would be.

MR. BYRON WILLIAMS: And -- and just to finish the thought, in just general research when -- when is it appropriate to -- to begin to use more sophisticated tools like regression analysis?

DR. WAYNE SIMPSON: Anytime that you have a file, a data file that has information say in this case on payday lending and on a series of other factors that might be important, regression analysis is useful to provide a check on the kinds of impressions you get just from looking at descriptive statistics.

MR. BYRON WILLIAMS: And would it be a standard tool you would expect in terms of dealing with these complexity of issues?

DR. WAYNE SIMPSON: I think regression analysis is now a pretty widely used technique in -- in social -- in social studies.

MR. BYRON WILLIAMS: Thank you.

DR. WAYNE SIMPSON: It's not just economists who are regression happy. There's lots of other quantitative sociologists and others who do a lot of regression analysis.

So here's the independent variables, and you can see they're pretty comparable across the two (2) surveys with some -- some differences. So we have things like age, household income, total assets, and so on. Now in brackets I put age, for example, as an intervals in the CFCS. And that gives us a fairly flexible picture of how as age progresses payday loan usage changes.

In the Survey Financial Security, and in part because also we have this small Manitoba sample we're trying to get a picture of, there are actual ages. And so what we use is the age, and it's squared to capture some of that flexibility. And so what I report is kind of an impression of what those two (2) sets of results tell us about the effects of things like age. And also household income is the same. Total assets is the same.

Wherein the CFCS we have assets but in the SFS we also have -- we have other measures -- measures of assets like home ownership. We have a measure of net worth, or wealth. We have a measure of household debt. So we have a little bit different picture of -- of assets and net worth than we would have from the CFCS.

We have employment status and number of earners in the SFS, which are related variables. We have education, five (5) categories, the standard Statistics Canada categories are the same in both. The sex of the respondent, gender of the major income earner in the SFS. Number of children in one, family size in the other, clearly related. If something pops out it's going to tell us a similar story.

We also have in terms of family structure in the CFCS marital status and financial spons -- responsibility for children, which I think is an interesting variable from the standpoint of social concern. And in the SFS we have the use of a credit card that we've reported results on.

And then we have the small -- smaller Manitoba sample but we also have provincial comparisons that we can make. And in this case what we've done is we've simply related the Manitoba results to the rest of the country, and some interesting results come out of that.

MR. REGIS GOSSELIN: Dr. Simpson -- Dr. Simpson, could you explain "it's 'N' square?" The reference to 'N' square --

DR. WAYNE SIMPSON: So age -- so if age is -- is ten (10) -- no. If age is thirty (30) it squares at ninety (90) -- nine hundred (900). And -- and what that pic -- sorry, I -- I -- it's very explanatory.

What that picks up is -- is patterns that are non-linear. That is to say if payday loan borrowing is not increasing linearly with age but say is -- is declining over time or increasing with age, it'll pick up those kinds of differences. And in the intervals, that'll be picked up by the fact that as you move from one interval to the next there'll be different -- different impacts on payday loan borrowing.

So, yeah, that -- that's a little

clearer explanation than I provided earlier. Thank you.

So regression results, age. The significant new result here from the CFCS, for example, it's harder to tease out of the SFS with just looking at age in its square, but it's quite clear from the CFCS results that whereas the payday loan usage in the fifty-five (55) to sixty-four (64) year old group was not significantly higher than that of say the eighteen (18) to twenty-four (24), which is the lowest of the group, it's now significantly higher and it's much more comparable to the other groups.

So there's been, if you will, a penetration of payday lending into that older group, fifty-five (55) to sixty-four (64), and it might also be reflected, for example, in the evidence I presented earlier that discusses major sources of income, which was the public -- increase in the use of public pensions -- or citing of public pensions is a major source of -- of income.

Assets and wealth tend to be associated with payday loan usage rather than income, per se. That is to say, when you put both in, income doesn't turn out to be significant, but assets and wealth do. Obviously, these are correlated, so they're going to be related in -- for a lot of households.

Marriage and responsibility for children are related to payday loan usage. Post-secondary education, we've seen, continues to be important. That is to say those with lower education are -- are more likely to use payday loans. And those with lim -- more limited access to credit cards are more likely to use payday loans.

And residents in Manitoba increases the likelihood of payday loan usage. All other factors considered, this is the standard comment from regression analysis, but I -- I want to be sure what everybody understands from this, because immed -- immediately people say, Well, incomes are lower and so on, but we've adjusted for income levels/asset levels.

So what we're really saying is that what we're estimating here is that someone with the -- with a certain level of income, a certain asset level, a certain marital status and responsibility for children, a certain level of education, and a certain access to credit, like credit cards, if you compare the rest of Canada and Manitoba a Manitoban is still more likely to use payday lending services.

And since we're dealing with Manitoba, I thought that was an interesting result. And I don't speculate on what might be behind that, but there -- I -- I suggest that there could well be other factors that -- that will be discussed probably elsewhere.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Dr. Simpson --

DR. WAYNE SIMPSON: Yes?

MR. BYRON WILLIAMS: -- just before we leave this page, I'm drawing your attention to the word at the top, "significant regression results."

DR. WAYNE SIMPSON: Yes.

MR. BYRON WILLIAMS: There's -- the word 'significant' you'll -- is sometimes used just colloquially. Does it have a meaning be -- beyond the colloquial way when you present it on this page?

DR. WAYNE SIMPSON: Right. So these are what we'd call statistically significant results. That is to say given some appropriate level of significance, like 5 percent, which is the usual one, this -- this usual standard, we say that there's less than a one (1) in twenty (20) -- one (1) in twenty (20) chance that there is no relationship between the variable that we've cited here and payday loan usage.

And that -- by that standard these are the variables which appear to be significant. We have a high confidence that -- that there's a relationship there of the sort that we describe.

MR. BYRON WILLIAMS: Thank you.

DR. WAYNE SIMPSON: And then finally the frequency. Since we have in the CFCS 2014 information on the number of loans taken, we can use what is referred to as ordered probit regression, which is an adaptation of probit regression that deals with categories that are ordered. That is to say in this case, how many loans you took out, naturally ordered.

And there we find pretty similar results to those that we found for simply whether they took out a payday loan or not, the previous results. That is to say it's related to age and in particular the fifty-five (55) to sixty-four (64) year old group is now a significant group in terms of payday loan usage.

It's related to assets rather than income. That is to say when those two (2) are both in the regression the asset is significant and the income is not. It is related to marital status, responsibility for children and to education in -- in the fashion that we've seen, both in the descriptive analysis and in the previous regression results.

Now, we can't look at things like Manitoba because this is the CFCS, not the SFS. It's the SFS that has the Manitoba sample identified. So that's all the information we can tease out of that, but the data -- the results are -- are -- correspond to those that we get when we just look at whether they used a payday -- took out a payday loan or not in the -- in the two (2) samples.

And that -- that's the sum of my presentation.

THE PANEL CHAIRPERSON: Thank you very much, Mr. Simpson. And I'm going to refer to Mr. Williams.

MR. BYRON WILLIAMS: Yes. And -- and we're -- we're just a bit behind schedule but not bad. I'll -- I'll call upon Ms. St. Aubin. And I'd suggest that, when she's completed, that might be an appropriate time for a lunch break.

THE PANEL CHAIRPERSON: Yes, that would be a good time for lunch. And I have a question from Mr. Gosselin.

MR. REGIS GOSSELIN: Okay. My question relates to the frequency of -- of borrowing because I'm seeing a large difference between the data that we heard about from Dr. Buckland in relation to the US data.

And I'm thinking for example Consumer Financial Protection Bureau medium borrower took out ten (10) payday loans. State regulator says nine (9), eight (8) from the PEW Charitable Trust. And yet the data that you showed us doesn't suggest that their frequency is that high.

DR. WAYNE SIMPSON: Well, we have a lot of information obviously buried in that three (3) plus category. And one (1) of the -- one (1) of the things that a follow-up survey would get would be, you know, for this three (3) plus category, what is the actual breakdown?

My -- my sense from everything I've heard and read is that the -- this is what we'd call a long right-hand tail. That is to say in that three (3) plus category, there's a lot of people with a very high number of loans. And that could be both simultaneous loans and a sequence of loans.

So you can imagine how big a number that -- that could be. But this survey doesn't allow us to draw that conclusion because it simply categorizes those for three (3) or more.

MR. BYRON WILLIAMS: And -- and just to assist the panel -- and I didn't mean to interrupt if -- if you had another question. Sorry.

MR. REGIS GOSSELIN: What I want to -- wanted to probe with you is that, you know, to the extent that people are reticent to talk about their borrowing behaviour with respect to payday loans, that would tend to skew the data to -- into -- to have people say, I'm borrowing a lot less than -- than to -- to a -- to a -- for a survey inquiry, I would say I'm borrowing a little bit. But in reality, we're seeing data from the US saying that they're borrowing quite a lot.

And -- and I guess to what extent is there some of that skewing going on by virtue of the fact that people are not being truth --

DR. WAYNE SIMPSON: M-hm.

MR. REGIS GOSSELIN: -- with -- with the survey?

DR. WAYNE SIMPSON: Well, this is another case where more careful stat -- statistical probing would be beneficial because I think, you know, Statistics Canada has learned over the years that you have to sit down with people and questions you're really interested in and systematically go through the information in a series of questionnaires that have to be carefully field tested and so.

I mean, this is all part of the experience, and you learn from experience.

In the case of -- of payday lending, you know, this is a relatively new thing for Statistics Canada. And the questions are now there and I think have some broad usefulness.

But I think you're right that there's probably some understatement of loans in terms -- and, you know, the nature of the question is it isn't just if you took out a payday loan. It's Did someone in your household?

So the recollection factor on -- may be better -- I'm really speculating now, but I suspect, if I were asked that, the recollection would be better if anyone had taken out a payday loan, then how many they'd actually taken, if they'd taken out more than one (1). But that's speculative.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And -- thank you. And I apologize if I interrupt sometimes. I get -- I get keen. Just before we turn to Ms. St. Aubin, and just recognizing our triangulation approach, I don't know if Diana with her magic fingers can pull up Dr. Buckland's slides from Exhibit 32, slides 23 and 24 for a moment.

And, Diana, those go to information from the Consumer Protection BC. And slide 23.

And, Dr. Buckland, just further to Chairperson Gosselin's question, from another source can you just remind us what BC and Nova Scotia indicated?

DR. JERRY BUCKLAND: Yeah. So there are two (2) provincial regulators who collect a number of loan data, and that's British Columbia and Nova Scotia. And so from the regulator database in British Columbia, we see that the average annual number of loans per borrower move from five point nine (5.9) to five point four (5.4) to four point three (4.3) from 2012 to 2014. So that's the average number of payday loans per borrower. And that the number of individuals with more than fifteen (15) loans in one (1) year increased by 3 -- 34 percent.

And then the next slide is from the Nova Scotia regulator where we see that 52 percent of all payday loans in the Province were repeat loans of some type, and of those, 30 percent received eight (8) or more loans.

MR. BYRON WILLIAMS: Thank you. And I -- I hope that -- that assists. Ms. St. Aubin, welcome. You've been very patient.

MS. ZOE ST. AUBIN: Right. I'll just wait for the slide. So good morning, Madam Chair and Board members. So my presentation is based off the report under the same title, Manitoba consumer experiences with payday loans research study.

The research study -- aim to provide a better understanding of the factors that influenced -- that played a role in payday loan users' borrowing practices. It also focussed on not only the experience of payday loan borrowers, but also their perspectives.

It's important to note that the respondents in the study are a nonrepresentative sample. Participants reflected those who had taken out a payday loan over a twelve (12) month period. So that's sort of the context in which we're -- all the findings are explained. The next slide, please.

So the presentation outline. I'll begin with my methodology, and then going into the findings. And in the end, the conclusion, with the findings I will start with the demographics, moving into the borrowing practices, push factors, delivery of services by payday loan outlets and participant's knowl -- knowledgeability of the product, so their knowledge, and alternatives discussion, which was part of the focus group.

The next slide, please. So the methodology. So we used a mixed methods approach which include three (3) -- three (3) research tools, those being the survey, semi-structured interviews and one (1) focus group. Applying a mixed methods approach helps to provide a more holistic understanding of the topic explored.

In this case, survey data, the findings in the survey illustrated broad trends. These trends were then explored further in the interview and the focus groups. The survey consisted twenty-four (24) -- of twenty-four (24) questions and was administered online but also in person. The in-person surveys were delivered by the research assistants at various payday loan outlets in Winnipeg as well as at community organizations that agreed.

And with the semi-structured interviews the focus was on repeat borrowers as well as online payday loan borrowers. So the interviews were conducted in person. And again, with -- in terms of focussing on the repeat borrowers, these are people who had taken out seven (7) or more payday loans within a twelve (12) month period.

The one focus group was conducted with a focus on discussing the alternatives of payday loans. The focus group was conducted in person and all of the tools were delivered in November -- starting November 20th, ending January 10th. So that's the extent of our data collection phase.

Participant recruitment. So for the survey, this included printed newspaper ads, posters, flyers, Facebook-targeted ads and community organization Facebook pages. We did focus on the online presence. And that was in -- in hopes to recruit online payday loan users.

MR. BYRON WILLIAMS: Ms. St. Aubin, before you leave this page, and I apologize for interrupting, just drawing your attention back up to research tools and -- and under number 2, semi-structured interviews. Within the group of those you interviewed were there some online payday loan borrowers?

MS. ZOE ST. AUBIN: Yes. There was three (3).

MR. BYRON WILLIAMS: Okay. Thank you.

MS. ZOE ST. AUBIN: Okay. So the survey participant recruitment included research assistants being placed outside of the Winnipeg payday loan out -- outlets as well as the community-based organizations, and they're listed there.

Of the community-based organizations, four (4) agreed. However, only three (3) had events being hosted within our time frame for data collection. So there was only three (3) of the five (5) that we engaged with.

Participant recruitment for the interviews and the focus groups, this was done through the survey. So each respondent for the survey, and this included online and in person, were asked if they would want to continue further with the research study and engage in either an interview or a focus group. Those who did agree were then compiled, put in a list.

And potential participants were contacted using the information provided by the participant, so either email or by phone, and the -- the participants were also randomly selected from this list using an algorithm within an Excel spreadsheet.

Challenges to in-person survey data included weather -- or sorry, we're still on the other, thank you -- included in person -- with in-person survey data. This included weather conditions because it was during the winter. Low customer traffic at some outlets. And again because the survey and -- as well as the interviews and the -- and the focus groups, they were voluntary so there was sometimes a lack of customers willing to complete the survey.

Another challenge to survey data collection was the maintenance of participant recruitment posters. We found that they were being removed, or covered up. So it was a bit of a challenge.

In terms of the semi-structured interviews and focus groups, there were a couple of participants who agreed but then later changed their mind. Some that did not show up for the interview or the focus group, which happens in data collection. And so what we would do then is just go back to the Excel, perform an algorithm so that we can replace those who didn't show up. All right. Next -- next slide.

All right. So the outlet selection. So for the --

MR. ALLAN MORIN: Sorry --

MS. ZOE ST. AUBIN: Sure.

MR. ALLAN MORIN: -- just interrupt. How -- so how large was the focus group?

MS. ZOE ST. AUBIN: The focus group

was a total of seven (7).

MR. ALLAN MORIN: Seven (7) people?

MS. ZOE ST. AUBIN: M-hm. Yeah.

MR. ALLAN MORIN: Thanks.

MS. ZOE ST. AUBIN: It'll be coming up in the slides.

MR. ALLAN MORIN: Yeah.

MS. ZOE ST. AUBIN: Okay. So the outlet selection. So for the in-person survey, a list of payday loan outlets in Winnipeg was compiled using Google search engines. This gave us a list of thirty (30) locations. However, it was discovered by the research assistant, so actually being there in -- in -- physically twelve (12) of the businesses were closed. And these were noted and, of course, omitted from the list.

So this is the list of the outlets that were targeted throughout the data collection time frame. And what the research assistants would do, and later relay back to myself, was the volume of customer traffic for each outlet because we were exploring all different times and all different days. So going beyond the usual -- when someone would receive their paycheque say on a Friday, we would go beyond that, or any other sort of payments.

We would go beyond those normal scheduling, and they would be placed outside the outlets just to -- in hopes to engage with a wider customer population. Res -- and this was done by the research assistants providing me with weekly updates, which I then analyzed and had them situated outside the outlets at particular times.

Outlets that had poor response rates, and this may be due to low customer volume, after three (3) efforts of participant recruitment at those locations during the first two (2) weeks of data collection, they were visited less frequently after that. But then in the last two (2) weeks of survey data collection, these outlets were then revisited at a higher frequency.

Research assistants were placed at these outlets at least twice a week for each of them, so it was a busy schedule for them, and a total of eighteen (18) payday loan outlets were targeted. And as you can see, we tried to engage with a wide geographic span, so not just sticking within the downtown location.

Next slide, please. So in terms of the participant demographic -- demographics it helps to provide a context of the findings, which is why I'll have a -- a couple of slides referring to the demographics. So at the end of data collection we had a hundred and thirty (130) survey participants. Twenty-one (21) were online, a hundred and nine (109) were in person.

Interviewed participants there was nine (9) and focus group participants there was seven (7). So the participant demo -- demographics for the survey respondents show that there was a split, an even split between male and females, 50 percent being male, 49 being female.

The largest eth -- ethnic group in our sample was Aboriginal, 48 percent of survey respondents identified as Aboriginal, followed by 27 percent identified as Caucasian.

48 percent were single and never married. 23 were married and common law, followed by 23 per -- sorry, 25 percent were married and/or common law, 23 percent were divorced or separated, and 4 percent were widowed.

A large -- or sorry, the -- in terms of living arrangements, 43 percent lived in an apartment; 41 percent lived in a row house, also known as a -- a townhouse. And the majority, 83 percent, rented their housing.

60 percent did not have children under the age of eighteen (18) living in their household. As well as the survey data showed that there was a wide range of education levels represented in the sur -- survey data, and although -- which is demonstrated by the graph there.

Although the majority of survey respondents were employed full-time, that being -- sorry, half of the -- the survey resp -- respondents were employed full-time, that being 50 percent. Although they -- they had a sense -- they had a form of employment and had completed high school or an additional education, the vast majority, 72 percent, their annual income was below forty thousand (40,000) a year.

Okay. The next slide, please. So in terms of the demographics for the interview respondents, the ages -- 67 percent were between the ages of forty (40) to fifty-nine (59). And again, in terms of their income, half of the interview participants earned below thirty-five thousand (35,000) a year. So that was between fifteen (15) to thirty-five thousand (35,000) a year.

67 percent were single and half of them did not have children living -- children under the age

of eighteen (18) living in their household. Focus group participants, they were slightly older with 86 percent of focus group participants being forty-nine (49) years or older.

All focus group participants earned twenty-five thousand dollars ($25,000) or less a year. 43 percent were single and in terms of their employment there was sort of an equal dispersion of -- of employ -- employment status. 86 percent did not have any children under the age of eighteen (18) living in their household.

Next slide, please.

MR. BYRON WILLIAMS: And, Ms. St. Aubin, you can stay on this page, but just to remind ourselves, in terms of the interviews and the focus groups, like the -- the longer interviews and the focus groups, in terms of the population that you were trying to get more insight to, that would be primarily repeat borrowers?

MS. ZOE ST. AUBIN: There was -- for the interview participants three (3) of them were online borrowers, and the rest were repeat borrowers. However, even those who used online payday loans, they were repeat borrowers. So there was an overlap. There didn't -- there wasn't a distinction there.

MR. BYRON WILLIAMS: Thank you, and I'm sorry to interrupt.

THE PANEL CHAIRPERSON: We have a question for you --

MS. ZOE ST. AUBIN: Sure.

THE PANEL CHAIRPERSON: -- from Ms. Neville.

MS. ANITA NEVILLE: Not sure if you just answered this question or not. Was there any overlap among your sample group and focus people being interviewed individually or otherwise?

MS. ZOE ST. AUBIN: There was one (1) overlap, yes.

MS. ANITA NEVILLE: Just one (1)?

MS. ZOE ST. AUBIN: M-hm.

MS. ANITA NEVILLE: Okay. Thank you.

MR. BYRON WILLIAMS: I'm not sure -- I -- I just want to make sure I understood Board member Neville's question. Was the question looking at an overlap between the longer interviews in the focus group or between the -- the twenty-four (24) survey, the initial --

MS. ANITA NEVILLE: Any of it.

MS. ZOE ST. AUBIN: M-hm.

MR. BYRON WILLIAMS: So perhaps you

could just --

MS. ZOE ST. AUBIN: Oh. The participants for the interviews and the focus groups, they were drawn from the survey population.

MS. ANITA NEVILLE: Okay. Thank you.

MS. ZOE ST. AUBIN: So that's where -- all right. So borrowing practices. So overall, there was a small amount of online payday loan borrowers in the research sample. Survey data shows 6 percent, which is a total of seven (7) respondents, stated they had used online payday loans.

Of the seven (7), three (3) were interviewed. And again, of the online payday loans who did participate in the interview, all had continued to use in-person payday loan services, and only one (1) of the three (3) continued to just use online payday loans.

Additionally, the data collected did not show any significant differences between the online payday loan borrowers and the in-person payday loan borrowers.

Survey data also showed that the majority of respondents, 58 percent, based their payday loans on their payroll cheque. However, 21 percent of survey respondents used other types of cheques such as spousal support cheque, Canadian Pension Plan -- so CPP -- cheque, disability cheque, student loan bursary, and GST cheques were also stated.

With -- in terms of what other forms of cheques they used, those who stated others -- there was 44 percent -- referred to using CC -- CPP cheques as well as there was scattered in terms of a birthday cheque or any sort of gift received in -- in the form of a cheque.

Survey data illustrates that 48 percent of respondents' main use for payday loans is to pay living costs such as food, rent, utilities, and clothing. These trends were also described by the majority of interview participants which I'll -- I'll get to later in -- in the presentation.

When asked what factors influence the amount of payday loans they used, interview participants described not having money to pay utilities and/or food. And they also described that payday loans assisted them to afford living costs until they received their next source of income.

Next slide, please. So continuing with borrowing practices, survey data shows that 40 -- 45 percent of respondents received one (1) to three (3) payday loans in the past twelve (12) months, and that 31 percent had taken out seven (7) or more loans over a twelve (12) month period.

The majority of interviewed participants, 78 percent, had taken one (1) or more payday loans a month over the past twelve (12) months.

Of the sur -- survey respondents who answered to borrowing seven (7) or more payday loans over the past twelve (12) months, the top three (3) reasons as displayed there in the -- in the table for using payday loans repetitively were not able to pay the first loan and meet current expen -- expenses, unexpected expenses, and due to emergency.

Next slide, please. All right. So interview and focus group data provide a more in-depth look of participants' views of repeat payday loan usage and what their experiences were as a consumer. Many interview and focus group partic -- participants recognize the risk of engaging with high interest payday loans and tried to limit their borrowing in order to reduce this risk of going deeper into debt.

This form of consumption allowed participants to view payday loans as something short-term; however, it's important to know that they continued to go -- even though they saw it as short-term, they continued to -- to go back to the payday loan borrowers -- sorry, outlets.

Many referred to a self-imposed budget, their self-control and their understanding of the importance to stick to this budget, so not to get out of control. Participants also explain -- which the two (2) quotes illustrate, also explain how the cycle of repeat borrowing from payday loans can happen and the difficulties of breaking this cycle of repor -- repeat borrowing.

So if we look at the first quote there, the participant is describing having to have extra to pay back the payday loan and so the -- the difficulty of doing that. And so it's -- the participant is stating there that, you know, not everyone is bad with their money, but it's more common to find yourself in that cycle.

The second quote also shows how you have to understand how the repeat cycling occurs for them in terms of your ne -- the next pay cheque being less than even before. Specifically quoting:

"So I'm paying them, you know, obviously, that's what happened, but it can ta -- make it hard to get out of that hole then because then you have no money and you need to get another one."

And "another one," they're referring to another payday loan. The next slide, please.

Okay. So again continuing with borrowing practices. So findings from interview and focus group data shows that the timing of payday loans conflicted with other living costs.

So when we look at the -- the quote there, again it refers back to how the repeat borrowing cycle could occur for them. In these cases, participants would extend their payday loan or take another payday loan to pay for previ -- to pay for previous loans. And in some cases, this meant going to a different payday loan provider.

So -- and some repeat borrowers in the interviews incorporated the use of paylo -- payday loans into their lifestyle. This was just a common thing. And this is how it was for them. The relationship between the purchasing behaviour and the repeat borrowing cycles was described by participants.

And some of the participants recognize that it was their lifestyle. When -- explored further, this lifestyle, what they were referring to was buying things like clothes or having the internet providing -- it -- that was their focus of lifestyle.

The next slide, please. All right, so in terms of rational borrowing behaviour. So feedback from interview and focus group participants show that they were mindful of their borrowing behaviour and they display -- displayed a sense of -- of caution. And they also would caution anyone who was considering to take a payday loan, specifically stating you had to be careful and be mindful of your budgetary constraints.

The length of -- of time that participants had used payday loans, so if they had been payday loan users for over ten (10) years, or even within the mo -- within the year, did not play a factor in terms of exercising carefulness with payday loan use.

Interview and focus group participants described examples of how payday loan lenders would also try to sell products to them, and offer them the opportunity to borrow more which kind of conflicted with their -- in some cases with them sticking to their mindfulness.

If we look at the -- the second quote in -- in particular, the participant explains in detail how they went into a payday loan stating, "I just want a hundred and fifty (150)," but they offered -- the payday loan employee had offered them three hundred and eighty (380), which -- and the -- the participant then left, taking out more than what he had initially budgeted for, that being two hundred (200). And he also refers to his budget because he is on EI, that'd be Employment Insurance.

Again -- and the appeal of prepaid credit cards sold by payday lenders was also described by participants. Two (2) of the nine (9) interviewed participants reported using prepaid credit card -- credit cards from payday lenders. Some of -- some participants avoid all credit cards altogether stating that's what got them into their indebted status to begin with. Next slide, please.

So in terms of the push factors, there were many factors that propelled consumers to initially start using payday loan. These include unexpected layoffs or decrease in their work hours, conflicts of income and their bill payment schedules, and a mismatch of products offered by mainstream banks to suit their needs. The -- also feelings of marginal -- marginalization from mainstream banks, and poor budgeting skills.

Chan -- changes to participant's income

influence their decision to use payday loans simply because they didn't have the income that they were used to meet their cost of living, which the first participant you can see had an accident at -- at work. However, they put her off to a -- or put them off to a different task. And so how that sort of compromised their ability to meet their living costs.

Another participant who declared bankruptcy in the past, and has used payday loans for six (6) years to maintain his desired lifestyle described how the employ -- the changes to employment influenced the -- their fluctuating use of payday loans.

So in this particular instance, the participants was given more hours at work, and he stated it was just -- I literally have enough money to live on, and so they did not engage with payday loan outlets. Next slide, please.

Many participants stated they had no -- no choice but to go to payday loans. In these cases, participants had originally sought help for the gaps between again their conflicts with income and their bill payment schedules.

So in some cases participants had limited income, those being -- the first participant works within a school division, and talks about the experience of having to collect unemployment during the off season, that being the summer. And where she talks about having to almost wait eight (8) weeks to receive income because of the -- the scheduling of pay within that employment sector.

These scheduled payments were described by participants as not enough to carry them through the month, and pay for the bills that arrived at odd times of the month. In order to mediate this challenge, participants sought payday loans as a viable option.

So the second quote specifically looks at a bill payment scheduling which occurs every month. And their use of payday loan was specifically to mediate their CPP income, avoid bank charges, and pay the one (1) bill described -- described in -- in the quote.

And how the payday loans are more feasible for her to pay the one (1) bill. It's the one (1) bill, and not go into overdraft. And again, if you look at -- at how -- at that quote carefully, it also exhibits rational purchasing behaviour, so their -- and their knowledgeability of -- of how to deal with their financial situation.

MR. BYRON WILLIAMS: Ms. St. Aubin, I just want to just check with the Board. We'd prefer to -- but we'll -- we're -- I don't know if the Board needs a break, or if you would like us to...

THE PANEL CHAIRPERSON: I think we'll continue. I -- I'm sure --

MR. BYRON WILLIAMS: Yeah. That would be my advice as well.

THE PANEL CHAIRPERSON: About 12:30 or so?

MR. BYRON WILLIAMS: Yeah. Yeah.

THE PANEL CHAIRPERSON: Okay. Thank you.

MS. ZOE ST. AUBIN: Next slide, please. All right. So in terms of the feedback from interview and focus group participants, many say that they had no choice and this was because of -- they had originally sought their bank, but the products offered by their bank did not match their needs. In the first quote illustrates that the participant was only wanting to borrow fifty dollars ($50). However, their bank, the minimum that they were allowed to borrow was five hundred (500).

And again, how she was going to use that fifty dollars ($50) was just to carry her over.

And the second quote explains the participants' experiences going into mainstream banks where they talk about the numerous hoops, as they stated, just to borrow five hundred dollars ($500). And again, not needing to borrow two hundred thousand (200,000).

Next slide, please. So interview and focus group data and the feedback from the participants show that the participants who had declared bankruptcy in the past had limited options to assist with their efforts to start over. Many participants described feeling marginalised by their mainstream banks. And in this case, this -- this was both for participants who had been with one (1) bank for an extensive amount of time, that being over six (6) years, to those who maybe were with banks for a smaller amount of time.

And they had stated that they had feelings of marg -- being marginalised by their mainstream banks and how that's hindered them from engaging further with their banks. Half of the focus group participants referred to their bank -- bankruptcy status as their reason for using payday loans.

Next slide, please. Continuing with push factors, some participants expressed that one (1) of the reasons they started using payday loans was their poor budgeting skills. Some referred to declaring bankruptcy in the past and how that propelled them again to -- to use payday loans, but how they also tried to find different avenues.

So payday loans were really seen as a last resort by some participants. Participants also -- participants' social capitals, so that means the people in their -- their groups, people that they know, played a role in introducing to payday lender services.

When asked how they first heard of payday loans, the majority of interview participants, that being 67 percent, had heard it from a friend or a relative. In these cases, friend and -- friends and family suggested payday loan services as a quick and easy way to receive money.

All of the friends and family members who suggested that service had used payday lender services themselves, and in some cases, were long-term repeat borrowers as well.

Next slide, please. So the delivery of services from payday loan outlets was also a theme that came out in the interview and focus group data. Findings show that the majority of payday loan borrowers had a positive relationship with payday lenders. Findings also show -- and "positive" being that's how they described the relationship.

Findings also show a key factor in the degree of the positive rela -- relationship with payday lenders was dependent upon if the participant was a long-term repeat borrower or not.

Participants who had been using the service repetitively, once a month at least, within a period of one (1) year, had a strong positive rela - had strong positive opinions of payday -- payday lenders.

In these cases, participants mentioned examples of fees being waived for missing payments or extensions being changed without being charged.

Participants also referred to the friendly and welcoming service of payday lender employees, and that they had built a -- a relationship with the employees of the payday lenders. So they would talk about, They know me there.

This was a stark contrast to participants' feelings towards mainstream banks. As previously described, participants' previous negative experiences with mainstream banks were a common comparison when describing their relationship or their experience in receiving the services at payday outlets.

Furthermore, convenience was the most common description used by the participants to explain why they prefer payday loans and continue to use their services. Time was a -- a factor as well.

And another factor of convenience referred to by many interview and focus group participants was the location of payday lender outlets. As the quote refers, even the hours were appreciated by the consumers.

Some participants were living in areas or working in areas where payday loans were within a close proximity. They could walk there. The location of payday loan -- payday loans accommodated participants' need and made it easier for them to engage with payday loan services.

In terms of the relationship, it was discovered in the focus group -- again referring back to the finding with the long-term repeat borrower participants, it was found in the focus group that there was discrepancy of service delivery by payday loan outlets.

Some focus group participants described situations whey -- where they had asked the payday lenders to extend their loan by a couple of days past the original due date and were not charged the extension.

This was not the case for focus group participants who had just begin using payday loans, so within the past year. In these cases, participants were charged the additional interest and the late fee, as well as were -- in some cases were solicited numerous times in a day by collectors or the payday lenders themselves.

So the -- they didn't have the type of relationship that long-term repeat borrowers did. And so the length of time participants were a customer to payday loans did help to explain this sort of discrepancy of the service delivery.

Next slide, please. So the consumers' knowledge of the product. The majority of participants did not have an understanding of the APR, so that being the annual percentage rates. Both interview and focus group participants commonly referred to currency rather than percentages to describe the fees that they had paid on their payday loans.

The explanation of fees assisted participants to determine how much to pay back, and also assisted participants who were offered to borrow more to calculate the fee in dollars and assess the -- assess if that met their budgetary constraints, their limits.

However, survey data illustrates that 17 percent of respondents did not know the fee in dollars per one hundred (100). Fifty (50) percent of survey respondents stated -- stated that they paid seventeen dollars ($17) per one hundred (100) on their last payday loan.

Of the nine (9) participants interviewed, 33 percent, that being three (3), understood the APR rates applied to their payday loans. All of the -- the three (3) who understood APR rates all had used payday loans on a monthly basis for six (6) to fifteen (15) years, so they're long-term customers of payday loan -- of payday loans.

Interviewed participants described how they were given a large amount of paperwork when they received a payday loan, and that they found out about the APR on the back. Survey data shows that 65 percent did not know that the APR -- know the APR that they paid on their last payday loan. But there is, when you -- state there, of the 12 percent who stated "Other" in terms of the APR that they paid, five (5) respondents of the -- five (5) respondents of -- again, this is survey respondents, so five (5) of a hundred and thirty (130), indicated rates between 400 and 775 percent.

The next slide, please.

MR. BYRON WILLIAMS: Could I -- could I just go back to slide 18 for one (1) second, I apologize. Just to make clear, because in your conversation on this slide, you -- you've referenced both interview participants and survey respondents.

The two (2) tables, or graphs, or pie charts that are presented, those are from the -- the twenty-four (24) question survey. Is that right?

MS. ZOE ST. AUBIN: Yes.

MR. BYRON WILLIAMS: Okay. That -- that's fine. I just wanted to clarify that.

MS. ZOE ST. AUBIN: Yes.

MR. BYRON WILLIAMS: Thank you.

MS. ZOE ST. AUBIN: All right, so moving on to the findings in terms of the alternatives to payday loans discussion facilitated in the focus group. So there was a -- there was a range of payday loan borrowers in the focus group. Some par -- participants used payday loans on a monthly basis. Others borrowed approximately three (3) times a year.

So there was a more wider dispersion of payday loan users within the -- the focus group than in the interviews.

Having a -- a wide diversity of payday loan borrowers provided a more -- a better understanding of the different views of the alternatives and how that would suit the different use of payday loans.

Participants were asked what alternatives to pay -- payday loans were accessible to them. Many participants stated they had no other options and that the payday loans were a last resort. Some participants mentioned charitable organizations, such as Salvation Army, as an alternative to receiving payday loans. Others referred to pawn shops to access money.

Banks were not seen -- seen as an option by participants due to their poor credit rating status. Many participants referred to family members or friends as an alternative to payday loans, however, this alternative was also seen as less favourable than payday loans. Borrowing from bay -- payday loans instead of their social circles was described as a mean to protect their relationship with their friends and families and avoid burdening others.

The next slide, please. So one (1) example discussed in the focus group was the regulations in Colorado which described for the last five (5) years, the state of Colorado in the US has mandated that the payday lenders move to a six (6) month loan product with installment payments.

When focus groups were asked if this was something that they would like to see implemented in Manitoba, only one (1) was in favour and saw it -- and saw it as easier to pay off. The remaining participants were unsure or did not want to see the product implemented in Manitoba. They were worried about the rate that you would have to concur over the six (6) month loan time.

Next slide. One (1) example, another example discussed in the focus group was the proposal put forward by the United States Consumer Financial Protection Bureau.

This - the United States Consumer Financial Protection Bureau proposed that payday lenders either underwrite their loans or limit their customers the number of rollovers followed bay sixty (60) day cooling off period.

After reviewing this example, participants were asked if this regulation was fair to payday loan consumers. Some participants disclo -- declined to comment expressing that the alternative was too difficult for them to understand and therefore they abstained from commenting.

However, of the participants who did comment, so five (5) out of the seven (7), the majority of the five (5) did not see this regulation as fair. Participants referred to the cooling off period as a deterrent to their appeal for this alternative.

There was only one (1) that did see this regulation as fair. Support for this regulation was based on their per -- perception of the government as an agency to prevent borrowing practices that cripples some payday loan users. And that's in the second quote where they -- they talk about how -- how the government works for the people bearing in mind the institution, and:

> "It's kind of genius actually in my mind. Yeah, it's fair."

The saying, Give someone enough rope they'll hang themselves, when -- so the participant is talking about how there is a need for -- for regulations such as -- as this one. Next slide, please.

So another alternative that was discussed in the focus group was the one offered by payday loan. And this one was welcomed by half the focus group participants. Factors that were attractive to those participants was the building of the credit rating, and the long period of time they could use to pay back their loans.

Participants also found the -- and the -- the information of the payday loan Fast & Fair Loan was accessed December 11th off of payday loan's website and presented to focus group participants. They found it -- they were able to understand what was on the website. So in -- the factors of credit rating and the long period of time that they could use to pay back their loans is also highlighted in the comment there.

The other half of focus groups who did not like the payday loan example focused on the interest rate, that being 19 percent, and -- and/or the ability of payday loan to charge the interest rate. So they were worried that that might change over the long -- the long time. That they might increase it. So there was some worry from the participants. Next slide, please.

So there was also three (3) options

presented to focus group participants. And this included (a) the financial education on budgeting, financial planning, savings, credit, and investments that would be offered to them, or -- and then security -- secured credit cards that enable you to build a credit rating. And lastly a savings plan such as a pre-authorized monthly debit put into a savings plan that enable them to save money and draw on it rather than a loan when the need arises.

Participants were asked if they would use or have used any of these three (3) options, and for their opinion of these options. Feedback from the participants in the focus group varied. So the basis for this variation was related to their previous borrowing history, their employment status, and their income levels.

The majority of participants did not see option B, so that is the secured credit card example, even as a source to build credit ratings as favourable. Again this stemmed from -- when probed further, this stemmed from their -- they won't do credit cards at all. That's how they got into the situation to begin with.

Many focus group participants stated they did not have additional funds to put into a savings plan, so even for Option C that wouldn't suit their needs because they didn't have any money to put away. And in terms of the focus group participants, many were living, as the saying goes, hand to mouth.

Next slide, please. And these are some of the quotes that further illustrate the feedback from the focus group participants. So they referred to things such as tight budget and how low their income is, which is how they didn't see option A as really an option for them. They were -- they had such a low income and such a tight budget it didn't work for them.

Option B, one (1) participant disclosed that -- disclosed that they did, you know, have that, but again, that's what got them into the trouble to begin with. The second quote, would appreciate some information with the budgeting and -- and education on financial planning and whatnot. However, again, when it comes to a savings plan they didn't have money to put away for a savings plan.

Next slide, please. So participant's suggestions for alternatives. So this was a question posed of what do they think would be a good alternative, so an open-ended question.

When focus group participants were

asked this, the majority of participants concentrated on the interest rates applied to payday loans, those being too high and that they would like to see them lowered.

Other participants referred to providing a flexible time schedule offered by payday loan lenders instead of the mandatory two (2) week time span. Offering a flexible time schedule was seen by participants as a way to -- as a way to not to reissue their loans and as more accommodating for their living cost experience -- or expenses.

One (1) participant described how the two (2) week mandatory pay schedule of payday loan con -- contributes to their rep -- repetitive use of borrowing from payday loan lenders. So when describing that even in terms of the lower interest rate, the 10 percent, this participant saw as more reasonable. And that it was the interest rate that crippled them to pay in the future.

And again, if we refer back to the quote of how the participants explained how repeat cycling occurs, how their next paycheque is even less when they engage with payday loans. This sort of stems -- contributes to that by reducing the interest rate would help them. And again, would help them to -

- in the future to maybe meet their costs -- their everyday living costs.

The flexibility of payment and building of credit rating was seen as favourable by focus group participants. The quote on the bottom, that participant has been using payday loans for seven (7) years and they quote/unquote state:

"Could you imagine the credit I would have."

They referred to always meet -- making their payments with the payday loans, but there was no positive outcome either than being allowed to take another loan. And having something that would help to build credit, quote/unquote:

"There'd be a light at the end of the tunnel."

And so that was favourable. And so in that quote they describe of how that could maybe be delivered.

Next quote, please. Or next slide. Thanks. So the role of mainstream banks was also -- this came out in both interview and focus group data. So in the -- in their feedback they talked about what -- how the mainstream banks could help play a role to decrease their engagement with payday loan lenders.

It was expressed by many focus group participants and by some interview participants the desire to reconnect with their mainstream bank. They wanted to have that relationship again.

And as the quotes can illustrate better than anything I could say of how that could -- that relationship could be established.

And again they speak to loyalty to their mainstream banks and maybe how the mainstream banks could work with -- in this Money Mart in terms of reconnecting them ban -- back to their mainstream bank, that they had met -- made their payments, they had no late payments, and that should be seen as a positive thing and as a way to reconnect with their banks.

Next slide, please. So in conclusion, findings show that payday loans are used for a variety of reasons at different fre -- frequencies and for different periods of time.

Push factors that contributed to participants' use of payday loans included financial constraints, poor budgeting skills, and changes to employment and scheduling -- scheduling and pay. However, the majority of participants in interview and focus groups were mindful in their borrowing practices from payday loan businesses.

Feedback from payday loan consumers also show that payday loan businesses serve a need, but also contribute to creating this need. And that is seen in their explanation of how the repeat -- their experiences being in the repeat borrowing cycle.

A prominent theme throughout the qualitative data -- so, I'm sorry, that's interview and focus group data -- was the role of mainstream banks and payday loan users. Findings show there's a mismatch of products offered by mainstream banks and the needs of participants.

Participants also describe feelings of margin -- being marginalized by the mainstream banks, so feeling unwelcomed there, in comparison to payday loan lenders.

Feedback from the focus group participants regarding alternative to payday loans provide an insight of what products would work well for them and what features of the alternative examples were important to them.

So even though there was a full explanation, they were drawing on specific things which illustrate what is important -- what was important to the focus group participants, what part of that product drew them.

Findings in this report should be used to -- as a guide to inform policy and to develop suitable alternative products in order to meet the -- the needs of consumers who use payday loans.

Further researcher -- research is needed in order to understand payday loan consumers' experiences outside of Winnipeg, and to better understand consumers' experience with online payday loans. Thank you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Sorry. Thank you very much.

I think right now we'll take our lunch break, and if we have some questions, we'll ask them after the break. So we'll return in about forty-five minutes, at 1:30. Thank you.

--- Upon recessing at 12:43 p.m.

--- Upon resuming at 1:37 p.m.

THE PANEL CHAIRPERSON: Welcome back after lunch. We're going to have a few changes this afternoon in terms of -- and in the next few days in terms of the scheduling, and I'm going to turn that over to our Board counsel, Ms. McCandless.

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair. We had discussions with the Intervenors over the lunch break, and have made some revisions to the schedule for the remainder of the week. So I would just like to get all of those on the record so that we are all on the same page -- pardon me.

So this afternoon we will be resuming with the presentation for -- from the Coalition expert panel. Due to scheduling with -- issues with some other witnesses what will happen now is the order of cross-examination will be reversed such that Ms. Patty Ko on behalf of the CPLA will begin her cross-examination of the expert panel this afternoon.

If -- if time is required tomorrow morning, she will conclude tomorrow morning. Everyone is in agreement that we can sit until 5 p.m. today in an attempt to have her cross finished up -- pardon me. Then tomorrow morning I will begin my cross-examination of the expert panel.

Tomorrow afternoon we have the Coalition consumer panel. They will be started and finished tomorrow afternoon. There may be some time for some further cross-examination of mine of the expert panel after that. If time permits, we will do that. And then on Friday morning I will conclude with my cross-examination of the Coalition expert panel.

THE PANEL CHAIRPERSON: Mr. Williams...?

MR. BYRON WILLIAMS: Yeah, and Madam Chair, I'll just congratulate Board counsel for her nimble work in -- in managing this schedule. I would simply just remind the panel, and Board counsel is aware of it, Dr. Buckland and Dr. Robinson are here as long as the -- the Board needs them on Friday.

There are some timing restraints in terms of Dr. Simpson and Ms. St. Aubin, but my understanding is that they can be managed within the schedule tomorrow morning. So I just wanted to remind folks of that.

THE PANEL CHAIRPERSON: Okay, thank you. So now I'll turn it back to you, Mr. Williams, and your panel.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, and in terms of our presentations this afternoon, there are two (2). One (1) is Dr. Buckland will discuss the -- the second consumer focus group, and then we'll turn matters over to Dr. Robinson for -- for a while for his discussion of financial issues.

And, Dr. Buckland, when you're ready.

DR. JERRY BUCKLAND: Thank you very much, Madam Chair and -- and members. So what I'm presenting now is a summary of our second focus group. The motivation behind the second focus group was to understand a more -- in -- in more depth the focus group participants' comparative evaluation of the Manitoba sort of standard payday loan model with two (2) other models.

And the reason why we wanted to do a second focus group was because we felt that the foo -- first focus group was so full of interesting insights and information that maybe we wanted to unpack it further. And so that was the -- the motivation behind the second focus group.

So I want to introduce it, explain the methods, a little bit about the participants, the results, and then the discussion. So this was done on March 5th. The purpose was to hear their thoughts, the participants' thoughts reg -- regarding the strengths and weaknesses of payday loan, a product that's currently available in Manitoba, and compare that with their thoughts about payday loan's Fair & Fast Loan and the Colorado regulated payday loan.

So we've already heard about these from Ms. St. Aubin's presentation. However, this one, we're focussing in on just those three (3) products rather than those three (3) plus some others to try to zero down and really understand the different views there in those cases.

This is a qualitative method. So we had a group of nine (9) participants, and we were looking for open-ended conversation by individuals, and then as a collective about these different products.

And just by way of background, as a researcher, when I'm engaged in qualitative methods, and -- and all of my methods, what I seek to do is to identify my own assumptions, my own biases, and my own position relative to the topic, and try to be as clear about what those are and -- and try to keep those out of my understanding of what the participants are saying.

So it's -- it's a different kind of approach than what you would hear from a pure quantitative approach. A qualitative approach is to say that we have biases, but what we do is our best to hear the voices of the participants.

The sample of participants were selected with the assistance of a local non-profit organization. We -- as I mentioned, nine (9) participants were involved and the focus group lasted two and a half (2 1/2) hours. We started off the session with a conversation about how participants use payday loans. This was followed by a presentation where I explained the concept of annual percentage rate as a way to measure different kinds of credit products.

Annual percentage rate is one (1) indicator that enables people to compare credit products of different time, durations, and different sizes. It's not the only indicator, and I know that it's not necessarily the best indicator. My colleague Dr. Robinson, for instance, prefers effective annual rate. It is one (1) indicator.

And so I explained this indicator to the participants, and then we talked about the three (3) different models. The models were the standard Manitoba payday loan, the payday loan Fair & Fast Loan, and the Colorado payday loan model.

The background of the participants, I won't go through this in detail, but to say there was quite -- there was some diversity in terms of age. The majority of participants were women. Half the participants are single. Nearly half of the participants were unemployed. Annual incomes range from eleven thousand (11,000) to forty-five thousand (45,000).

There's the table listing some indicators of each of the participants. The results, then, like, what were some of the results from the -- the focus group? Well, first of all, the -- the frequency and period of use of the participants varied.

So we had some of the users -- payday loan users use them less frequently, four (4) to six (6) times a year. Others used them more frequently, twelve (12) or more times a year. In fact, one (1) of the participants mentioned that at one (1) point he had ten (10) payday loans at one (1) period, like at one (1) moment in time.

We also saw diversity in terms of the purpose of the loans. People use them for various reasons: to meet basic needs, for emergency needs, to pay off other loans, et cetera.

And why payday loans was interesting as opposed to other sources of credit, several people mentioned that the payday loan was seen as better than a pawn loan because they could get more as compared to the pawn loan, and because they didn't have to give up a piece of collateral.

They also mentioned -- some of them mentioned that the payday loan was better than borrowing from friends or family for some of the same reasons that Ms. St. Aubin mentioned in her focus group, that that sometimes drew down the maybe level of social capital with -- with their family and friends.

So in terms of the comparison that our participants made about the different products, I found the results very interesting. And what I would start off is by saying that there were two (2) or three (3) participants who were very strongly in favour of the Manitoba payday loan. And I'll talk about kind of their reasons behind that.

And then there were two (2) or three (3) people who were very strongly inclined towards the payday loan Fair & Fast Loan. None of the participants saw the Colorado model as being preferable to the payday loan, if that was their preference, or the Manitoba, if that was their preference.

It's not say they didn't like it. It's just to say that there were some who liked the payday loan and there were some that liked the Manitoba payday loan. Why is -- is an -- an interesting point.

So first of all, interest rates. Before I talk about their thinking behind interest rates, I did want to explain one (1) point about interest rates. And I see this as a -- an ongoing challenge that oftentimes payday loans are presented in a dollar-per-hundred for a two (2) week loan. And I think this is an effort to try to simplify the total cost to borrow that loan.

What I find quite consistently is that some people misinterpret that as an annual interest rate. And in fact we saw that with the first focus group, that some people interpreted seventeen dollars ($17) per hundred dollars ($100) for a two (2) week loan as a 17 percent interest. And that's why some of the first focus group folks preferred the Manitoba loan over the payday loan loan, which is 19 percent.

But clearly this is a misunderstanding. They're comparing a dollar per hundred dollar for a two (2) week loan with a percentage for an annual -- on an annual basis. So that was one (1) point I wanted to mention before I talk about the interest rate factoring in comparison.

It was very interesting. Some people preferred the Manitoba payday loan. And in the face of seeing the numbers being higher in terms of the interest charge, the APR, as compared to payday loan, they stuck to their preference for the Manitoba loan.

And I'll explain that in a minute, but that -- that -- I wanted to make that clear from the beginning. On the other hand, some preferred the payday loan loan because the interest rate was lower.

Repayment structure and duration. Again, some people preferred the Manitoba payday loan, some per -- people preferred the payday loan payday loan. And again, loan size and credit reporting, similarly we saw a -- a division that two (2) or three (3) were in favour of the Manitoba one, two (2) or three (3) were in favour of the payday loan one.

Now, let me explain what we found were some of the reasons behind that. The -- the reasons that we -- we saw people were choosing the Manitoba loan was that the felt that it was a two (2) week loan. It was short term and there was a one (1) time repayment.

They felt that this model was very simple, and there was no kind of willpower required.

They had to pay it off in two (2) weeks. They didn't have to think about it after the two (2) week period. It was very straightforward. And so we saw two (2) or three (3) people strongly supportive of this kind of model.

And so this is an interesting insight and points to the rationality of how certain people work with loans.

On the other hand, with the -- with some other members of the focus group, we saw that they preferred the longer-term payday loan Fair & Fast Loan with the -- the lower interest rate. They felt that a longer-term loan was in their interests, and they preferred the -- the shorter -- the smaller interest rate. So these results supported what I would say are behavioural economic insights in terms of consumer behaviour.

Several focus group participants explained that for them there were few alternatives, so most of them did not have alternatives like credit cards or credit lines. Some of them were unable to get credit from mainstream banks due to bankruptcy or poor or no credit rating.

For some of these participants, friends, family and pawn loans were one (1) of the few options, but, as I mentioned, several people did not prefer those over the payday loan. However, relationship-based loans and pawn loans are small as compared to the payday loan.

Some respondents noted that due to the high cost of repaying the loan they fell in a dependence on payday loans. So this is where another feature of the payday loan came out. We seem to see clearly two (2) groups. The group that strongly preferred the payday loan seem to use the payday loan more strategically and they were able to limit their -- the number of payday loans that they would take in a period of time and kind of used it as a way to control their spending.

On the other hand, we saw other participants who were heavy repeat borrowers. And -- and again, there was the one (1) extreme case was the person who had ten (10) loans at one (1) period of time. And, in that case, clearly these people were struggling to pay off their loans. They noted that the consequence of their personal and financial struggles were bankruptcy or accumulating unrepayable debt.

So for this latter group the payday loan didn't seem to be solving their financial challenge. They were talking about the payday loan leading to accumulation of debt rather than some kind of solution.

For these participants payday loans were not helping them but were delaying their need to address personal and financial issues. Moreover, the accumulation of unrepayable debt added an additional challenge. One (1) respondent explained that she had adequate savings to pay for bills but preferred to use payday loans for some bills in order to keep her savings intact. That's a very interesting finding.

One (1) one participant really used this kind of mental accounting, where the payday loan was used for one (1) activity even though she had savings in the bank. I was really interested in this. Again, this is a person who's not using many payday loans, so this is an infrequence borrower.

The principle purpose of the focus group was to explore participants' views about alternative financial products. Several respondents were quite interested in the payday loan loan because of its longer term and lower annualized interested rate. They felt that this loan would be easier to pay off because of the installment plan and lower fees.

Some participants preferred the short-term one-time repayment of the Manitoba payday loan for reasons described as less worry, pay it off and be okay for a little bit. Other participants talked about not trusting one's self with a larger or longer term loan. For them, the small sum short-term loan offered them a discipline to limit their borrowing.

Once again, these strategies seem consisted -- consistent with a bounded rational strategy in which people are making decisions with limited information, time and self-control. For them there is a benefit to short-term, one-time repayment so that this product is worth the cost.

Two (2) types of payday users became apparent through the focus group conversation, those who were able to use small loans from time to time in a strategic fashion and are able to repay them in a timely fashion and the more vulnerable repeat borrowers who eventually become dependent on the loans. In this way, the ease of accessibility and convenience of Manitoba's current payday loan system can help some borrowers and help others.

The credit challenged payday loan users appear to be the most vulnerable to potential risks and would benefit most from an alternative product. Thank you.

MR. BYRON WILLIAMS: Thank you, Dr. Buckland. Pending any questions from the -- the panel...

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Ms. Neville's going to ask a question.

MS. ANITA NEVILLE: Turn the mic on. I'm not quite sure who to direct this question to but as I was listening to the previous presentation and saw one (1) particular comment related to unem -- to unemployment insurance, I think it was a school division employee, it made me wonder whether there has been any work done to correlate the use of payday loans to government or institutional policies, like a school division that lays people off or pays them on a ten (10) month basis, or government programs, there's a new program coming in for child support, or EI policies.

I -- I don't know what -- I mean, I haven't thought them all through, but is it -- has anybody done any correlation with the use of the loans to the activities of government?

DR. JERRY BUCKLAND: Well, I'm not

aware of a systematic study, sort of at a -- at a national data level, but I think maybe more from a qualitative perspective, that kind of insight would come out. But I -- I'm not aware of a -- a form of study looking at that.

MS. ANITA NEVILLE: Thank you.

MR. REGIS GOSSELIN: One (1) question I --

MS. SUSAN PROVEN: I just had one (1) question, and it was just for clarification. The two (2) individuals that were a man and wife, I take it, in that focus group that you had, Mr. -- yes. But they had an income of forty-five thousand (45,000), but that was between the two (2) of them, right?

DR. JERRY BUCKLAND: That's -- that's correct. That was household income.

MS. SUSAN PROVEN: Yes, okay. I just wanted to clarify that. Thanks.

MR. REGIS GOSSELIN: My question is in relation to the Colorado program, and why did the participants not like that particular program?

DR. JERRY BUCKLAND: Yeah. I was asking the same thing, and I think that my -- my sense of it was -- and we did probe quite a bit on that question. My sense was that there were two (2) or three (3) who really preferred the Manitoba -- the two (2) week payday loan, because they saw it really as a -- a way to kind of confine their borrowing by time.

And they had -- two (2) of the people reported about a special relationship they had developed with the payday lender, where if they came in early, their fees would be reduced somewhat. So -- so they didn't budge from their preference on the -- the Manitoba payday loan.

And then the other two (2) or three (3) who took a position were -- favoured the payday loan. And I think the reason why was that it's a longer -- potentially longer term, so twelve (12) to twenty-four (24) months, and a lower interest charge than the Colorado model.

So the Colorado model is shorter term, six (6) months, and a higher interest charge, I think close to 120 percent. So I think that's how that calculation was made. A couple of people really didn't take a position. They -- they weren't taking a position on it.

THE PANEL CHAIRPERSON: Okay, thank you. Mr. Williams...?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And I just wanted to -- I don't know -- there's no need to respond, Ms. St. Aubin, but if there's anything you wanted to add on the Colorado from your focus group, you should feel welcome.

MS. ZOE ST. AUBIN: With the focus -- focus group that I conducted, there was -- a lot of them were unsure. They wanted more information. And they -- so that's why they didn't respond, so that's why they didn't take a position.

MR. BYRON WILLIAMS: Can I just -- just for the benefit of the -- of the Board Chair: In your focus group, was there one (1) person who did express a liking for the Colorado --

MS. ZOE ST. AUBIN: There was. So there was only one (1) who did see it as easier to pay off, and -- but the remaining six (6) were unsure, and -- and did -- and -- to comment on that, yeah.

MR. BYRON WILLIAMS: And the panel should always feel free to ask questions at any time. I see Board Member Proven has got a --

MS. SUSAN PROVEN: I'm thinking about the Colorado model, and I think I read when I was reading about it that they basically, in Colorado, removed the payday loan, right? They took it away.

Is that true? And then they replaced it with the Colorado model.

DR. JERRY BUCKLAND: Well, they -- they have required payday lenders in Colorado to follow a certain model. So these -- these are companies that remain in the industry who were offering the more kind of typical payday loan, two (2) week short -- short -- small sum, who were required to move to the six (6) month installment loan.

MS. SUSAN PROVEN: So I'm thinking if I was one of the vulnerable people, you know, it seems to me that crises happen a lot when you're poor, and to think six (6) months into your future, that would be very scary for me because -- I mean, I think that -- you know, your tires could go today, and then tomorrow, your son could need something, and -- whatever. And so to sign up for something that was six (6) months long, and to not have another option if some other thing came upon you might be very frightening.

Did anyone mention that, that they -- they couldn't really envision the six (6) months of trouble free life that they could concentrate on just that one (1) obligation, that there might be other challenges ahead?

DR. JERRY BUCKLAND: Yeah, and that's a very interesting point. And to the extent that I probed that in focus group 2, and I'm not sure if Ms. St. -- St. Aubin wants to speak as well, but the -- to the extent that I probed it, the -- the people that strongly preferred the Manitoba payday loan were more strategic and their finances seemed to be in a more even keel sort of shape.

They were not too worried about their finances. It was actually the -- the more strug -- financially struggling individuals who preferred the payday loan loan. So I -- I certainly hear what you're saying. I -- I think the -- the preference for payday loan or -- or the Manitoba loan and not Colorado really has to do with -- we're -- we're kind of comparing apples and oranges.

And, you know, if we were specifically to compare the Colorado with the Manitoba, I think it might have looked different. I -- I don't know.

THE PANEL CHAIRPERSON: Mr. Buckland, I just have another question, sort of a follow-up to what Ms. Proven was asking. But there was a group -- the group that you -- the focus group you used was from a -- it -- it came out of an organization? They were accessing an organization?

Like it would be something -- like --

DR. JERRY BUCKLAND: Oh, the participants from -- for the focus group 2?

THE PANEL CHAIRPERSON: Yes, the focus --

DR. JERRY BUCKLAND: Yeah, they were -- we -- we recruited them through a community organization.

THE PANEL CHAIRPERSON: Okay. And would that have been -- would that organize -- I don't know what the organization was, or whether you can reveal it, but was -- would that organization have helped them be more strategic so that your sample might be a little different than what Ms. Aubin had -- St. Aubin had?

DR. JERRY BUCKLAND: That's an excellent question. I can't actually reveal the name of the organization, because it would -- it might be possible to identify the respondents if you looked really carefully at the data. So I can't -- but I can reply to your -- your question, and I think that might be a factor.

I think that the participants in my focus group could be a different group than the participants from Ms. St. Aubin's group.

MS. ZOE ST. AUBIN: And in term of the six (6) month projection for participants, if you look back in terms of the mismatch of products from the mainstream banks, you will see in the -- in the quotes and the report actually state, I only need fifty (50) -- fifty dollars ($50) now.

So it's also an indicator that projecting into the future, there was some limitations with the participants that I engaged with.

THE PANEL CHAIRPERSON: And thank you, Mr. Williams.

MR. BYRON WILLIAMS: And I don't know -- recognizing that time is tight, if Dr. Robinson had a point of clarification about the Colorado model, or if you want to defer?

DR. CHRIS ROBINSON: Here we are. The Colorado model, I wrote some more for you in the exhibit that was added today to try to make that clearer. It is extremely complex. It took me some time to absorb it. And I -- given everything that my colleagues have said, I think we can assume that -- that the participants in the focus groups would not have actually been able to figure it out.

However, it does -- it -- it does kill traditional payday loans, and it does not allow you to get sort of the short-term very small loan. I mean, you could get a very small loan. The maximum is only five hundred dollars ($500).

However, what happens if I am reading it correctly, and I believe I am, is that 27 1/2 percent of the principle is earned by the lender as soon as you sign the contract. So if what you did was borrow a hundred dollars ($100), and you -- and you can repay it any time. You -- it's not a six (6) month loan. It is a repay anytime. In fact, they do not specify when you repay it. You would pay twenty-seven fifty (27.50) on a hundred (100) if you paid it back in two (2) weeks.

So it is not a replacement. It is a different product. I don't think the participants got -- or maybe the participants figured that out, but it's -- it took me a while to figure it out. So it's not the same. And in fact, in my work, where I'm recommending installment loans, I'm not recommending the Colorado model.

MR. BYRON WILLIAMS: Sorry. And thank you. And just for the Board's information, Coalition 37, which is in front of you, there's a -- just a bit more description of the Colorado model. Our team found it complex to -- to dissect, so I just draw that to your attention. And please feel free if there's other questions about it.

I think we can let Dr. Buckland and Ms. St. Aubin relax for a few minutes. And I believe it's Dr. Robinson's turn.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Bonjour. Je suis hereux de visiter Manitoba encore une fois. Bien sur c'est la province amicable. However, before Mr. Gosselin and -- and Ms. Dilay start laughing at my high school French, I'll switch to English, which is, in fact, my native language.

You have in front of you Manitoba's provincial bird. I do love coming to Manitoba. Chairperson Botting, Ms. Proven, we've been here before together. Mr. Morin, Mr. Gosselin, Ms. Neville, Ms. Dilay, and Mr. Williams, thank you for inviting me to come here and present.

I -- I see that Mr. Christle is not actually in the room, but thanks to him and his staff for paying me to come here.

We are all telling stories. Whether they are stories with a bunch of numbers attached, whether they are stories from sociology, we are telling stories. And so the Board has to decide which stories it finds more helpful in making its determinations.

So one (1) question is whether my story about the industry is that it is this predatory owl tearing apart those poor, mouse-like customers, or whether it is the people that we heard yesterday, one (1) remotely and two (2) in person, and the representatives of the CPLA talking about a business, about people who are earning a living with a business that they operate in Manitoba and across Canada, and as we've seen in many countries.

And my story is about the business. We cannot blame payday lenders for all the ills of society. They may be contributing to it. We've seen evidence they may or may not be. But they are not alone responsible. We're, in fact, all responsible. So I'm going to stick to the business story.

And I have three (3) recommendations. I'm always full of recommendations. Maximum fee, 15 percent of principal.

Now, I am going to be trying to incorporate every story I have heard here in evidence during my presentation of evidence, not merely what I have already written. I believe I can do so, and that will lead into my recommendation, or we'll see if it changes it.

I recommend that the borrower should have an option which is not Colorado to convert to an instalment loan on or before the due date. I am not the only person, in fact, recommending that, and it has -- already exists elsewhere.

And I'm going to recommend, or possibly even change that recommendation, to leave the maximum loan limit at 30 percent of net income. I may suggest to you that, in fact, you should consider raising it.

So what do we know about this business? Remember, this is a business story. It's a small business, a few hundred thousand revenue per annum, five (5) to twenty (20) loans a day.

Maybe they cash a few cheques, maybe they sell some money orders, but those other businesses are trivial. All the evidence shows that. It is -- and cheque cashing is disappearing.

Aside from the United States, which remains a backwards economy, cheques are disappearing around the world, and certainly in Canada. I -- how many of you have actually written a cheque this month?

Well, I have to write one (1) cheque a

month, but I don't want to admit the circumstances under which I have to write it. However, one (1). Now think of how many your parents wrote, as -- as we've heard already.

So these are very small businesses. Now, I'm not a typical finance professor. I do hands on. I go and watch payday lenders. I walk by their stores and look at them everywhere: In Canada, New Zealand, Australia, in England.

In Canada, there's never anybody in the stores. These are very small businesses. They are very low activity.

Costs. Wages, occupancy, and bad debts are the costs. You've heard that from others as well. Mostly, these costs are fixed. We think of labour costs as being variable, but they're not. You know, unless you're going to fire your employees every day, they are fixed costs. So to open the doors of the store the costs are fixed. That's what is the reality of this business and every other small business.

And this particular business does not require much capital. The loans turn over so fast there's very little involved. They lease their premises. This is a low capital intensive business. This is not Manitoba Hydro.

What else do we know? The key challenge for a small business is volume to cover fixed costs. As we speak, my students are valuing Dollar -- Dollarama. You -- you saw Dollarama; it's out there, okay? And Dollar Tree is across the street. So my students have to become experts in this. Getting the volume to cover the fixed costs is whether that store survives or not; that's it. Okay, that's the biggest thing in the business.

So economy of scale. If most costs are fixed, this means the costs rise much more slowly than loan volume. In other words, you can put more loan volume through a store, you can make a lot more money. Now, you've, of course, seen that in your hearings with Hydro where, you know, those dams have been around for fifty (50) or a hundred years and they're already paid, and so if they get a small increase or decrease in electricity sales it makes a big difference.

The large chains can generate more volume with advertising and share some costs like information technology. So the large chains have some economies of scale. But most of the economy of scale is at the store level. You're paying the rent. If you do twice as many loans, you don't just get twice as much profit, you get four (4) or six (6) times as much.

Now, economy of scope. If you can push more through, a retailer will tell you if they can give you -- if they can run a bigger ticket, okay, if you sell more to one (1) -- each person going through or you can run more through your store.

I live in a neighbourhood where stores fail all the time because the rents are so high that only a business that I -- I just take a look at their shelves. I see have they got enough different thing selling that they can actually cover their fixed costs.

So you add gold, pawn shops. Dollar Financial, for example, has bought a bunch of pawn shops in the United Kingdom and is now running payday loans through them. Tax preparation, it hasn't worked. Cheque cashing is declining every year. Payday lending is increasing. The other products have not taken it up even from the most successful practitioners. This is not a failure on the part of the businesses, it's just the business isn't there.

If you're in a small town you have to have several businesses. In 2008, on Valentine's Day, I called up every payday lender in Manitoba sitting in my hotel room awaiting a next day of hearings and I stumbled on a shop. I believe it was Steinbach. And Mabel (phonetic) talked to me. Yes, you remember, Ms. Proven? And Mabel talked to me and said: Well, dear, I'd love to talk to you, but you have to let me sit down. This is my busiest day of the year.

She said, I'm a flower shop. I'm not kidding you. She was running a flower shop and running a payday lender. My recollection is it may have been from Ted Sorrenson (phonetic), but I could be wrong. In any case, she was running a payday lender. And she said, Now, I sit them down, dear, and I tell them you shouldn't take this loan unless -- and, you know, it went on and on.

And I -- so I asked her rates. And her rates are better than Money Mart. So in my own province I have talked to payday lenders who were running, you know -- well, running a lot of businesses, and they're unregistered, so I can't name them, but I bought a phenomenal used guitar from him and -- not that I'm a guitarist.

And I saw another one in the same; it's since gone. It's a small town, too big -- you know, not big enough to really support payday lenders. They're running it out of a laundry mat.

So that is the sort of business -- and I believe that's what happening in our small communities in Manitoba, that there some businesses that are multiple businesses. Three (3) of them -- for example, if you look at the regulator's list they will tell you there are forty-three (43) payday lenders in Manitoba. That's not true; there are forty (40). The other three (3) are title lenders operating out of the same address as the payday lenders.

I don't know why they're registered twice because they're paying twice as much fees, but they are the same operation. So you share your fixed costs, and then you can make a living. But these businesses on their own are not necessarily sustainable.

So who are the lenders? Concentrated and consolidating more so since I started doing research in this area in 2004. Money Mart, which Dollar Financial owns, which is in turn owned by LoanStar Financial in Texas, it has half the market or more. Five hundred and seventy-four (574) out of fourteen hundred and twenty-seven (1,427) stores. I'll pause here for a second.

The exhibit you have that I prepared, Exhibit -- Appendix 4 to my report says there's fourteen hundred and twenty-five (1,425) stores. Due to the oddity of the way Money Mart's website works I thought there were no stores in Prince Edward Island but, in fact, it turns out there are two (2); Money Mart and one (1) independent both in Charlottetown.

So there are fourteen hundred and twenty-seven (1,427) stores is my count, and I believe that is the most accurate count of payday lenders in Canada. I put a lot of work into that. Money Mart has twenty-one (21) out of forty (40) stores in Manitoba currently.

Cash Money. We heard from Cash Money yesterday. It's a private company. It started, I believe, in Ontario. It certainly seemed to be there originally. It has a hundred and eighty-four (184) out of the fourteen hundred and twenty-seven (1,427) stores in Canada, and four (4) out of forty (40) in Manitoba. So it's a relatively big operator in what is after all a small business. But it's -- and it's the second largest in Canada.

There are larger Provincial chains. There are single stores or small chains in one (1) or two (2) Provinces. If I recollect correctly, there is one (1) chain of two (2) stores in Manitoba, and the others are independents. There have been other chains here, but they are no longer here.

MR. BYRON WILLIAMS: Dr. Robinson, just before we leave this slide if I can -- I -- I see that you've looked at concentration in the marketplace as number of stores. And would another way to be -- look at is percent -- percentage of the volume of sales?

DR. CHRIS ROBINSON: Yes. Now, the industry has been reluctant to provide us with that data. I have, however, used the sources that are available to me and I placed an estimate -- I can't remember the exact number, but I would estimate that the top three (3), 70 percent of the volume, okay, Cash4You being a third one which is of course not in Manitoba.

The evidence for Money Mart, which went private, that is the data was removed for our view after June -- or full data after June of 2013, and nothing after the next quarter when -- when Texas bought Canada, is -- suggests fairly strongly that Money Mart has half or more of the volume, and that was before Money Mart bought Cash Store Financial, bought its customer lists.

You heard earlier from Ms. St. Aubin that she found a whole bunch of stores that they thought existed weren't there. I know what those stores were. They are -- are -- they are cash stores, Cash Store Financial and InstaLoans outlets, that do not exist but are still in the yellow pages or still listed on the net because Money Mart is continuing to maintain them in order to capture any customers that are still out there who think that Cash Store or InstaLoans exist.

In fact, one of the references in one of the previous presentations was to Cash Store, and yet it hasn't existed since early 2014.

And this is perfectly -- this is not an underhanded thing. This is normal business practice. You buy the -- you buy the name, you keep running it. That's how I got -- I -- I had a real problem New Brunswick because there were so many entries in the yellow pages of stores that don't exist anymore.

MR. BYRON WILLIAMS: Thank you.

DR. CHRIS ROBINSON: What do we know about the market? Borrowers are relatively disadvantaged. You have seen the evidence from -- from my colleagues, and their excellent research. I rely on that.

Most loans are to repeat borrowers, some more than ten (10) per annum. The data that you saw, one calculation I provided in an -- in one of the Information Requests, if you use the British Columbia data just literally use it you'll discover that 94 percent of the loans made in British Columbia in the most recent year were to repeat borrowers. And over eight thousand (8,000) of the borrowers in British Columbia borrowed more than fifteen (15) times a year, which is staggering.

So all of the data, as -- as Dr. Simpson said there's this long right tail. We don't know the details from Stats Can. But all the data from every US and Canadian source, including Nova Scotia, British Columbia, and Ernst & Young, the industry study from 2004 says there's a huge number of repeat borrowers. That is what the business runs on.

So it becomes a debt trap for many borrowers. Not for all, but for many. Furthermore, many of those one (1) time borrowers may in fact be borrowing from several different companies but the databases, other than a very few American states, do not permit identification if they went to a different company. That is -- we just know if you borrowed from the same company.

And so the lenders depend on the repeat business. Ernst & Young's original study, most of which is -- is not something I wish to rely on because of its errors, but there's reason to question the statements made by the lender -- by the lenders then and now that it's a lot easier to process a loan to somebody that you already know.

We've heard from the descriptive material from the qualitative research that they love going in, that people recognize them. Well, of course, that means it's fast. It's easy. Not the first time, but there are not many first time borrowers.

So what do we know about the market? There is no meaningful price competition. Interestingly, that was reinforced tremendously powerfully yesterday. So pre-regulation rates, Money Mart, complex fee schedule, average loan cost was about nineteen dollars ($19) per hundred. Now, you don't want to go into how Money Mart used to calculate its fees. We -- we'll be here all day figuring out the details.

But, you know, so you'll have to trust me that the average loan would have been about nineteen dollars ($19) per hundred. Cash Money at that time was charging a flat twenty dollars ($20) per hundred. Okay. And Cash Money was here and it was in

Ontario.

Ontario regulated twenty-one dollars ($21), some other provinces at twenty-three (23). So what did Cash Money and Money Mart, who were operating quite happily at nineteen (19) and twenty (20) do, their rates are at the maximum in those provinces now.

However, you saw an even more striking example of that yesterday from the young lady from Policis. Because what the young lady from Policis said was, People are just flooding into the internet. Everybody is borrowing the internet. There's hardly anybody in the stores anymore. And the internet is extremely dangerous and they're charging far higher rates.

So apparently if you charge higher rates you get more business. This does seem to be rather different from what we learned in basic economics, that if you charge higher rates people won't buy your product. But we are told, certainly at least from the evidence presented by the CPLA, that higher prices mean that people will buy more of your stuff. Somehow I'm not sure how that works.

It does seem to suggest there's no price competition. Interestingly, the young lady did not discuss the United Kingdom. The United Kingdom only recently regulated -- I'll come to the UK in a minute, but they only recently regulated and yet the evidence that I have from Money Mart -- or rather from Dollar Financial and the evidence that she presented says that most of the lending in the United Kingdom was online before there was any regulation.

Her argument was that regulation drives people online, but it doesn't seem to work that way in -- in the United Kingdom, they were there. They went online long before there was any regulation. The United Kingdom, quite frankly, was a wide open cowboy market prior to regulation.

MS. SUSAN PROVEN: I just want to refresh my memory, didn't you say back in 2008 that in the United Kingdom it was door to door? That was a lot of door to door knocking.

DR. CHRIS ROBINSON: Yes, what we understood was and -- was doorstep lenders. And what doorstep lenders do is they literally turn up on your doorstep. And we also discovered -- and, I mean, I can't present the evidence now, we presented it then, what was happening sometimes was that the doorstep lender turned up the day after a building inspector turned up on your doorstep and said, If you don't do this or that to your -- to your building here, you're in violation of council standards and you are in deep trouble, and you need to do these renovations.

And then the next day the lender is there with the money so you can afford the -- the renovations. So there's a -- furthermore, you've all heard of higher purchase or rent to own, easyfinancial.

It is no coincidence that easyfinancial was originally established by Cash Door Financial, by Mr. Gordon Reykdal, and it's the same principle, very high interest rates for immediate ownership of something.

So, yes, the United Kingdom seems to have a longer tradition. I could talk about what Canada had in the past, if you like. It was somewhat different, but -- so the UK's kind of a bit different from us.

So in the United States, some states banned, almost all the rest regulate. Okay. So the commonest rate cap is fifteen (15) per hundred in terms of how many rate caps you see. Some are lower. For example, Michigan, my original presentation said Mississippi. I'm sorry, I should have said Michigan. Mississippi is higher.

Some are around Manitoba rate and some

have no limits. Missouri has a rate of 75 percent. That's seventy-five dollars ($75) per hundred, okay? In Missouri, the rates are not that high, but they are higher than the rest of the country.

MR. BYRON WILLIAMS: Can I just stop you here just for the purposes of -- on your paper PowerPoint or the version you were given yesterday, this is the -- the sentence that was edited. So we have provided that edited -- this is the version that now affear -- appears on the official exhibit.

Dr. Robinson, I'm sorry to interrupt. I just wanted to --

DR. CHRIS ROBINSON: It doesn't change anything else I'm saying. Plus, you have the complete table. The reason that I created that table last night was because I recognized that the table, my Appendix 3, it would have been more helpful to everybody if we actually had the rules laid out as opposed to how much it would cost for a three hundred dollar ($300) loan.

I found one (1) error in the PEW tables. The young lady from Policis had some errors. She, for example, claimed that Washington is not -- doesn't have any payday loans, and that's not true.

She also had the wrong rates for -- for

Florida. You remember she spent some time on Florida, but she actually has the rates wrong, but I have them correctly there. But none of these are major differences. You get the picture of -- for -- for the United States. Okay.

There are lots of stores and states with a fifteen dollar ($15) cap and lower, and you can see that from my -- from the Appendix 3 to my report, all kinds of them, okay?

So they are apparently, if we use what we call positive as economics, that is, if they're running stores there, they must be making some money to keep going, and so they're happy at fifteen (15).

There is not as much corporate concentration as Canada. Again, there's a lot of private companies. It's hard to tell, but the biggest lenders there, there's nobody like Money Mart.

Money Mart, which is owned by an American company, is bigger. It's -- sorry, the Canadian operation is far bigger than the US company that owns it. Money Mart dominates Dollar Financial's results, as you'll see.

So we have much more concentration here, and that happens in some industries. Some industries, it's the reverse. The United States, for example, has, you know, many, many banks, and we're concentrated. But in other areas, we're -- you know, so it's -- it's not something you can assign to the country. It's just the way it is.

The loan volume per store generally is lower than Canada on average, quite a bit lower in some cases. Rhode Island is perhaps an -- an exception. It has loan volumes more like Canada, but it has very tight loan limits, and therefore there are only a few stores. Rhode Island is not a good place to be a payday lender.

UK regulation, .8 percent per day. So on an average Canadian loan of twelve (12) days, this would be nine sixty (9.60) per hundred, way below what -- what would be sustainable in Canada.

It seems -- and I just -- I simply don't have better data. And of course, the young lady from the UK didn't provide us with any. It seems that more of their loans are going for a month for some reason. Maybe they're only paid monthly, I don't know, in which case, it would then be -- the -- it would then be twenty-four dollars ($24) per hundred for a month.

But of course, if you borrowed twice in Canada, in any jurisdiction in Canada, you'd pay more than that twenty-four (24). So it does seem that the UK rates are lower than Canada's, but it's -- it's a little -- you know, you can't perfectly compare them.

And I don't know whatever the rules are going on. Furthermore, it's mostly online there. At least most of the evidence we have says that, including my own evidence.

There are stores -- for example, Dollar Financial, I had to go and count on the website. But Dollar Financial has -- Money Shop has two hundred and twenty (220) outlets, physical outlets, in the United Kingdom which includes Northern Ireland, okay, mostly in the large cities.

So clearly not the same penetration that there is in -- in Canada or the United States, but quite a lot of them nonetheless. And of course, the UK population is much more concentrated.

More companies -- and I can't give you numbers, but I started searching the net. More companies seem to be offering instalment loans. You look for payday loan UK and you find instalment companies offering -- saying we'll pay to lenders. And then you go to the website, and they're offering an instalment loan.

I did not try to get all the details of

all of these things. There's -- you know, there are only so many hours in the day.

Profitability in other jurisdictions. Okay. We don't have a lot of data. This is the best I can give you. The operating margin of Dollar Financial -- and I've defined it there. I realize that only the boring few accountants around here are enjoying seeing this sort of stuff, but I'm one (1) of them.

So earnings before interest, taxes, and arbitrary allocation of head office costs divided by total revenue. That's how they're defining it. That's how I use their definition. I could, of course, have redefined it.

And 'retail' means the stores. So their internet business is assigned entirely to a separate segment, which is quite reasonable, right? Who knows what country it's in. However, if you use another part of their website, and I think I put this in one (1) of my Information Request responses, you can discover that there's very little internet lending for -- for Dollar Financial in the US and Canada, but lots of in UK and Europe.

You don't know whether it's UK or Europe or both, but there's very little internet lending. It's -- I think it's less than 10 percent of their total volume is internet lending in Canada and the US. And they're a very well-organized company, so it does bring into question some of the estimates we've heard about the -- how everybody's borrowing on the -- on the net, especially since the store volumes don't seem to be declining.

And you notice now -- look at the profit rates. Essentially, Canada's double everybody else. They're making a tonne of money. In fact, Canada is supporting Dollar Financial, that's it. Why do you think Loan Star bought it? They bought it because they can get high profits out of Canada.

Okay, and take a look at that. Forty-nine fifty-one fifty (4,951.50), operating margins like that, I don't know any business that gives you that kind of an operating margin, frankly, okay, and that's with the supposed regulation that's in operation.

Of course, you're aware of the rates, 17 percent Manitoba, 23 percent in your neighbours to the west, 21 percent in Ontario, twenty-two (22) Nova Scotia, and twenty-five (25) PEI. And New Brunswick -- it's on my table. I can't remember what New Brunswick is, but they haven't been -- they haven't done it yet. Everybody's lending in New Brunswick, but it's actually not legal.

THE PANEL CHAIRPERSON: All right, just can I ask you a question?

DR. CHRIS ROBINSON: Yes.

THE PANEL CHAIRPERSON: It's probably not quite relevant at this time. I was going to ask it earlier. But is there any correlation between Manitoba having higher -- a higher number of payday borrowers, which I understand from some of the statistics that were shown, how they have -- maybe I'm incorrect in thinking that, that more people borrow money from --

DR. CHRIS ROBINSON: Well --

THE PANEL CHAIRPERSON: -- payday loan and -- and then -- and the slower -- and the lower interest -- or, you know, dollar amount for one hundred (100)? Like, is there any correlation that we would have more Manitobans borrowing because of the lower --

MR. BYRON WILLIAMS: And I'm -- Madam Chair, I -- I just want to confirm. And then you might be inviting responses from Dr. Simpson and -- and Buckland, and that's totally okay. I would suggest it if you -- I just want to make sure that I understand your question. And I believe that you're referring to the SFS analysis of Dr. Simpson that showed a -- a relation -- a higher than average payday loan use in Manitoba.

Have I got the ques --

THE PANEL CHAIRPERSON: That is correct.

MR. BYRON WILLIAMS: Okay.

THE PANEL CHAIRPERSON: But I could hold that question and --

MR. BYRON WILLIAMS: No. I think it's quite appropriate to ask it of the -- the witnesses whenever -- and it's going -- I would --

THE PANEL CHAIRPERSON: Yeah.

MR. BYRON WILLIAMS: -- if -- if --

THE PANEL CHAIRPERSON: Okay, thank you.

DR. WAYNE SIMPSON: Well, I said I wasn't going to speculate on what the reason was for the Manitoba result, but there are, you know, some possible factors. And the fact that loans are -- are cheaper here than in other provinces that regulate would be consistent with price theory if you found that in fact, people used them more.

But to that extent, that would be --

mean that payday loans are pretty sensitive to price, so I wouldn't -- wouldn't want to exaggerate that -- that influence, but it -- it's consistent with what an economist would predict based on -- on price alone, yeah.

THE PANEL CHAIRPERSON: Just as a follow-up. The reason it had occurred to me earlier was because Mr. Robinson had indicated that people would not go for higher paid loans on the internet. Like, why would they do that? They would go for a lower rate. Your comment was that -- it sort of struck me...

DR. CHRIS ROBINSON: I -- I --

MR. BYRON WILLIAMS: And just -- oh, sorry, go --

DR. CHRIS ROBINSON: I -- I agree with your -- or I sympathize with your difficulty in putting these pieces together. You may wish to think about whether -- how -- which evidence you wish to rely upon.

Mr. Shemski (sic), I couldn't actually see him physically, but he testified -- he spoke yesterday. 'Testify' is the wrong word, but he spoke yesterday. And, of course, he referred to the fact that -- that Alberta's rates are -- are much higher and...

But I didn't get the impression from any of the evidence from either Ms. St. Aubin or Dr. Buckland that that was actually what's driving their clients, their -- or sorry, their -- their subjects. Rather, what's driving them is -- well, you -- you saw the factors. I don't need to repeat them.

Okay. Okay, let me continue. How do I get 15 percent because we have to remember what I'm talking about. I've got three (3) recommendations. It's a classic regulatory model such as you've seen for Hydro, okay, or -- or anything else that you regulate here. The operation must be efficient. There's no excess costs allowed.

Money Mart is my starting point partly because that's the data that I can get, although I am going to show you something else shortly. So what I do is I model one (1) store and throw everything into it. So I pick -- this is a classic way that -- that economists work, and -- and I am technically an economist as well though I hate to admit it.

And that is you put your head office costs, everything that belongs in one (1) store -- you just focus on one (1) store. So then you get your chain by multiplying by two (2) or a hundred (100), or five hundred and seventy-four (574). So all values include a sha -- a share of chain costs.

The end result in a regulatory model is no excess profit, that's what you're looking for, after you pay off the capital providers. So everybody has to get their fair share. If we go -- go back to the earliest days of economics, land, labour, and capital.

Now, as it happens I believe that the ecosystem is the fourth part of that that's not treated properly. Fortunately we don't have to worry about that here but you certainly do have to worry about it in some of your hearings. I haven't seen any evidence that payday lenders are particularly destroying the ecosystem.

So how do I justify using this model? And there's an important -- some important issues here that I have to deal with because this is not a monopoly. And you're, of course, accustomed to dealing as regulators with monopolies, and this is not a monopoly although Money Mart is trying to make it into one.

So there's an ethical justification. We have seen so much evidence about the borrowers that they don't have the kind of power of choice that as --

as if they are facing a monopoly, okay. And there's no price competition. So consequently we have -- without a monopoly we have the same sort of behaviour as if there were a monopoly in many ways. We don't see them fighting on price.

And the economic justification is a classic one. If we're in the situation -- if the industry is not competitive, we regulate so that it doesn't earn more than the fair return on what it invests. So this is just what you've seen before. I am not actually introducing anything new.

It's always been rather -- a puzzle to me that I seem to be the only person writing about payday lending who has ever done this. I have no idea why they're not -- I've not seen it anywhere else. I don't know why.

So how do I get there? So what do I have to do? This is going to start getting less exciting and more nitty-gritty and more boring here. I -- I hope you're up for this.

We estimate the volume, or range of volume, okay. How much loans -- how many loans you're making, how big are they, et cetera. We figure out all the cash costs, which in the industry -- and there's a problem with doing this but it's expressed as the operating dollars or dollars operating per hundred loan volume. It's how it gets expressed.

Now, there's a problem with that and the problem is the scale because, of course, it should decline as you get bigger. And that's why I use Money Mart because it's big. How much do you have to invest? How much money do you have to put up to run this business? I already told you it's not much.

We estimate the cost of capital as a rate, as a percentage rate of return. That's what you say -- and this is a firm model, so it is what you call a weighted average cost of capital. So it puts all capital providers -- which in this case is simply debt and equity. There's nothing fancy about it. And -- oops, I got careless here.

That should be number three (3) times number four (4). I'm sorry, my typing. Okay. So it should be number -- the cost of capital times how much you invested.

MR. BYRON WILLIAMS: And -- and just for the purposes of the court recorder, Dr. Robinson, so we're looking at the slide 'how do I get 15 percent' and in terms of item -- item number five (5) you're saying that instead of twenty-three (23) times four (4) on that page, it should be three (3) times four (4)? Is that --

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: -- correct?

DR. CHRIS ROBINSON: Numeral three (3) times numeral four (4), okay. Right, thank you. If I -- I -- and I suppose I could just go out -- I could go back into my PowerPoint and change it, but.

And so then what price -- so what we're left with is instead of creating an income statement saying, What's the profit? We say, The profit is zero. What price do we stick in at the top? It's just -- this is algebra, right, this is grade 9 algebra.

You start with the price of zero and now you solve for what fee you put in. That's all it is. Okay. Just think back to grade 9. Okay. And that is what you have seen in all of your regulatory hearings. So you're actually much more familiar with this than I am on -- on a daily basis.

Another way to explain this, let me go into my students valuing Dollarama. You value a company by discounting all -- all the future cash that's going to come in, and it's cash, and I will come back to that point. And you talk about free cashflow, which is the amount that you have to invest in order to -- or sorry, the -- the amount that's left over after you've paid all the cost, all the things you have to do to keep running.

Revenue minus whatever you spend to keep the business going, okay. You can't have cashflow forever unless you reinvest. So this means additional working capital, additional capital expenditures, whatever you have to do. This is, again, classic valuation. This is, you know, I teach this. I've been teaching this for over thirty (30) years. It's the standard stuff.

The regulatory model turns the cost of capital into an expense line. Instead of treating as what's left over, we treat it as an expense line. So we deduct it as well in order to determine if there's some sort of free money, if this company is undervalued.

And in a perfect market the net value is zero. If the market is working perfectly the net value would be zero. We have the right price. We have the right fee structure. Okay. So it's just a different way of explaining it, depending on how you happen to understand the way I'm working here.

I suspect that the panel probably understands it the first way, but I thought I would try another one just to -- to give you another way of thinking about it. So now it gets really messy, because the devil is in the details.

So I'm going to -- let's see if I can make -- let's see if I can call this up and it doesn't collapse because of me and computers. I'm going to call up the Excel spreadsheet, which you all have. Now, let's see what hap -- let's see how this works, okay. I did this last time -- or back in 2008, so.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Now I'm getting kind of fancy. I call this an operating model. That's a bit of an overstatement. In cla -- you know, if you were evaluating a business you'd just call this a -- a valuation model. Operating models are actually way more messy than this, but do the same thing.

Hold your breath. If this doesn't work then I just talk a lot more. And we're going to do something that -- at this point I'm going to have to ask somebody to hold -- hold counsel for the Public Interest Law Centre down, because he hasn't seen this. I mean, he's seen the model.

But I told you I was going to use all

the evidence presented. In my opinion, my job here is not to answer to the Coalition clients, nor to answer to my lawyer. It is only to provide you with my best evidence on this question. So I'm going to do that.

Now, this is the base model that you got. And let me show you a few things about it that are kind of important. Okay. The first thing of course is right up at the top -- oh, I know what I have to do. Sorry, here. Oh, of course, everybody's got this on the screen, I'm forgetting that, so you can all see it. I always have my students with big screens right, and then they -- they all hide at the back of the classroom and they can't see anything, but you can see this.

So now you may not be familiar with Excel. I have to tell you, I'm not -- I don't do fancy things. I do very simple things. So the first thing to look at is at the top, the volume of loans. I'll tell you how I got that. But for the moment, take it that that's the volume of loans of my efficient star.

And there are some big issues in this. So let's take a look how the model works and go down to -- it's -- by the way, it's simpler than it was in 2008, Ms. Proven, you will be happy to know, because we don't have those complex fee structures. So I actually had -- I actually threw a whole bunch of it out. It was nice because it was really messy.

Look at percentage fee revenue, and look at what that says. And there's a very important point here. I'm sorry I have to go into such detail. Do you see where it says, "one (1) minus B23"?

What I am doing -- if you are a payday lender and you issue a bunch of loans, you issues two million three hundred and forty thousand dollars ($2,340,000) worth of loans, you don't get 17 percent of those loans as revenue because some of them never pay you.

So you only get revenue on the ones that pay off. So I have to reduce the revenue by that amount. This is going to come up later because of course, unfortunately, Ernst & Young and Deloitte don't understand this, and so they have tried to deduct it twice.

Furthermore, the bad debt rates used elsewhere deducted twice if they are just input into my model. I'll come back to that point, but -- so you can see I'm only allowing the revenue they actually get, right? And so this bad debt rate is very important, okay? We all agree on that.

The next thing we all agree on that's really important is the operating cost for a hundred dollar ($100) loan back up in line 13, okay? And -- oh, I shouldn't have done that. Okay. Hang on. I'm sorry. You'll have to -- I'm -- well, I'm trying to talk and do things and the same time, and I'm going to destroy the model if I'm not careful.

DR. WAYNE SIMPSON: You have to click away from it.

DR. CHRIS ROBINSON: Yeah, have to click away from it. Thank you, yeah --

DR. WAYNE SIMPSON: You got to go back now.

DR. CHRIS ROBINSON: Yeah. Now I go back. Yeah, thank you.

DR. WAYNE SIMPSON: I'll just get you to click away from it somehow.

DR. CHRIS ROBINSON: Yeah. Okay. Sorry about that. Fortunately, I have two (2) people who are better than I am at this, or who are paying attention more carefully than I am. Okay. So we're back to where we were.

So here is the operating cost for a hundred dollar ($100) loan, and it is a large part of the costs. If you look down at the line where it says what the operating cost is, it's -- you know, it's -- it's most of the cost as we've already seen, as everybody's evidence shows, right?

That's where the big bucks are. To open the doors, you've got to pay this. Now, the trouble is it's made a fraction because we have no other way to model. I could do more sophisticated modelling, and I think I'm going to end up in the same place. But I don't have the data.

I actually tried doing this years ago using rent cash data, but it just -- there wasn't enough of it. There is a way that I use to extract fixed and variable costs. You can't do it. If the industry would give me the data, I could do it, but I don't have it.

So what we end up with down here is this excess profit on line 34. And so what I'm doing is I'm not actually solving equations. I fool around with them. I put in different numbers and see what happens. Okay? Does everybody understand that? All you're doing is you're playing around with it to see what happens.

And I could I suppose actually set up equations and solve them, but -- but it just doesn't -- it -- it's not very intuitive, and it's easier for me to explain it this way to you and to understand it myself.

So the average loan term is -- on line 7 is only to determine the receivables. I have an estimate of cash on hand. That's the money invested.

Now, capital investment per store, I used to have a lower number. I've increased it. In line 19 of initial store loss, you will not see this ordinarily in such models.

But the reality of the business is that when you open the store, any small business, you lose money for a while. That's why so many small businesses go under. They think they'll earn money right away and they don't, and they -- and the owners starve to death.

So you have to allow that as money they invested. You'd see this if you bought a store. So if you went out to buy a payday lending store, they'd say, Well, I'm not just giving it to you. I put my -- my heart and soul into this. Really what they mean is, I starved for a while.

And so a hundred thou -- sorry, a hundred thousand (100,000) seemed to me to be a reasonable number to -- to allow for that. So that's an investment. It's not visible, but it was there in the past.

The regulatory deposit they have to do by law. Payables, I'm just using standard working capital estimates of what the payables might be. So you don't pay off -- you don't pay everybody right away on the store. These payables may actually be too high when I look at them now, but it's -- it's very difficult to tell.

The capital investment is not the big issue here. The big issue here is the operating costs and the bad debts. That's where we find out what's going on in the payday store -- payday business.

So now this is assuming an operating cost of eleven (11) bucks for a fee of 15 percent in the column B, the left-hand of the two (2) columns. It's assuming -- the only difference in the right hand, column D, is I assumed a 17 percent, which is Manitoba's current fee.

So if all of these numbers are reasonable representations of an efficient store and you go down, you see that there is a very large excess profit at 17 percent, which you then multiply by the number of stores, and a lesser excess profit in column -- in -- for 'B' at 15 percent.

Now, there is no -- I can't say one

dollar ($1) or ten dollars ($10) or a hundred dollars and pro -- demonstrate to you rigorously that that is what the number should be, it should be within that range. So you'll just have to take my -- my best judgment is that anything under five thousand dollars ($5,000) up or down, negative or positive, I can't tell the difference between that and zero. okay. That's my judgment.

That's all I can give you, is that my judgment is that, if you are within five thousand (5,000) -- I mean, remember, I'm estimating a lot of stuff here, within five thousand dollars ($5,000), I'd say they're not earning excess profit or losing.

Now, understand that a company that's earning zero excess profit on its income statement will show a positive income ordinarily. Well, I'm a CPA. I know how to do things with income statements, better left unsaid. So maybe they wouldn't show it. Maybe they lie to the tax man. But in reality, they would be earning money. They would be showing positive net income because the cost of capital is not deducted as an expense.

Now, I'm going to come back to fooling around. I -- if I was fancy, I would have linked all this so that every time I changed everything, all the stuff on the right would change, but I didn't. I actually just typed it in, ran my model over and over, and you, of course, could do the same.

I'm going to come back to -- well, okay, I'm going to come back to my arguments for these numbers, but I'm going to do something. This is where you have to hold Mr. Williams down bef -- before he comes over and strangles me. Yesterday you heard from Cash -- from Cash Money, the young lady from Cash Money. I took notes because for the first time somebody actually talked and gave me the numbers.

Now, I can show you the algebra, but from this I have extracted the parameters to rerun my model, and I have not done so because my job is simply to give you evidence. So we're going to find out together now whether Cash Money is right. I will tell you that her statement yesterday is wrong; it is wrong in a very fundamental fin -- result

She said, We're barely hanging on. That's not true. Why is it not true? Because what she said was, We are charging 8 percent for the cost of capital. That doesn't appear on the income statement. That is this notional opportunity cost.

They are in fact, according to her numbers, which I -- one (1) of which I dispute, only one (1) of which I dispute, they're in fact earning an excess profit of 1 percent of revenue, and I can tell you what that -- I can estimate what that is. It's -- they're earning an excess profit per store of just under thirty-five hundred dollars ($3,500) per store, okay?

Now, that's within my five thousand (5,000), but that's at 17 percent. So by her evidence, at 17 percent her company is doing fine. They are okay. Any statement to the contrary is -- is purely -- well, I told you we're all telling stories.

Now, the one (1) number I challenge is the 8 percent cost of capital. You have read my original report. You have seen my response using a different set. I will not try to be terribly tactful about this part. Enrst & Young and Deloitte are not qualified to determine cost of capital and don't know what they're doing; they have done it wrong. They have done it wrong by every textbook in the country.

I could in fact show you a textbook coauthored by David Stangeland, from the University of Manitoba, right here in Winnipeg that will tell you how to calculate the cost of capital properly. I, however, went to the most eminent authorities. In fact, I checked another one this morning because he whacked an email over the internet to me, Pablo Fernandez, in Spain, who does annual surveys, and his numbers again agree with what I'm doing.

So their costs of capital are too high, so I'm sticking with mine. And, in fact, most of my numbers show that it's less than 8 percent in real terms. But let's take the numbers that Cash Money gave us about operating costs. You're going to have to bear with me here because you're going to have to accept that I know what I'm doing for the moment. You can ask me to do the algebra and show you where it comes from.

But what she said yesterday was: 54 percent store cost, 25 percent bad debts, 12 percent head office, 8 percent cost of capital as a percentage of revenue. Now, everything has to be operated on loan volume to make this work. So you have to convert it, and that's what I've done.

Furthermore, she also said that one (1) in fifteen (15) loans went bad, which is a default rate of 6.7 percent, and we looked at that and we said: We don't trust that, because nobody else is showing that. Okay. It does not show in British Columbia or Nova Scotia. It doesn't show for Money Mart's results, and it does not show for Cash Store the year they went bankrupt. They did a lot better than that. So we don't buy it.

Furthermore, that is number of loans, not value. And she said 25 percent bad debts. That actually works out to 4.4 percent of the loan volume goes bad, okay. Just trust me. I'll show you later if you like. We'll go back to grade 9 algebra, okay. That's about as far as my algebra goes anymore.

So let's put the numbers in -- oh, yes. And plus, of course, from this I can also determine what the operating cost is, assuming I buy that Cash Money should be shipping 12 percent of its revenue off to some head office some place. I -- that's -- for most companies, that's pretty high. It's not as bad as Money Mart -- Money Mart's results.

So let's try this. Okay. So I don't know what the result -- I'm quite -- quite -- to be quite honest with you, I do not know what the results will be from this. I'm pretty sure the results will show that at seventeen (17), they're fine. I don't know if they'll show that they're good at fifteen (15).

Okay. So eleven dollars and twelve cents ($11.12) is -- is what's implicit in -- in what she said as a percentage of loan volume. Here's the...

(BRIEF PAUSE)

DR. CHRIS ROBINSON: And that's the only numbers I have to change, right? Okay. So if she is correct and those are -- those are the general bad debt costs -- oh, sorry, I have to change the volume up here.

The implicit volume in her statement is $2.25 million dollars. Now, this is a subtle point. My model is being run on 2013 numbers, so I sort of have to try to be consistent with 2013 numbers. So in 2013, their loan volume would have been a little less in terms of -- you know, in terms of dollar values. I mean, they gained from Cash Store Financial's failure. That's why their volumes are as high.

But if we deflate them backwards to 2013 to make everything else work, we might be -- although I guess these are current costs. So let's say that it's twenty (20) -- two (2) -- have I got the right number of zeros there? One, 2, 3 -- one (1) more. Thank you. Yeah. Yeah, right.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Okay. So what this is saying is that at 17 percent, if those are the correct volumes, they are operating at a -- they're operating within my range. In other words they're not -- despite their complaints, they're okay.

It says that at 15 percent, she claimed they would close shop. This does seem to support that. Let's take a look at the thing that's causing the difference, because the operating cost is very different -- a little different from what I put in before.

So instead of four point four (4.4), let's see what happens if we put it in at four (4). We're still -- they're still low. If I'm at three (3) -- so I have to go down to 2.5/2.8 percent bad debts. In other words, in order for Cash Money to continue in operation, it has to do something.

And this is a -- this I as very serious question I don't have -- I have opinions about, but we don't have an absolute answer, which is: You heard earlier Dr. Buckland talking about underwriting loans. A real question we have to deal with, and I -- remember, I said these -- this is not about payday lenders being predatory lenders.

The question is whether they ought to

be more careful in who they loan to because they're lending to too many people who simply cannot repay. I don't have an easy answer to that. This does say that the bad debts, given the information that we have from -- from them, that the bad debts -- and, in fact, my other simulations show that, is where my other sensitivities show that. Seventeen dollars ($17) per hundred, no, they got no problem.

What this says for Canada as a whole is that maybe Manitoba -- well, Manitoba is the only place that actually had proper hearings. I mean, I think you should be very proud of yourselves for that, because everybody else, what they did was appalling.

I mean, the -- the report out of Ontario is pathetic. What you've done is look at it right. Now, the question you have to deal with is my story here. The story we're saying is that they're going to have to underwrite, or you'll have to leave it at seventeen (17).

My recommendation remains at fifteen (15). That will require them, because the other part is right here, what should the head office costs be? So I'm going to back off this. Have you seen enough of this spreadsheet or too much?

I mean, you do have it, so you can, in

fact, play around with it. Furthermore, you're free to ask me questions afterwards in your own deliberation. You can say, Well, not to give more evidence, but hey, how did this work, what are you doing here?

(BRIEF PAUSE)

MR. REGIS GOSSELIN: Dr. Robinson, I -- that spreadsheet, have you -- has it been provided to the Board?

DR. CHRIS ROBINSON: Yes.

MR. REGIS GOSSELIN: It has. Okay.

DR. CHRIS ROBINSON: Yes, everybody -- the Board and to the -- and to CPLA. So Mr. Cathcart has -- has it. I think he's been fooling around with it.

MR. REGIS GOSSELIN: Okay.

MR. BYRON WILLIAMS: Mr. Chair, just -- my understanding is on or about March 29th, we sent an electronic email. One (1) went from Dr. Robinson directly to the PUB, and the other one went to someone from CPLA, but I'm not sure -- we'll check with Dr. Robinson at the break.

Our intention was to be able to -- to

answer Information Requests about it, but also for others to -- to work with the numbers.

DR. CHRIS ROBINSON: Yes, I was provided with a list of emails. There is a technology problem. Legal Aid Manitoba uses Open Office. Open Office corrupts spreadsheets prepared on -- on Excel Windows, so I have to send it -- I had to send it directly.

I know this is not the normal procedure, but that's the only way you get it, because we -- we went through this in 2008. It just destroys the stuff. Okay.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: For those of us in the room here that -- we have it in our Dropbox. So if people are knowing it's in our Dropbox.

MR. REGIS GOSSELIN: Dr. Robinson, could you -- could you, for the benefit of the panel, explain the difference between economic rent and accounting net income, and why --

DR. CHRIS ROBINSON: Certainly. Certainly.

MR. REGIS GOSSELIN: -- that would be

not -- we don't need it -- we don't need to look at accounting net income versus economic --

DR. CHRIS ROBINSON: Well, of course, I would love to have the financial statements, because I can extract all kinds of things from them. I love doing that. However, accounting is based on -- mostly on cash, okay, revenues, cost, wages, et cetera, but also on an allocation of past historic costs, most notably depreciation.

Buried in here actually is depreciation, because oddly enough, the depreciation results for Money Mart were higher than the capital expenditures, which is quite unusual. Ordinarily, we'd use cash flow. However, what is different from this from accounting -- from accounting income is that in an accounting statement, you would see interest expense, actual pay during the year, plus possibly an accrual that's due, but not been paid, or something of the sort. And you would then see a statement of retained earnings in which dividends are deducted. So that's a payment to the equity holders.

But the dividends paid to an equity holder do not represent the actual cost of that capital. Equity holders normally expect in the long run to get continually increasing dividends, you know, get more and more. And so consequently, we adjust that by saying, What's the value you expect to get from your equity holding? What's the value you expect to get from your debt holding?

And we combine that to say, Let's pretend that we pay the equity holders every period exactly what they earn from the company, what they -- what they should have expected to get. They put up this money, they bought the shares, how much should they expect to get? That's your required -- you know, your required rate of return on equity.

And you turn this for the whole company into a weighted average cost of capital by taking appropriate weights of debt and equity so that you say, What would be the total providers -- you know, What would the total capital provision require us to pay if we had every period to pay the economic value?

So now we've turned it from an accounting statement into an economic statement. And since we want the capital providers to get what they deserve, we work -- we use market values as much as possible.

And I have used that, for example, in my information -- in tar -- in my IR, I -- I used the capital asset pricing model, which is a market-based model. And what's left over, then, is no longer accounting income, no longer taxable income or anything like that.

It is: Is there an excess profit? Is this the -- is this operation earning more than the capital providers would require in a competitive market?

And so of course, then, you -- the aim in regulatory proceedings is to get it to zero. Of course, strategically, as a business, you want that to be as big as possible. But of course, what happens when you do that is your share price rises.

Is that -- is that helpful or is it confusing?

MR. REGIS GOSSELIN: For the time being, it is. I -- I seem to recall spending a lot more time than that in school trying to learn the difference between the two (2), but that's fine. It's -- for today's purposes, it's good.

Now, the -- a real return of 8 percent, could you comment on why that would be the appropriate real return that should be used?

DR. CHRIS ROBINSON: Okay. Now, I've written in detail about that, but let's just sort of make sense of -- let's get an idea of what are reasonable numbers. So one (1) reasonable number is to say: What do you expect to earn on equity and debt in the long run? Okay. What do you -- what do you see in long-run returns on average?

Equity returns -- and -- and remember, this is real, not nominal. That is to say, this is after you deduct inflation. And the reason you deduct inflation is because we're dealing with a perpetuity.

Next year, Cash Money, or Money Mart, or anybody else, the -- everybody's incomes go up, the loan values go up. Remember, you've seen from the statistics, loan values are increasing, the average loan size. So what happens is is that their revenue rises and their expenses rise.

Now, in order to deal with that when you have one (1) -- you just use one (1) year's results and say, We're going to look at this forever, is you have to make everything into real dollars, and therefore, you have to use a real interest rate and a real discount rate, okay?

So it has to be with -- with inflation deducted, okay? Otherwise, you're -- you're misstating. This is -- this is a classic problem in valuation that occurs.

Dr. Brigham, one (1) of the celebrated

teachers and researchers in finance, relates the case where he was called in to one (1) of the world's largest corporations to referee a dispute between two (2) divisions over a billion-dollar investment. One (1) said, No, you should do this. The other said -- one (1) said, You should do this. The other said, No, you shouldn't.

He relates that as far as he could tell, the only reason that they couldn't agree was because one (1) side was using a real discount rate and the other was using a nominal, and they shouldn't have been. They should have been using the same rate.

And so the problem here is that -- again, you have to take my -- I guess take my expertise for it -- this is a real dollar value, and therefore it has to be a real discount rate.

So the real rate on average in equity for Canada, geometric, around 5 percent. If you were to go to the Ontario Teachers Pension Plan and ask them what do they hope to do in nominal terms over the long run, debt plus equity, they'll tell you they expect to get about 5 percent.

So when I take 8 percent -- and of course, remember, there is a tax shield for the debt -- I'm actually taking a very high -- a relatively high discount rate. This is far more than you'd get on most -- on most investments. And part of it's financed by debt, which is tax deductible.

So I provide in one (1) of my Information Requests a -- an alternative calculation which came out to 7.4 percent. I can't remember. This is eight (8).

The 14 percent that is being suggested in other places is simply wrong. You -- you don't get that kind of real rate of return on anything. A broker who promises you that is cheating you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Okay. Thank you.

DR. CHRIS ROBINSON: Okay. Let -- okay. Shall -- I mean, we can come back to this. You were, after all, asking me for what I have to tell you.

MR. BYRON WILLIAMS: And, Madam Chair, it's just I'm -- I just want to make sure we're mindful of the panel's rest needs, if any, so we can certainly continue. I would have -- or we could take a -- a brief break. I leave that totally up to you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you. We'll continue.

DR. CHRIS ROBINSON: Okay. Okay, so what are the big issues? Well, you had fun with that, right? Volume per store, operating costs, bad debt expense and the cost of capital. And we've actually already talked about some of this, so some of this we will be able to move through a little faster. Oh, whoops, I got to turn this back into a presentation. Where did it go? Come on, behave yourself. Oh, right, that's why it wasn't -- okay.

Volume per store, operating costs, bad debt expense and the cost of capital. And it's just not as important because there isn't that much capital involved. Fight all you like about it; it won't make much difference to the results. And I showed you some simulations that showed it doesn't matter.

It's what we just saw, ran the model, bad debts mattered. Okay, loan volume. I started with Money Mart's twenty thousand -- 2013 volume. I had to use their 10K because it's the only thing that's got complete disclosure.

I estimate the volume it would have

captured when Cash Store Financial closed down and Money Mart bought it. Everybody's volumes went up. These are much higher volumes than I used in 2008, far more than just inflation or growth in the market would allow for. It's because -- I said this industry was concentrating. This is the normal process of industries. The over billed. Starbucks had to close down half of its Australian operations.

I'm waiting for Dollar Tree and Dollarama to start having to close. It's not -- it's not going to happen yet. They'll over build first. I don't know where all those pharmacies are going to sell. I mean, just because I need a lot of drugs does mean that everybody does.

So this is the normal process. And so Cash Store Financial closed down. Money Mart bought it. They might have captured 90 percent of its volume. I gave a table where I guess various numbers and came up with 234 -- $2.34 million as being a reasonable number to start.

You can put in your own numbers if you like. It will make a difference, but it's the costs that matter more because remember the costs are expressed. Now, if they were selling 4 million in the store their costs would no longer be as high.

Remember what I said about cost scale, so I could be very wrong. This -- this industry could in fact be making a lot more profit.

Okay, so tables 2 and 3 paid the sixteen point (16.) -- sixteen (16) to nineteen (19), tab 3. Go the -- give the detail. I don't think -- I mean, I -- I'm happy to answer questions. I'm not sure that me calling those up and going through them in detail is going to help you a great deal, but this is your call because I'm here to -- to provide my expertise to you.

MR. REGIS GOSSELIN: Well, it's an obvious issue because you're depending on assumptions, estimations, extrapolations --

DR. CHRIS ROBINSON: Okay.

MR. REGIS GOSSELIN: -- and so on to -- to arrive at a number. And --

DR. CHRIS ROBINSON: Would you like to see it?

MR. REGIS GOSSELIN: But in -- but in the ab -- but in the absence of -- of data that is available from a cash store provider -- pard -- I'm sorry, a payday loan provider, it's the best we could do is my -- my conclusion.

But --

DR. CHRIS ROBINSON: It seems to be reasonably consistent with what Cash Money told us. Money Mart is bigger and more powerful than Cash Money and it should have -- and it bought Cash Store, so it -- you would expect it to have high volumes, and I'm showing it with slightly higher volumes, but they're in, you know, numbers that look comparable.

I mean, Cash Money's running four (4) stores in Winnipeg, right, which is where the population is, so it seems consistent. I was very encouraged to read their results -- or to have those results yesterday and to be able to reverse engineer them to get all the numbers because I don't have a lot of numbers.

So I think -- but, yes, I -- this is the best I can do really. I think maybe the costs are more of an issue. So let me -- you can come back to the loan volume issue. I mean, as I said, I'm here for you.

Cost of capital issue, I -- we have dealt with this. I can -- everything I've said in this slide I've already said to you, so I don't really want to continue to repeat it because you asked the questions already.

Operating costs. Okay. Let's take a

look at page 20 of Tab 3. Let's see if I can get it.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: I thought of doing this off the spreadsheet, too, and I decided that was just going to drive us all crazy. So this is how I drew it out of Dollar Financial. So all I'm doing is taking Dollar Financial, which shows Canada retail, which means, you know, Money Mart. Nothing else. That's it. Just Money Mart. Money Mart with no Internet lending. That -- can't put it in. Don't have it.

So this is Money Mart. Then I do -- in this -- in this -- in this respect we tend to -- all of us tend to do the same thing. We allocate -- because there's cheque cashing and other stuff, so what we do is we allocate -- and this is arbitrary. You just can't get around it. We arbitrarily allocate the costs based on the share of revenue.

So if payday lending is -- what was it? It was 59.058532 percent, so 59 percent of the total revenue, we allocate that to the payday costs. The cost in the store is shared. You -- you can't actually separate them. This is one of the issues in business -- in any kind of analytic work in business is how do you split out joint costs. You can't. You know, you get arbitrary. I mean I've actually been -- started doing this work in 1974 for Shell.

If I had enough data, if I had enough time, I could get maybe better estimates but we don't have that time. We don't have that kind of data. So the -- so I get the operating costs. This is not allowing for returns to scale what happens if I crank up the volume to 4 million, or something like that. I'm just going to use this -- use this fixed number.

So the operating costs comes at twelve dollars and one cent ($12.01). That's using their own dollar conversion rate that they have in their statements. And so it's taking -- it takes out the -- you know, deducts income tax. It allocates head office costs. You see the line that says 'allocate head office costs?' I've got my curser on it. It's blue -- put it in blue here.

So that's an -- oh, yeah, it came back. Okay. So that is a very important and controversial number, and I have written about that at some length. The head office costs, the totally identifiable costs, the stuff that's called 'other,' for -- for each operating unit, and then the other 'other' that is also identified is a staggering percentage of the total costs, the total revenue, however you measure it.

As an ex -- I don't remember the details but I went to Cash America, a similar company operating in the US, to see what they showed. And that -- that is in my report. And if -- if my recollection is correct, they show about a quarter that value of, you know, other costs. I cannot recall, and I have analyzed a great number of statements, I'm a very active investor and teaching this for thirty (30) years, ever seen a company with that much stuff that I didn't know what it was. I still don't know what it is.

And so I told you we're telling stories. Well, the story that I see is that LoneStar Financial bought Dollar Financial, and takeover artists do one (1) of three (3) things, or all three (3). Leaver, borrow a tonne of money to finance your own takeover, and fire a bunch of people and cause great suffering in the community, and all the rest of it. That's one (1) model.

A second model is that you actually buy a business that is related to some -- something you already have and you can, in fact, honestly reduce costs. You've seen that in Canada very recently; Loblaw's and Shopper's Drugmart. The estimate was on the order of two (2) to $300 million a year of reduction and costs. I can explain why. It's actually a very legitimate statement, and Loblaw seems to be doing it.

The third reason, very common when you need to go private, is that you know that there's fat in there. You know that the head office guys are -- are just blowing money, even pay -- putting it in their own pockets. That they are bloated. That you can get more money out of this company.

Well, take your pick. It's interesting to note that almost all the debt for Dollar Financial was located in Canada. Canada is providing all the money to run Dollar Financial. And it's going to who-knows-what down in Berwyn, Pennsylvania. If LoanStar were to give us the statements today for Dollar Financial, I'm quite confident that the so-called other and other/other, and head office, and this and that, and stuff I can't even -- I -- I don't even know what they're talking about -- what it is, would be vastly lower.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Dr. Robinson, if I could interrupt, and I'm just going to ask Diana on this point because you referenced the Cash America information --

DR. CHRIS ROBINSON: Yep.

MR. BYRON WILLIAMS: -- that's in your evidence, I'm just going to ask her to pull up page 21 --

DR. CHRIS ROBINSON: Oh, I -- I can do that right here. I'm on it, right. It's probably the next page, right. Is that -- is that page 20? Where did my page numbers go? There we are.

MR. BYRON WILLIAMS: Towards the bottom then, Dr. Robinson, and that may give the Board just some assistance in the comparison.

DR. CHRIS ROBINSON: Okay. Thank you. You know my work better than I do. Yes, 6.1 percent of revenue. Dollar Financial it was 29.5 percent of revenue. It's getting closer to five (5) times the size.

MR. BYRON WILLIAMS: Thank you.

DR. CHRIS ROBINSON: You see that -- you see these numbers, okay, let -- let me just highlight them here. I mean, it's easy for me, right, I wrote this. Okay, six (6) -- here's Cash America.

Other operating expenses 6.1 percent of revenue. And it's other category includes quite a few expenses that Dollar Financial shows separately, so it's actually worse. They're hiding even more stuff that we don't know.

Dollar Financial actually lays out quite a few costs and then there's all this 'other'. I don't know what the 'other' is. I -- I mean, I tried to imagine what it might be other than private jet planes, and, you know, and -- and luxuries and so on.

And this -- here it is, so the sum of these, 29 1/2 percent as opposed to 6.1 percent. So this is the best I can do. I told you I'm telling stories, but my story is that I should not be using twelve dollars and one cent ($12.01) as an efficient lender.

If there -- if this was Manitoba Hydro in front of you they would have to justify those expenses. And if they said, Oh, well, we've got 29 percent of revenue stuff, we're not going to tell you what it is, I mean, I invite you to speculate for yourselves what you might say. I don't think I have to say that for you.

Okay. So going back to my model, for

all the work that I did, I was using eleven dollars ($11). If you say Money Mart -- Money Mart after all was an independent company. It was the giant in Canada already. If Money Mart could run without the head office costs, in other words, if you could spin Money Mart off as a company, I bet you could, their cost -- their cost per hundred would be nine (9) -- nine dollars and fifty-three cents ($9.53), not eleven (11), not twelve (12).

At nine dollars and fifty-three cents ($9.53) you could go down to a -- you could go down to a rate of twelve (12) or thirteen (13) -- you could go down to a payday loan fee of 12 or 13 percent. I am not suggesting that that is what you should do or that I can justify that, but it gives you an idea of the range of what's going on here with all these hidden costs that we can't see.

Fortunately, you have to make these decisions, not me. I get to be an academic. Okay. Doe everybody understand where I am? That's -- like that's -- that and the bad debt are the big numbers. And if we take cash -- but on the other hand the other story, you saw, I -- I openly did it in front of you, the Cash Door -- or sorry, Cash Money, and Cash Money suggests if they really can't get below 4.4 percent, even though Money Mart is at two point two (2.2), don't ask me why Cash Money is so inefficient, you -- you'd have to ask them that.

If Cash Money did some underwriting they could be profitable at -- at 15 percent. I don't have to make that decision, you do. There's what the numbers -- there's where the stories are, where the possible stories are.

Okay. Let me return to the rest of this. I've taken a very long time already. Let me see where -- let me see where I am. I'll see if I can remember what I'm doing. Okay. There we are.

Okay. Oh, yes, there was an error in the way that bad debts are measured. And remember I showed you that the bad debts, what you do is you measure revenue by deducting the bad debt rate to get what your revenue will be times the volume that actually paid off. So I have incorporated bad debts. The bad debt that must be used in my model is the cash.

Okay. So, you know, I just -- I go into my wallet here and -- by the way, if anybody's a little short, I have some extra cash with me if anybody needs a loan until -- I mean, you know, Manitoba doesn't pay as well as Ontario, I understand.

Okay. So -- well, I trust -- yeah, well, I certainly trust you more than him.

Okay. So I lend Dr. Buckland a hundred dollars ($100). I liked it much better when there were snowy owls instead of whoever this boring -- oh, Mackenzie King, or disgusting man.

Anyway, now the way they're measuring bad debts is not the way I'm measuring them and it's not the way that it fits in my model. It isn't necessarily wrong. So if Dr. Buckland absconds with my money, which he's not going to do, oh, I'm not so sure. If he absconds with my money, how much have I lost? A hundred dollars. That's what my model -- that's the rate my model is using.

So if I put up a million dollars and I lose just this one (1) loan to this rotten university professor, that that's my bad debt rate, fifty dollars ($50) over the volume, and that's the way my model works. It's not that I lost a hundred and twenty (120) because he never paid me the hundred and twenty (120) in the first place. I've already deducted it on the top line.

So, therefore, you can't use -- and that's not the way they're calculating it in Ernst & Young, or in Deloitte. They're calculating it as if -

- they say, Well, the opportunity costs, you lost the revenue you didn't get. Now, I actually at one point wrote out the journal entries for you, but I really don't think you want me to. I do know how to do accounting.

When you account for this properly, this is all that you show your bad debts expense, under general accepted accounting principles. So I'm actually in agreement with the accountants here. But, in any case, the way my model works is cash. It took me a while to realize that.

So the -- the results -- the rates you're seeing elsewhere, the 6 percent, et cetera, are usually using that; therefore, in appropriate to use in my model. If you're doing that, you'd have to do their model with the full rates as if you collected all the revenue, okay, and I just don't do it that way.

So you can't -- you asked me to, and I refused in fact, to put the 6 point whatever percent into my model because it's wrong; that's all. However, we've seen that 4.4 percent is -- is high enough to cause problems. So you can have that problem to deal with, not me. I'm just showing you what -- what the story is.

Okay, and you might -- this -- I wrote this before I did -- I -- I told you I did not do the Cash Money calculation. You may come to a different conclusion from me now. I think you should put Cash Money's feet to the fire, so to speak. You will get a more concentrated industry, but...

Oh, okay. I gave you a bunch of different results depending on the inputs. Do you want to look at those or have you heard enough of this already? Do you want to look at what some of the different results are if you play around with the model? I am happy to talk about them. You had enough. Okay, I -- I sympathize.

So I'm going to -- now, if you want me to stop, I can. What I have left to talk about is no more of the -- the 15 percent rate. You -- you've got what I got. You've got what I got. Well, I want to talk much more briefly without a whole bunch of complex numbers about the installment option and the loan size.

So we've seen all the evidence of the repeat borrowing. Common sense; how can you repay in two (2) weeks time if you couldn't make ends meet last pay cheque? That's what it amounts to. There is no more complex story than that in a very real way.

Colorado is not, I -- in my opinion, actually meeting that, but Washington state may be. Furthermore, the CPLA has proposed something that I think is much like this. It's also similar to what British Columbia is doing. And I think Alberta is considering it, as well. I -- I could be wrong about this.

So that what -- what do you do? Oh, I'm sorry, let me go backwards here. I'll just go back into...

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yeah, yeah, which arrows though?

DR. WAYNE SIMPSON: Where are your arrows? They're here.

DR. CHRIS ROBINSON: Yeah. Okay. So actually, I wrote out Washington state in that additional Tab 37 now it is, I think, so I wrote out Washington state, as well, but it's very si -- it's -- it's very simple. They -- they don't actually specify a lot. They just say that any time on or before the due date you can convert to a loan if it's -- if the loan is under three hundred (300), you have a maximum of six (6) months to do it. If the loan is over three hundred (300), three hundred (300) to five hundred (500) is their limit, you have si -- you have up to, sorry, three (3) months and six (6) -- I'm sorry, I've got it written there. You'll have to read it.

The idea for Manitoba or for Canada as a whole would be that what we've seen so much evidence of is this what we call a bullet repayment. It's just racking them, so they only actually borrowed once, but the end up borrowing ten (10) times because they can't pay it off each time. And they go through incredible gyrations to somehow keep making ends meet, and yet they actually only borrowed once.

Now, I don't know what this does to the industry. In Washington state, the industry has decl -- the size of volume has declined considerably. People are indebted -- in debt, that is holding a loan for a shorter period of time, but they are, of course, in a single loan for longer, right? Each loan lasts longer, but they don't have repeat loans because they get it paid off and get out of trouble because they have time to do it.

However, we've seen from the evidence that some of these borrowers just aren't going to go with that. And in fact, one (1) of the guys that used to play soccer with me saw the same result back in 2002.

Michael Grant did work for the Public Interest Advocacy Centre. Same focus groups they did. A certain number of payday borrowers are using this for behavioural purposes because it allows them to control themselves.

We know now a whole lot more about behaviour and finance than we did even ten (10) years ago, and that's actually -- that's what's happening. So my view is we make it an option. You have to offer the option, and you make it simple, okay?

So I've already talked about Colorado State, and some UK companies seem to be moving to instalment loans as well. That's a marked evidence that there seems to be a demand for them, but again I don't know enough about the UK to say more than -- than to tell you that.

All right. Number 1 is what matters. I could -- I'm an academic, right? We can recommend stuff all over the place. We're great at doing that, but I don't know what the right answer is for this.

I have made suggestions in there, but I call them suggestions. I can't remember if I've got one (1) up here or not, but this is something you have to do, the -- the industry has to comment on, has to discuss with you as to what they can make work, what they think their borrowers will do, and it has to be simple.

We know the -- I mean, we've seen the evidence. They don't understand what we've got now. None of us can quite figure out Colorado. In my table, I have -- in my table that I gave to you, one (1) state is left essentially blank.

I can't figure out what Texas is going. I cannot understand what Texas is doing. I don't think anybody else can either. PEW just says, Here's two (2) examples, so they can't actually tell you how it works.

I read the law and I couldn't understand it. In fact, as I read the law, there should be no payday loans in the state.

Well, if we do this to borrowers, how are they going to understand? And how are we going to make our payday lenders do that? So it should be simple.

So what I suggested is you don't foresell roan -- loans. Every bol -- borrower is told there is an option. They don't have to take it. No more than twelve (12) months.

So I have a suggestion. This is a suggestion. This is not, you know, I know the right answer. Add the 5 percent that's now in the law. Regulation 13 -- 13.1, I think, the maximum charge for a loan that isn't paid off on time is 5 percent of the principal. I think I contributed to the determination of that back in 2007/'08.

Add -- so you add it. So they borrowed a hundred dollars ($100). They owe a hundred and seventeen ($117). You add five dollars ($5) to that. They now owe a hundred and twenty-two ($122), and you just divide it by the number of payments they're going to make. That's a simple way.

It will -- of course, the longer it goes, the lower the interest rate. You can't make it too long or you're disadvantaging the borrowers. They've got too much money outstanding.

But it will reduce the bad debt charges, okay? And that is a big benefit for the industry. Without doing any more credit checking, the people will just be able to do it.

Well, I mean, I -- I can't tell you. You have to -- you know, the -- the industry's going to have to talk about this with you. And it won't just be -- gentlemen, is there -- are there any payday lenders here? There isn't anybody here from the industry, is there? Just the -- just the -- the -- from the association.

MS. JANET DAVIS: Yes.

DR. CHRIS ROBINSON: Sorry, there are?

MR. BYRON WILLIAMS: There are, yeah. Yeah.

DR. CHRIS ROBINSON: Okay. Well, you're going to have to figure this out because you know better than I do how -- how it works out there.

MR. BYRON WILLIAMS: We're -- we're not to speak to the --

DR. CHRIS ROBINSON: I'm sorry.

MR. BYRON WILLIAMS: All right. So just before we -- we go to the loan-size limit --

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: -- I just would ask Diana to pull up Exhibit 37, page 3, just for a second. And perhaps we can show Colorado and Washington just so you can --

DR. CHRIS ROBINSON: Oh, okay. Yes. I don't have that.

MR. BYRON WILLIAMS: Well, it's right here in front of us, Dr. Robinson.

DR. CHRIS ROBINSON: Oh, right. Okay.

Thank you. Okay. So you can see Colorado. If you're able to actually absorb all of this, there will be a test at the end. I think I've got it right, but I can't absolutely guarantee it.

MR. BYRON WILLIAMS: And then, Dr. Robinson, if you can just -- just -- I just want to illustrate to the Board that there's a description of both of these in this exhibit. Okay. Thank you. I appreciate it.

DR. CHRIS ROBINSON: Okay. So there's the evidence for you from what other people are doing. But I'm not an expert on how you might make an installment work right. Thank you.

Okay. Diana, can you -- I wish I had your technical skill. Okay. All right. So that's installment option. Loan size limit. Here is where I think -- I mean, I was asked and I believe the clients wanted it to go to 25 percent of net income because of this problem.

I said leave it at 30 percent because of the single repayment, okay. I gave you a table. I then -- you asked for another table, so I gave you more variations on the table but it all comes to the same problem. Put either limit in. Can you pay four sixty-eight (468) or five sixty-one sixty (561.60) if you've got a net pay of sixteen hundred (1,600), and that's higher than most of our borrowers.

You can't, right. I mean, think back -- I mean, we're a middle class audience here but let's just think back to when we didn't have so much money. So my opinion however is that we have a problem with the industry. And we've heard from them very strongly. Lower limits force some borrowers to two (2) lenders, and we know that more loans at smaller amounts raise lender costs.

So I would actually be more -- I would be happier to see -- knowing the 15 percent or 17 percent rate, I would be happier to see larger loan limits with an installment option. Not larger loan limits without it, larger loan limits with an installment option. I actually did work out the numbers when the people were doing yesterday about what would actually be the amount of loan you could get, what's the average loan size.

US loan limits are lower than ours, by the way, in -- in general. And they're absolute loan limits. Five hundred (500) bucks usually.

But I think that would -- we can't solve the problems with society. I mean, these problems are much, much bigger than anything we deal with here in payday lending, which you've heard what Ms. St. Aubin said, what Dr. Buckland said, what their clients were saying. I think this would at least help some of those problems to have a higher loan limit but an installment option without unduly punishing the payday lenders whom I've already told you I do not regard as predatory, vicious owls tearing apart mice.

That's, of course, the Manitoba Provincial flower. Lovely flower. I've never actually seen it in -- in -- you know, directly. I have seen owls before.

So I'm not going to add more concluding remarks. You've had more than enough of me already. So do you have more questions?

MR. REGIS GOSSELIN: I suppose, Dr. Robinson, one (1) of the issues is that I can see would be the borrower who uses repeated payday loans, and which represents the bulk of the volume for most of -- of the lenders, your recommendations are not addressing that -- that individual who is borrowing repeatedly and has ten (10), twelve (12), fifteen (15) loans every year.

So I can see -- I can see that it would help the woman who's alone with kids, and she needs a few dollars to tide themselves over for -- to meet the end -- end of the month. I can see that person being advantaged by your recommendations, but I don't see a recommendation that addresses the repeated borrower because if you go with the model that you're proposing there would be a limit to the amount of loans they can take.

And -- and I guess the other disadvantage I can see would be from the lender's standpoint depending on volume, they would be impacted, as well.

DR. CHRIS ROBINSON: You're quite correct. I do not have an answer for repeated borrowers. One part of the repeated borrower problem is, however, people who are -- are, in fact -- the reason they're borrowing is because they are behind after the first loan, and they never recover.

They may not do rollovers. They may not borrow immediately. But they are in so much trouble that they have to keep coming back because that first loan, not just the -- the interest but just the -- you know, the repayment. They got -- they were able to take that loan out but they can never recover from that situation.

Now, that is partly -- could be a case of people who cannot budget, who cannot manage. It could be people who have lost their jobs. It could be all kinds of things. We can't solve those problems through payday lending. I think we can alleviate them somewhat.

As to the effect on the industry, the evidence in Colorado and Washington is that there is an active payday lending industry or replacement thereof. I don't recommend the Colorado model, I'm recommending Washington, but it also had significant declines.

So yes, this will force the industry to consolidate. Interestingly, Rhode Island, which has very low loan limits -- or very low fees, still has a payday loan industry. It's just now got high volumes per store. There's only twenty-nine (29) stores in Rhode Island, which admittedly is still a lot of stores for a little -- you know, quite a small area, so it's more concentrated.

The only answer for, you know, smaller communities in Manitoba would be that they have to be -- you can't have every business supported in every community unless they are doing a whole lot of things at once. And nothing -- it's the volume that's doing that, not anything that we do here particularly.

It's astonishing to me actually that

communities the size of The Pas and Thompson actually have a payday lender. We wouldn't see them, I don't think, in communities that size in Ontario.

MR. REGIS GOSSELIN: Now, you would expect -- if your central thesis is correct, you know, if the -- you're earning excess rents from a payday loan operation, you would expect there'd be an influx of lenders. And we're not seeing that.

And I -- and I -- and -- and I guess I'd ask you to comment on that. Why -- why aren't we seeing more lenders in the province if they're making excess fun -- excess revenues?

DR. CHRIS ROBINSON: There's -- there's a first mover advantage, and this is what happened to National Cash Advance. They came in after everybody else was established. So if you're going to come in here and get that volume, assuming it was excess profits -- and clearly, I'm not saying there's a lot of excess profits in Manitoba. I'm saying it's somewhere between seven (7) -- fifteen (15) and seventeen (17).

My evidence shows you can't go to 14 percent, for example, no matter what you do. I -- I would not recommend that. The -- so what you're really saying is that 17 percent is quite -- is probably the equilibrium value and that, of course, is possible. I've shown a lot of evidence that says it may not be, but it's certainly not too far off.

Clearly other provinces, it's too high. And we have seen considerable expansion in them. However, there is the first mover advantage. In other words, if you want to come into Manitoba -- now, if you're Money Mart, why would you open another store? You don't need to. You just push more volume to the existing stores or Cash Money.

If you're an independent, you now have to go against Money Mart. And so you are going to have to starve for a few years. You may -- there may be excess profits to be made, but you're going to have to really fight to get them.

And so when it's not hugely obvious, you tend not to go in. And I'm reminded of the nylon example. In the 1940s, nylon got invented. In the 1950s, it started getting produced as a commodity. And then in the 1960s, the big chemical companies -- if you want to produce nylon, it's -- it's a petro chemical. If you want to produce nylon, you don't have a little factory. You have a huge petro chemical complex that produces large quantities of nylon at low cost.

So everybody built one (1) of them. You know, Carbide, DuPont, CIL, et cetera. They all built one (1), and the price for nylon went to one-tenth (1/10) of what it had been, and they all lost a tonne of money, because, of course, there wasn't enough demand.

I mean, now there is for nylon, but there wasn't enough demand fast enough. So you see, if you make a decision to go into a market based on your belief there's excess profits, and three (3) other people do the same, you all lose your shirts. Rational small businessmen would recognize that there's a real possibility of that happening.

Certainly Manitoba's rates are lower than everyone else's, but you could be -- you -- you could also -- I mean, your observation is also -- as -- as Dr. Simpson's language, it is also perfectly consistent with 17 percent being the equilibrium rate, and therefore you should not change from 17 percent.

It's very clear, in my opinion, that every other province is too high. Nothing I have done here changes my opinion about that. But I'd be willing to take an argument given what I saw from Cash Money, what I just did in front of you, it is possible 17 percent is where it should stay.

I think you need installment loans and -- and better underwriting. I think that's what we really need.

THE PANEL CHAIRPERSON: Well, thank you very much, Mr. Robinson, for that very informative presentation. It's a quarter to 4:00. I -- we'll take a fifteen (15) minute break. And then when we return, I believe CPLA, Ms. Ko, will be cross-examining.

--- Upon recessing at 3:44 p.m.

--- Upon resuming at 4:04 p.m.

THE PANEL CHAIRPERSON: Okay, welcome back from our break. I'm going to now call upon Ms. Patty Ko to -- from CPLA to give cross-examination.

CROSS-EXAMINATION MS. PATTY KO:

MS. PATTY KO: Thank you. Can everyone hear me all right? Dr. Robinson...

(BRIEF PAUSE)

MS. PATTY KO: Is this better now? Okay. All right.

So thank you very much. Dr. Robinson, thank you for sharing your story with us earlier. And I just have a few questions for you to augment or fill in some of the questions I have about your story, and I'll start with the conclusion.

Am I correct in understanding that your concluding statement to everyone in this room is that perhaps the seventeen dollar ($17) per hundred cap rate that Manitoba has in place currently is the correct one?

DR. CHRIS ROBINSON: I have not changed my opinion that Manitoba should go to a 15 percent rate. And the reason I've not changed it is because of the head office costs that appear to be buried in everything that I've looked at which have no justification.

However, it is certainly true that there are so many estimates involved in all of this work, especially since the CPLA will not provide any data, that 17 percent may also be the correct rate. Certainly, in my opinion, there is no question that any higher rate than that would be inappropriate, would in fact be surely guar -- providing excess profits.

So that means that I believe that they

should because of the effects of such a move go to 15 percent, but anywhere between 15 and 17 percent could very well -- on the evidence I have presented and the limited amount of data I'm able to get, could be the equilibrium rate, could be the right rate; anything higher than that would be too high.

MS. PATTY KO: Thank you. Now, if I understand your evidence correctly, the basis, very generally speaking, upon which you get to your recommendation on maximum rate is predicated on two (2) factors:

1. The experiences of payday lenders and industries in Manitoba, Canada, the US, the UK, the other jurisdictions, and

2. On the financial model that you had spent some time speaking about, correct?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: I'm just going to spend --

MR. REGIS GOSSELIN: I'm sorry, could you -- could you repeat your question, please, the -- the first part of your question just to make sure I understand?

MS. PATTY KO: I don't know if I can repeat it verbatim. But generally, I was -- the framework of Dr. Robinson's -- the basis upon which he arrives at the maximum rate recommendation or suggestion that he's looking at I -- I inquired of Dr. Robinson. It was a twofold process, or two (2) factors that he looked at; number 1) the payday lender experiences in Manitoba, Canada and other jurisdictions, and number 2) the financial model upon whi -- which we had just spend some time discussing.

And I believe his answer was, Yes, correct? And sorry, for -- for the court reporter, perhaps we can make a verbal response.

DR. CHRIS ROBINSON: Sorry, I already said, "yes." I'll say, yes, again.

MS. PATTY KO: Thank you. Now, if -- I'm just going to start with the financial model, like I indicated. I just had a few questions to fill in the story that you had told us.

Perhaps you can bring up the Excel spreadsheet that you had spent some time explaining to us.

DR. CHRIS ROBINSON: Uh-oh. You may have to wait a minute, here. Let's see if the computer has turned off. Yeah. You're going to have to wait a minute. The computer turned off. Yeah.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Oh. Okay. Diana's got it up, but that means I can't manipulate it. Okay. What -- all right. What do you want -- what do you want to know? If I have to move around in it, it may be more difficult. But what do you need to know at this point?

MS. PATTY KO: Would it be easier if we just waited for you to bring it up in your computer?

DR. CHRIS ROBINSON: Oh.

MS. PATTY KO: That way you can move around in it. I -- I think you'll be more comfortable that way.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Diana's actually coming here to do something else.

(BRIEF PAUSE)

MS. PATTY KO: All right. So we're good to go?

DR. CHRIS ROBINSON: Okay.

MS. PATTY KO: Okay. Perfect.

DR. CHRIS ROBINSON: What would you like me to do?

MS. PATTY KO: So just so I'm clear, the financial model that we're looking at, the one that you utilize, it produces information in relation to one (1) store only, what you call the one (1) store model, correct?

DR. CHRIS ROBINSON: It's a representative store. It is a store in which I have captured the entire company. That's why that operating cost calculated on the other spreadsheet has an allocation of head office costs in it, okay?

So it is -- if you multiply this by five hundred and seventy-four (574), in some sense, you get, you know, a representative Money Mart.

MS. PATTY KO: Sure. A representative, one (1) store representative, correct?

DR. CHRIS ROBINSON: Well, no. If you multiply it by five hundred and seventy-four (574), you get Money Mart.

MS. PATTY KO: Sure, but the numbers

that we're looking at today apply to one (1) store right before us. We're not talking about this number representing all of Money Mart. We would have to do a --

DR. CHRIS ROBINSON: No, it --

MS. PATTY KO: -- further extrapolation.

DR. CHRIS ROBINSON: Well, no, but it does represent Money Mart. That is to say, if I was one (1) store, the operating costs would be much less, because there'd be no head office in Berwyn, Pennsylvania to -- to charge you something -- $130 million of costs.

MS. PATTY KO: And I think I get your point here. So what you're telling me is that this financial model, the one that we're looking on the screen here, the numbers represent one (1) Money Mart store, correct?

DR. CHRIS ROBINSON: Yes, one (1) store. So another way to think of it would be that the -- Berwyn sends you an invoice and says, Please pay us this amount for these unknown things that we are supposedly doing for you, okay? So that I've incorporated that invoice. It's in -- incorporated in there. It's as if you paid that cash to them.

MS. PATTY KO: And -- and we'll get to -- I understand there's a number of different variables and what-not that you put into the various factors. But I'm just simply trying to understand what this financial model represents. That's all. And I think you've answered my question there.

Now, we're looking -- we spent some time looking at the line "Excess profit," or loss, I suppose, if it happens to be in the negative, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And you had also discussed a little bit earlier on in -- in your evidence that, if I put it correctly, the materiality of what -- the number that shows in this excess profit or loss line is a subjective decision.

DR. CHRIS ROBINSON: It's a subjective decision in the sense that -- in some sense, everything in this is -- is partially subjective. There are no such things as truth in accounting or truth in finance. The -- when you hear somebody telling you that they're telling you the truth about it, you know they're lying.

The -- it's my judgment that that would be, given the sort of decisions I've had to make in building this model, that a reasonable range of outcomes is in, you know, plus or minus five thousand (5,000). That I wouldn't want to say: Well, I'm really comfortable at that -- that that's actually a negative profit or a positive one.

So when I do my -- and at ten thousand (10,000), I'd say: Yeah, I'm really very comfortable now this is outside. That's the best I can do. Yes, it is subjective in the sense that I can't point to a number for it, nor can anybody else. On the other hand, forty (40) years of reading financial statements and investing in companies is part of what I'm doing here, and modelling them, and teaching generations of students how to do this. And they have now become, you know, senior investment bankers around the world.

So in that sense, it's not subjective. In that sense, somewhere back in my head is all of these companies I have looked at and what mattered, and how big it was before it really mattered.

MS. PATTY KO: So in your words, it's based on your judgment, your informed judgment, if I could put it that way?

DR. CHRIS ROBINSON: Yeah. Actually, thank you, that was -- I should have thought of those words in the first place. Informed judgment is a better way. Yes, it's not -- you can't demonstrate this number. Just, there it is. This must be the right number.

MS. PATTY KO: And -- and your number at the materiality level is plus or minus five thousand (5,000)?

DR. CHRIS ROBINSON: I should point out, by the way, that my doctoral dissertation was on materiality, so I have actually quite some experience with this.

MS. PATTY KO: And -- and that's great. Dr. Robinson, I -- if I -- if I'm correct, I understood you were here when the representatives of Cash Money and Money Tree gave -- presented, correct?

DR. CHRIS ROBINSON: That's correct.

MS. PATTY KO: And if I understand their evidence, your -- their evidence, and I'm -- is your understanding of their evidence that at, for example, 15 percent, they would be operating at some -- a level unacceptable to them?

OBJ MR. BYRON WILLIAMS: I'm just going to object just the way -- the way the question was phrased. It -- I would object to its characterization as evidence. It was a presentation, if it would have been in an audited form. So if -- if the question would be rephrased as, In their presentation, we would not object to the question.

CONTINUED BY MS. PATTY KO:

MS. PATTY KO: And that's fine. I can certainly rephrase the question.

Dr. Robinson, you were present when the representatives of Money Tree and Cash Money presented, correct?

DR. CHRIS ROBINSON: Yes, I was.

MS. PATTY KO: And you understood that in their presentation, they indicated that at 15 percent, their operations would be operating at a level unaccept -- unacceptable to them. Is that correct?

DR. CHRIS ROBINSON: You'll have to give me a minute because, of course, I took notes, so I'm reading my notes.

MS. PATTY KO: Sure.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: I do not have any note about Money Tree having made such a statement. I do not recall Money Tree having made a specific statement of that. They made much more generalized statements. It is possible that Money Tree said that, but that is not what I took from the presentation, so I can't honestly say that -- that that was what I heard.

I have already explained why on the face of the evidence that -- that Cash Money -- the statement from the young lady from Cash Money was -- I'm sorry, I've forgotten her name --

MS. PATTY KO: Melissa Soper, I believe.

DR. CHRIS ROBINSON: Melissa Soper?

MS. PATTY KO: Correct.

DR. CHRIS ROBINSON: Yeah, okay. Well, I'm -- I'm getting old, you know. That her statement was, in fact, on the face of it, her statement about costs and what they meant was, in fact, incorrect. Just on the face of it.

But she said they would -- yes, my notes say she said they would not operate at 15 percent, and I don't take such statements at face value. So the Board and you have, in fact, seen what I made of that, so you can draw your own conclusions from -- from that. That is that it may well be true, or it may not be true, depending on certain factors in her estimates, since I've already demonstrated that she was, in fact, incorrect in even understanding the nature of -- of an economic grant.

MS. PATTY KO: And -- and we might have a discussion about that later. I understand the representative from Money Tree is actually still present, so we -- my understanding, and again, this is just for your information, I have notes indicating that if it was at 15 percent, they would be operating -- they would be looking a los -- at a loss of 'X'. And that's my understanding, so that's different from your understanding, I see.

DR. CHRIS ROBINSON: No, I'm -- I'm -- I don't have any notes that say that, so I don't recall, so I -- I can't testify that -- I mean, I am under oath, unlike them, so I can't actually say that I remember that -- that she said that since I don't remember it.

MS. PATTY KO: And --

DR. CHRIS ROBINSON: You may -- I'm not denying what you're saying.

MS. PATTY KO: And -- and that's fine, Dr. Robinson. My point simply is, again, we're talking about materiality of this number, this excess profit number that we're looking at. You've indicated that you're looking at five thousand (5,000) as your judgment, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And would it be fair to say that there's certainly two (2) other opinions out there on their judgment as to what materiality is?

DR. CHRIS ROBINSON: We're not talking about the same thing. I mean, when I'm talking about materiality I'm talking about how accurate what might be reasonable bounds of accuracy. You know, for example, heard Dr. Simpson talking about the statistical confidence interval of his work, again, using 5 percent, interestingly.

These number five's (5's) seem to turn up a lot. The -- that's a standard way of -- of looking at it. Now, you see the fortunate thing in statistics is it's this -- it pretends to be this more cut and dried mathematical field and so they can specify things like that.

So all we're talking about is not whether five thousand dollars ($5,000) matters to you or me, but whether my estimates are reasonably -- are -- are significantly different from zero. In other words, is a difference of five thousand (5,000) big enough for me to say its definitely not zero.

That's what we're saying. I am not

making a statement about how much a certain amount of money matters to somebody. I think you're -- I think you are misinterpreting what -- what I said in the presentation. So perhaps I didn't explain it clearly enough. And I don't know if the Board -- maybe I did not explain it to the Board.

I'm worried about whether or not I got it right, so to speak.

MS. PATTY KO: And -- and --

DR. CHRIS ROBINSON: You seem to be worried about whether that amount of money matters to somebody and that's a different question.

MS. PATTY KO: Well, and -- and maybe it is, maybe it isn't. We -- and we'll leave it at that. Dr. Robinson --

MR. REGIS GOSSELIN: Dr. Robinson, if I could intervene for a second, we just looked at the transcript and it -- the reference I think that's being made to the comments by Ms. -- it's on page 166. And -- 166, like 9 to 15, in case you're wondering.

And then made the statement that:

"A reduction in the Manitoba rate to fifteen dollars ($15) per one hundred dollars ($100) would represent almost 12 percent

reduction revenues. At this -- at
this rate our Manitoba stores would
not generate a profit."

DR. CHRIS ROBINSON: Okay. Yes. I don't have those transcripts, but I mean, I'll accept -- thank you.

MS. PATTY KO: Thank you, Chairperson, for clarifying.

MR. REGIS GOSSELIN: I want to explore -- I do -- I do want to explore this notion of the five thousand dollars ($5,000). It is related to the recommendation about fifteen dollar ($15) -- fifteen dollars ($15)/seventeen dollars ($17).

At a materiality level of roughly lower than a quarter of 1 percent in terms of the five thousand dollars ($5,000), whether or not it's five thousand (5,000) or ten thousand (10,000) or fifteen thousand (15,000) range, why did you select five thousand (5,000) in particular?

DR. CHRIS ROBINSON: That's a really good question. Let me think about that for a minute as to what it was that I was looking at.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: What I'm looking at is when I do sensitivity on this or any other valuation model, I mean it's five thousand (5,000) relative to something else, right. If I'm measuring billion dollar companies, clearly numbers are bigger.

And what you find if you -- and I'm sorry I cannot give you nice cute economic terms, I just fool around with the numbers. I say, what is reasonable for all of these different inputs and what combinations make sense and I keep putting them in.

And I start to find that the most reasonable combinations are circling in -- you know, coming around zero and then you get big jumps. And what are big jumps.

So if you were to look at the right-hand side of -- of the -- you know, of the spreadsheet, you would see that there's some, you know, thirty (30) and forty thousand ($40,000) numbers. And they're the ones that are looking at it and saying, Yeah, yeah, that's -- that's clearly -- yeah, this is not -- this is too much or too little, you know, minus thirty thousand (30,000).

And so when I start to circle in on the numbers I would find them from five (5) to ten thousand dollars ($10) would be what I'd be consistently getting as the -- you know, five (5) or ten thousand (10,000) plus or minus when I'm getting to numbers that I actually think are the best, you know, the good representations of bad debt rates, costs, cost of capital.

It turns out cost of capital doesn't matter. Volume, oddly, didn't matter a lot because it's how much the costs are per volume that actually causes the -- the big problems.

So that my judgment then was, is that if it's -- if it's zero to five thousand (5,000), it seems like I probably got a good measure. And I look at these -- these numbers all look good to me. All these look reasonable to me. And then when I go to five (5) to ten (10) I say, Well, yeah, those are okay. And then I actually tended to get a big jump with anything I tried. And remember it's an infinite number you can try.

There are other techniques you can use for this, but they're not valid here because we don't have enough statistics. And so I seem to get a jump. So I'm just looking at the numbers now. I'm looking forty-nine (49), thirty-eight (38), fifteen (15), and the minus nineteen (19) when I changed to a higher cost number, so I get these jumps and so -- out of that, but I can't be more precise than that.

There isn't a way to be precise about this. If you want precision, what you have to have is thousands and thousands of numbers repeating the same thing over and over again, I mean, you know, like, many companies, many data points, shall we say, the sort of thing that -- that Dr. Simpson gets from StatsCan so that you can then focus much more tightly.

That's the best I can do. I mean, it's a very reasonable question. It's a very sensible question. And that's -- by playing with the numbers, I found that when it looked reasonable, when it made, you know, something sensible, it seemed to be within five (5) or ten thousand (10,000).

So then, for example, I think a very good example would be the fourteen (14). If you were to look at -- can I call up on the table? Yes, I am, right here. This is actually a very good example of it right here. Take a look. Look at this. Look where my curser is right now, okay? Now, column F, this is a standard model. This has nothing to do with the left side at the moment. Okay, I -- I typed these in. These are not changing as I change anything else. This is hard-coded, is the term.

So look, at fourteen dollars ($14) fee

-- remember I said, in my opinion, that I do not believe you can do to fourteen (14) unless -- unless the head office costs are really just a total lie, these head office costs are just soaking Canada, but I don't think it's that bad. Well, maybe it is, but I don't think so.

So at fourteen dollars ($14) with a twelve dollar ($12) fee, so this is a bad case in the sense that twelve dollars ($12) is right at the max of costs given history and it's a fourteen dollar ($14) fee. But look what happens. You go -- all I've done is change from fifteen dollar ($15) down to fourteen dollar ($14) fee. I haven't changed anything else.

The excess profit goes from minus seven (7) to minus thirty (30), bang, fourteen (14) bucks. It's got this big jump. Fourteen (14) bucks is not sustainable unless you make big assumptions about the costs.

On the other hand, fifteen (15) -- which I see all this evidence from the US and the UK and so on. It seems maybe sustainable in a lot of places. Fifteen (15) is within the ten thousand (10,000), but this is giving that twelve (12), which, as I said, I do not believe. I simply don't buy that as a cost.

If I change that to eleven (11), the seven (7) will change and it will become positive.

DR. WAYNE SIMPSON: Hold it. The next one down, is it?

DR. CHRIS ROBINSON: Yes, you're right. But notice it goes from minus seven (7) to plus fifteen (15), so I've made a big change in cost. Look, we just go down this column. Thanks, Wayne.

So what are the reasonable numbers? Well, I've made a big change in costs, right? I've gone from twelve (12) to eleven dollars ($11) and I've jumped from a negative to a positive. But I didn't jump to fifty thousand (50,000). I jumped to fifteen (15).

So out of that, if I instead made this eleven fifty (11.50) instead of eleven (11), it would be -- well, it'd be -- it'd be fairly close to zero. So at this point, I keep on seeing five thousand (5,000). I've got -- I've got so many estimates in here that I can't say, yeah, five thousand (5,000) matters or doesn't matter.

Ten thousand (10,000), I'm pretty sure it matters, and be -- beyond that, but I get some very big numbers. So you can see -- I think the Board can see my strong conclusion that fourteen (14), unless those head office costs are really faked and, of course, if they have good control of bad debt, so that's a lot to assume.

So fourteen (14) doesn't look sustainable even though there are American jurisdictions with -- that are running with that and have lots of stores. But fifteen (15) it seems to me is sustainable with reasonable assumptions. Seventeen (17) is certainly sustainable.

As soon as I go above seventeen (17), the numbers get big. They jump. And so as soon as I go above seventeen (17) with any reasonable assumptions, the positive -- the numbers become very large. So that's how I sort of come to the five (5) to ten thousand (10,000).

CONTINUED BY MS. PATTY KO:

MS. PATTY KO: Do we have any more from the panel? That answers the question? Thank you.

Dr. Robinson, while we're on the -- the issue of numbers inputted in here, if we back up -- and you recall that you had inputted some numbers that you hadn't tried before.

Can I -- can -- can I just have you

input those numbers again so that I see the numbers clearly? I believe you put the operating costs at eleven dollars and twelve cents ($11.12).

DR. CHRIS ROBINSON: That's what they are right now.

MS. PATTY KO: Okay.

DR. CHRIS ROBINSON: And so what we were looking at before was the -- okay. So I've extracted from Cash Money -- from Cash Money's statement -- I don't think they actually realized I could do this. I extracted their -- their operating statement, okay?

So this is the -- using my mod -- using the way my model works, this is the appropriate dad -- bad debt rate. This is their experienced bad debt rate.

Now, note this is double Money Mart's, so I don't know what Cash Money's doing wrong, but -- and my -- their -- their revenue -- sorry, their loan volume -- not the revenue, the loan volume -- is -- is $2 1/4 million, okay, again based on -- on the -- on her statement.

I can show you the algebra if you -- if you want to go back to grade 9, but --

MS. PATTY KO: I prefer the practical,

and let's stick with the numbers here first.

DR. CHRIS ROBINSON: Okay. So -- no, no. I meant how I obtained that. So I said, Now, I have to reduce that slightly because I'm doing all this mentally in 2013. So I thought I would take it back to there.

I'm not sure that's actually correct. I'm kind of having to do the -- remember, I did this for the benefit of all of you without having done it previously. But I think it's right to put 2.2 million.

In any case, I could put higher numbers in there. That excess profit is going to stay negative. You want me to fool around with the revenue, that excess profit is going to be significant. It's that 4.4 percent dad (sic) debt rate that's doing it.

MS. PATTY KO: So let's --

DR. CHRIS ROBINSON: Nothing -- no reasonable assumption playing around with this is going to change that. They're going to be negative.

MS. PATTY KO: Sure. And let's just look at that bad debt rate quickly. So you indicate that from Dollar Financial's numbers, you have 2.2 percent, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And you obtained that number from Dollar Financial's form 10K filings in the United States for the year ended June 30th, 2013?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: So that set of numbers that we're dealing with, the numbers that you're dealing with, relate to the latter part of 2012 and the earlier part -- the first half of 2013.

That would be correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And so you had that 2.2 percent number, which is the low end of the numbers that we've heard in all the presentations in evidence today, correct?

DR. CHRIS ROBINSON: Actually not. There's a great deal of stuff in evidence that -- that nobody's had time to read. Money Mart's numbers, that's the highest Money Mart had ever reported, if I recall correctly, was 2.2 percent in all of the history I've looked at.

In 2007/'08, which you may recall was also a -- had some bad times back there, they were reporting 1.3 percent --

MS. PATTY KO: Well --

DR. CHRIS ROBINSON: -- bad debt rate consistently. They --

MS. PATTY KO: Sure, but we're -- we're talking about the model that you used and the numbers that you had put in.

DR. CHRIS ROBINSON: Oh, yes. No, I -- I think two point two (2.2) is -- is more likely to be because it's the more re -- most recent number that I have that is actually audited, that has been presented to me in a form that I even have remote trust in to the extent that I would trust any CPA.

MS. PATTY KO: So -- and that was my next question. Those form 10K financial statements, the ones that you got the numbers from, are audited financial statements, presumably prepared by accounting principles --

DR. CHRIS ROBINSON: I'm sorry --

MS. PATTY KO: -- or accounting professionals.

DR. CHRIS ROBINSON: Be cautious here. 10Ks are not audited. The financial statements are audited.

MS. PATTY KO: Correct. And -- and --

DR. CHRIS ROBINSON: They're just --

MS. PATTY KO: -- perhaps I can

rephrase there.

DR. CHRIS ROBINSON: Okay. Rephrase.

MS. PATTY KO: The -- you pulled the -- the numbers that you rely on in your model, the financial model, are from the audited financials statements including -- included as part of the form 10-K filed in the United States for Dollar Financial, correct?

DR. CHRIS ROBINSON: No.

MS. PATTY KO: And so where -- where do these numbers come from?

DR. CHRIS ROBINSON: Okay. They come from the management discussion and analysis that is part of the 10-K, and from the 10-K. There's a combination of numbers because, you see, volume numbers are not reported in the audited financial statements, the volume of loans. It is reported in the management discussion analysis. You'll see the numbers are, in fact, in my evidence, the page numbers.

So -- and remember I'm doing bad debts as a percentage -- not of revenue but as a percentage of loan volume because that's how this works. And the volume numbers appear on probably page 8 of the 2013 10-K. It appears in the same place every year, the volume numbers by segment, but they don't appear in the audited financials. The bad debt expense does, but the aud -- but the volume numbers do not.

I hadn't actually thought of that -- that specific issue. I have no reason to suppose that there's anything wrong with the 10-Ks -- or, sorry, with the management discussion analysis -- I'm sorry, you're not an auditor. Management discussion and analysis is not audited although presumably the auditors have seen it and didn't think it was awful. And there's nothing inconsistent -- I -- I have no reason to -- to distrust any of this. But it's not part of the audited statements.

MS. PATTY KO: Sure. And -- and so perhaps we can leave it at this, is some of your numbers are from the audit of financial statements --

DR. CHRIS ROBINSON: Yeah.

MS. PATTY KO: -- some are from other parts of the --

DR. CHRIS ROBINSON: Of the 10-K.

MS. PATTY KO: -- of the Form 10-K.

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: You would agree with that statement then?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. Thank you. So we have 2.2 percent on -- from the Money Mart form -- sorry, Dollar Financial Form 10-K, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And you understand, and you alluded to it several times, in the Deloitte study for Alberta we have a number of, I believe, six point eight five (6.85). Is that correct? Is that your understanding?

DR. CHRIS ROBINSON: Well, I have difficulty understanding of Deloitte at all because it -- the provenance is -- is not demonstrated. And so I -- I don't rely upon those numbers in any respect. The provenance is not demonstrated. The method of calculation appears to be incorrect. I mean, maybe they did it right but I -- I -- it does not -- it doesn't seem to me that way. And, of course, they have no reconciliation. Furthermore, there is inappropriate research methodology used in it.

MS. PATTY KO: And -- and, sorry, just to interrupt briefly. I stand corrected. It should be -- the number is six point three five (6.35).

Now, I appreciate you have -- you have expressed your reservations about the Deloitte report. Would that be correct to state that?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yes, I have -- I have expressed those, yeah, my reservations in -- I think I have in writing. I've written so much it's getting hard to remember but I believe I have expressed those in writing in -- well, I wouldn't have seen this originally -- in the information -- in the IRs somewhere.

MS. PATTY KO: And -- and I believe you've expressed it verbally as well today. But can we agree that in the Deloitte report there is a six point three five (6.35) number in there?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Thank you. And then of course you, from the numbers that the representative of Cash Money gave, extrapolated a 4.4 percent of bad debt rate. That's correct?

DR. CHRIS ROBINSON: Extrapolate is the wrong word.

MS. PATTY KO: Which word would you use?

DR. CHRIS ROBINSON: I estimated that that is their bad debt rate as a percentage of loan volume.

MS. PATTY KO: Okay. But that's on par with the two point two (2.2) and six point eight five (6.85) that we're speaking about?

DR. CHRIS ROBINSON: On par with the two point two (2.2) and, what was the other thing you said?

MS. PATTY KO: Six point three five (6.35) --

DR. CHRIS ROBINSON: No.

MS. PATTY KO: -- my apologies. So are we talking about the same standard of measurement then? We can easily plug --

DR. CHRIS ROBINSON: I don't -- I don't believe we are. It's on a par with the two point two (2.2).

MS. PATTY KO: Okay.

DR. CHRIS ROBINSON: I am simply not willing to rely upon Deloitte, given that I can't determine any of the provenance. So you're trying to get me to agree to something I simply won't agree to.

MS. PATTY KO: Okay. That's -- that's fine. I'm looking at the four point four (4.4) number here. That seems to be a middle number between the two point two (2.2) and six point three five (6.35). Would you agree?

DR. CHRIS ROBINSON: It also seems to agree with British Columbia.

MS. PATTY KO: Thank you. So if we use the numbers that we see on the screen right here, we have a profit loss of forty-four thousand two hundred eighty-three (44,283) at 15 percent.

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: You would agree? Thank you.

(BRIEF PAUSE)

MS. PATTY KO: Dr. Robinson, I just wanted to discuss with you -- I think we all understand that some of the numbers that you had inputted into your financial model, you made a number of adjustments to these numbers.

That would be fair to say? And -- and I see a -- a quizzical look on your face, so perhaps I can be more specific.

DR. CHRIS ROBINSON: I'm not going to admit that I made adjustments when you don't say what the adjustments are.

MS. PATTY KO: Right, and I was just speaking in general terms, so we can go more specifically. Let's take your volume number, for example.

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. So if I understand the report that you submitted in writing correctly, you went to the dollar financial form 10K again for your starting point?

DR. CHRIS ROBINSON: Just a minute, please.

MS. PATTY KO: Sure.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Okay.

(BRIEF PAUSE)

MS. PATTY KO: No worries. So we've brought up page 16 of your written report. Do you have that?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. So you've started your loan volume number with data from the form 10K of Dollar Financial once again, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And again, those numbers are for the years ended June 30th, 2013, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: So the number that's actually on -- or sorry, the -- the number that you use is 2.34 million. That's what ends up in the financial models that you give us, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: But the number on the form 10K isn't actually 2.34 million, correct?

DR. CHRIS ROBINSON: No.

MS. PATTY KO: The number on -- on the form 10K, what -- what you did was there was a loan value of 922.94 million, correct?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Oh, I can't manipulate that. Diana can you move -- could you scroll down a bit?

MR. BYRON WILLIAMS: It's at the bottom of the page if that would assist Dr. Robinson and -- and the questioner.

DR. CHRIS ROBINSON: Yes.

CONTINUED BY MS. PATTY KO:

MS. PATTY KO: And so you divided it by the number of stores and that number is four hundred seventy-nine (479) to arrive at a loan volume per store of 1.927 million?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. So -- and that's important it's on a per store basis. This is what this model --

DR. CHRIS ROBINSON: It is.

MS. PATTY KO: -- that -- that we're looking at? Okay. And so when I speak about adjustments, this is one (1) of the areas where you made certain adjustments to, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And what you did, if I understand your -- your report correctly is that you felt that because Cash Store -- because of the Cash Store failure, this number should be adjusted upwards to capture what you thought Money Mart would have captured in terms of Cash Store business, correct?

DR. CHRIS ROBINSON: Yes, since your own presenter yesterday said, Well, the volume doesn't go away, so presumably you agree with me.

MS. PATTY KO: And that would be a

presenter. I'm not sure if that would be my opinion, but I just wanted to establish that I -- I understand your report correctly?

DR. CHRIS ROBINSON: Yes. Yes.

MS. PATTY KO: Thank you. Now, throughout your report and I think throughout your oral evidence here today, you made a number of references to Money Mart buying Cash Store.

That's correct?

DR. CHRIS ROBINSON: As far as I can tell that's what they did. We have to be cautious, I guess, when we say 'buy'. They clearly captured, in some sense, given that -- in other words, the deal was, of course, private because I can't see it. I mean, they were in receivership, and these things are not made as public data.

They announced at some point that they were buying it. They took over some of the locations. If I can show you, I can call up the yellow pages on the screen, and you will see dozens, I believe, of -- I can show them just in Manitoba even, of Cash Store, Instaloans, still listed. And you will find that some of them are at -- that they're at Money Mart addresses now, so that Money Mart -- and again, as I said, this is not a nefarious practice. This is exactly what we would expect them to do rationally. They're capturing the business.

So that my expectation is that they got most of the business. But certainly, given their size, they would have gotten more than half of it anyway, even if they hadn't bought Cash Store, half of the loan volume. So that's the basis of my -- of my assumptions. And my numbers, of course, circle around that to attempt to get one.

So I didn't take the top. I didn't take the bottom. I'm a typical Canadian. I always take the middle value.

MS. PATTY KO: Dr. Robinson, are you aware that on a Canada-wide basis, Money Mart purchased or took over about 30 percent of Cash Store locations?

DR. CHRIS ROBINSON: No, I was not aware of that. I have not been able to locate that information in the public domain.

MS. PATTY KO: And are you aware that, on a Manitoba basis, Cash -- Money Mart purchased or took over six (6) Cash Store locations?

DR. CHRIS ROBINSON: No, because that information was not provided to me by -- by CPLA, Money Mart, or Cash Store, and I've not been able to find it in the public domain. It may be there, but I've not been able to find it.

MR. BYRON WILLIAMS: Legal counsel here is testifying. It is okay for Dr. Robinson to accept that information subject to check if he wishes, but we just have to have -- if there's something on the record that demonstrates this history, that would be helpful, but it is certainly open to him to accept the assertion subject to check.

DR. CHRIS ROBINSON: Well, I'm not accepting assertions at all, since they're irrelevant. But since, of course, it has nothing to do with whether or they captured the volume. And that's not something, unless you're prepared to testify as an expert in your own right, that you can actually say.

CONTINUED BY MS. PATTY KO:

MS. PATTY KO: And I don't think that's necessary. I'm simply putting it to you, sir.

So, now, if we go back to the volume number again, Dr. Robinson. We were just at you -- in your opinion, the Money Mart number needed to be adjusted to account for Cash Store captures, correct?

DR. CHRIS ROBINSON: No. The representative store number -- I'm using Money Mart because it's the only numbers I can get until yesterday. The evidence that we now have in front of us -- well, sorry, it's not evidence, because it was not presented or allowed to be tested.

Let's suppose I pretend that it's actually -- that it's actually reliable. Obviously, I did pretend that it was reliable, since I used it. Those cash money numbers are much higher than I expected to see until I realized that, of course, they had also captured the volume.

So the store -- the sales went somewhere. They went to my representative store. I'm using Money Mart numbers for my representation. Money Mart did not need to capture them. I don't care who captured them. They went to a store somewhere, unless somebody wishes to present evidence to me which I have not seen, since nobody's giving me any evidence that they disappeared, that those people stopped borrowing from payday lending stores because Cash Store went out of business, and I have seen no such evidence.

So, in fact, it doesn't affect my -- my numerical calculations at all. They just -- they went to Money Mart. They went to Cash Store -- or sorry, to Cash Money. They went to Money Tree. They went to somebody, and I'm using -- Money Mart numbers is the best I have to drive my representative store.

It is, of course, perfectly open to the industry to actually provide me with all the numbers, and then we could see, but in the absence of that, it's the best I can do, but those sales went somewhere. And I don't care who bought --

MS. PATTY KO: And --

DR. CHRIS ROBINSON: -- who bought them, so perhaps I shouldn't have even said -- mentioned that point in my evidence.

MS. PATTY KO: Thank you, Dr. Robinson. We do have to keep in mind, though, that the financial model you present to us with the numbers that you present to us are a representative store using Money Mart numbers. That's why I bring up Money Mart, that's all.

And you will agree with that, that the -- this financial model is using numbers from Money Mart, a rep -- representative store of Money Mart?

DR. CHRIS ROBINSON: Yes, and I just presented an alternative using what I could extract from Cash Money, so clearly, the model does not depend upon Money Mart.

MS. PATTY KO: Okay. But the numbers, I -- I'm just looking at the numbers here. I'm not --

I'm not saying your model premise is depending on Money Mart. I'm just looking at the numbers. That's all I'm trying to establish.

DR. CHRIS ROBINSON: Actually, that's not correct, even so, although they are lesser numbers. The cost of capital and the various estimates I've made are not dependant upon Money Mart. In one (1) of my Information Requests, I used four (4) different companies, used mixed betas, went to Demotoran (phonetic) and -- and implicitly, Pablo Fernandez (phonetic).

The -- the numbers for the capital are numbers that I've derived. They're not particularly relevant to Money Mart specifically. In fact, they could be said to be more relevant to a small firm, so that I'm using more standard working capital models so that -- however, so the correct statement from you would be that I start -- based my volume numbers on starting with Money Mart and the operating costs, although I am very suspicious about what goes into the operating costs --

MS. PATTY KO: And -- and --

DR. CHRIS ROBINSON: -- and the bad debt rate.

MS. PATTY KO: Thank you. Perhaps I

should be more specific. I'm talking about volume, here. So we started off with a volume number from Money Mart.

You will agree with me on that?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. And so going back to Cash Store again, from this Money Mart number, you made an adjustment for what you thought cap -- Money Mart would have captured from the Cash Store demise?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. And if I hear -- if I heard your -- your answer just -- just prior to this, you indicated that the presentation from Cash Money may have changed your mind as to how much Money Mart might have captured at the Cash Store market?

DR. CHRIS ROBINSON: No. You're the one who's trying to argue about that. I'm simply saying the sales went somewhere. And Money Mart being the elephant, they're going to get most of the -- you know, they're going to get a lot of the sales.

Clearly, Cash Money, which has four (4) stores in Winnipeg, where Cash -- sorry, Cash Money has four (4) stores in Winnipeg where Cash Store had eleven (11) or something, will have also benefited. I mean, just because Money Mart bought them doesn't mean the -- the sales all go. They go wherever they want.

So that, in fact, the Cash Money volume, I -- I look and say, Well, that's -- that -- that actually seems consistent. I didn't think they had that much. And then, of course, I remembered that they will have gotten Cash Store sales as well. In other words, there's a certain volume in the business. Cut out a whole bunch of stores, everybody gets a different volume.

The same thing happens in any business. So --

MS. PATTY KO: And to be --

DR. CHRIS ROBINSON: -- it was not -- I just hadn't thought of it. Remember, you did not provide that evidence to me in advance or give me any chance to think about it. I did that on the fly. So you can't -- you can't ask me to figure out every implication of something that you've not even provided providence for.

MS. PATTY KO: Dr. Robinson, to be -- to be perfectly clear, I'm not arguing for anything, I'm simply trying to understand your evidence, which I think perhaps you had clarified. Okay. Just so we're clear.

So again, let's go back to this volume number, this Cash Store number. So you set out to determine what the -- the Cash Store loan volume is in order to account for what to capture?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. And you did this by looking at the evidence that Cash Store filed in its CCAA proceedings.

Is that correct?

DR. CHRIS ROBINSON: I need to take a look at -- at what I said. I used three (3) different -- oh, I'm sorry.

MS. PATTY KO: If it assists --

DR. CHRIS ROBINSON: Diana, you've got control of this. Can you move it up.

MS. PATTY KO: Page 17, perhaps if I can reference you to that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: For Dr. Robinson's reference, he might want to pull open 17 and 18. That probably will assist him and the panel.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Partially. I mean, the numbers -- if we look at Table 2, the numbers are coming from -- from different sources.

CONTINUED BY MS. PATTY KO:

MS. PATTY KO: Just a starting point as to where you got -- if I -- again, I'm trying to just understand your report.

DR. CHRIS ROBINSON: Well --

MS. PATTY KO: I understood you went to the -- the Cash Store filings. That's all I'm trying to understand.

DR. CHRIS ROBINSON: Now, actually -- I mean, I'm using those Cash Store filings, but the actual source, if we were to talk about the original source, is an annual report, a quarterly report, and a factor number times somebody else's estimate of volume for the entire business.

So it's a very mixed kind of bag there. Two (2) of those things -- I mean, they're in the bankruptcy filing because that's where we were able to find them most easily, but I could actually source them elsewhere.

It is the actual statements that matter, not the bankruptcy filing. The bankruptcy filing only gives you one (1) number by itself and, that is, their claim from Cash Store that they had 35 percent of the business. They don't tell you what 35 percent means, unfortunately.

MS. PATTY KO: Okay. What I -- what I was simply trying to ask is that you looked to those statements from Cash Store, and what you got were numbers from -- in relation to its operations ended September 30th, 2013?

DR. CHRIS ROBINSON: September 30th, '13, annual sales, and the next quarter's sales as another way to estimate it.

MS. PATTY KO: Okay.

DR. CHRIS ROBINSON: I'm just -- you may remember we used the term "triangulation" in the Coalition. So I'm simply looking at everything I can try to fool around with the numbers.

MS. PATTY KO: Sure. But -- but we're looking at -- the numbers that you are working with deal with financial information relating to October 1st, 2012, to September 30th, 2012 (sic). And then you have -- or, sorry, September 30th, 2013. My -- my apologies.

DR. CHRIS ROBINSON: Yeah, yes.

MS. PATTY KO: Okay.

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Okay. So just to be clear, October 1st, 2012, to September 30th, 2013.

DR. CHRIS ROBINSON: And then the subsequent quarter --

MS. PATTY KO: The --

DR. CHRIS ROBINSON: -- is December --

MS. PATTY KO: 30th -- 31st --

DR. CHRIS ROBINSON: -- '13.

MS. PATTY KO: -- 2013.

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: Sure. Thank you. Dr. Robinson, do you understand that Cash Store gave up its payday lender licence in Manitoba in October of 2012?

DR. CHRIS ROBINSON: No, I didn't know that.

MS. PATTY KO: So if you -- you will agree with me that, if we are looking at a Manitoba store, the loan volume number for payday lending should not have been adjusted for for the Cash Store exit?

DR. CHRIS ROBINSON: Okay. We need to go back into what Cash Store was actually doing as opposed to what you just said they were doing. They did the same thing in Ontario.

I guess Cash Store can't sue me any more, although they might try to. Cash Store claimed it was no longer a payday lender everywhere in Canada; that was not true. It continued the payday lending business just as it had been doing.

It did what it had been doing and what I showed that it was doing in various ways back in 2007 and '08, what an analyst in Ontario showed me it was doing in Ontario, and the regulator refused to move at the time, which was that it was acting as a payday lender and faking the results in a way that it -- we call it in the ethics literature opportunistic compliance.

So they were operating as a payday lender in Manitoba, in Ontario, and across Canada and claiming not to be. And that is why the Ontario regulator finally, rather late, moved -- moved to attack them. That's why they were in court cases, that's why they were in deep trouble.

I testified under oath in 2007/'08 that they were -- that Cash Store Financial was lying to its shareholders, its borrowers, the Board, everybody in sight about what it was actually doing. I was -- the counsel for Rent Cash, it was Rent Cash at that time, Mr. Antoine Hacault, requested I withdraw that comment. The Board did not require me to do so. Nobody has ever sued me for that statement because it was, in fact, entirely true.

Cash Store has had -- had a long history of that sort of behaviour. You heard my statement that I was not talking about predatory lenders. I have -- I have every belief that the lenders that I observe today are not -- are -- are honest business people. I do not -- I'm not prepared to make that statement about Cash Store.

Cash Store was operating as a payday lender lending to these people out of its storefront. I mean, what else do you think they were doing with those stores if they weren't lending payday loans under another name. And they were claiming through various mechanisms which they have been challenged with repeatedly in the courts, and which led to their failure.

So accordingly, your statement is in fact -- I mean, I think you're actually trying to give evidence as opposed to questioning my evidence but, no, I do not change the fact that the store sales should be adjusted. The people that they were lending to moved to other stores. The fact that they claimed they were not making payday loans is completely false, and that's been demonstrated in the courts.

MS. PATTY KO: And -- and perhaps you're not understanding my question correctly. So let's just put it very simply. You did -- if you accept the premise that Cash Store gave up its payday lending licence in Manitoba in October of 2012, it's very public information, based on that information it would have no payday lending activity in Manitoba after that.

DR. CHRIS ROBINSON: I regret you didn't hear my previous answer. They were lending payday loans under another name; that's what has been added to the volume now.

MS. PATTY KO: And -- and I'm mindful of the time. If I may just finish with two (2) -- two (2) or three (3) questions, and then I would be complete. Or I see that the Chairman might have a...

MR. BYRON WILLIAMS: And if it -- it might assist counsel for the -- for the Payday Lending Association to end her discussions tomorrow, there's a reference on page 24 of 75 of the last year's -- the 2013 Board Order that might assist you in -- in this discussion, just moving --

MS. PATTY KO: Sorry, what page?

Twenty (20) --

MR. BYRON WILLIAMS: Twenty-four (24) but of -- of the 2013 Board Order. We can provide it to you --

CONTINUED BY MS. PATTY KO:

MS. PATTY KO: Oh, sure, sure. And that's -- and that's fine. Dr. Robinson, are -- are you -- I just have a few more questions for you.

DR. CHRIS ROBINSON: Questions but no data, okay.

MS. PATTY KO: Dr. Robinson, you've heard evidence throughout these proceedings that many payday borrowers are borrowing from different stores at the same time. Is that accurate?

DR. CHRIS ROBINSON: I'm sorry, say that again?

MS. PATTY KO: You've heard evidence throughout these proceedings that many payday borrowers are looking to different loan companies at the same time to borrow money.

DR. CHRIS ROBINSON: Yes, I have heard that evidence.

MS. PATTY KO: So, for example, the gentleman that spoke as a presenter, he indicated in any one (1) pay period he went to three (3) different stores all at the same time borrowing two hundred seventy-four dollars ($274) from each, correct?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And we know, and I -- I think you will agree with me, that in Manitoba our payday lenders one (1) borrower can only go to one (1) lender and borrow one (1) amount in any pay period. Would that be accurate?

DR. CHRIS ROBINSON: Wait a sec, say that again?

MS. PATTY KO: Sorry, and perhaps I'm -- I'm phrasing it poorly. What I'm trying to ask is: You would agree with me that when you have a lender, a borrower goes to this lender, that lender is only allowed to give it one (1) -- give that borrower one (1) loan at a time.

DR. CHRIS ROBINSON: You'll have to define "lender".

MS. PATTY KO: A payday lender.

DR. CHRIS ROBINSON: No, you'll have to define it more carefully. Do you mean a single store, or do you mean a company?

MS. PATTY KO: A store, a company in --

DR. CHRIS ROBINSON: I'm sorry, but

it's -- it's not the same question.

MS. PATTY KO: And perhaps you can explain to me what the difference is?

DR. CHRIS ROBINSON: Yeah. I wish we had better data, but we don't. Only States that have registries can do this.

As far as we know, the stores don't -- the stores in a chain do not talk to each other. The chains know and -- and stores in opposite chains do not talk to each other.

Clearly we know that the stores in the chain -- in each chain don't talk to each other since the gentleman just told -- you know, the gentleman who spoke yesterday told us that he was borrowing from three (3) stores.

We've heard evidence that there was somebody borrowing ten (10) payday loans at one (1) time.

MS. PATTY KO: And perhaps I can clarify. We're talking about three (3) different lenders.

DR. CHRIS ROBINSON: Yes. Unfortunately, the individual stores, they do not have them. And these are small businesses you must understand. They do not have tha -- that sort of information system. They do not appear to be linked together.

Now, if you wish to get -- if they wish to provide me -- what you are doing is providing -- is I think testifying again. As far as we know, none of them talk to each other, like, stores in the same chain, so there's nothing to stop a borrower. Well, in fact, the evidence shows that the borrowers are doing that since you couldn't get to ten (10) stores.

And we got -- we just heard evidence that there was somebody that they spoke to who borrow -- had ten (10) payday loans at once. They sure as heck didn't get them from ten (10) different companies, unless he was travelling all over Manitoba and into Saskatchewan and Ontario.

So consequently, he was borrowing from several outlets of the same store. It may be that some of them talk and some of them don't. We don't know that. And I cannot testify, nor can I agree with your assertion.

MS. PATTY KO: Well, actually, I am not testifying. I'm simply asking -- for example, you were here when the gentleman, the -- the member of the public presented, and he spoke about borrowing money from each of Money Mart. I believe it was Cash Money and Xtra Cash.

You recall that?

DR. CHRIS ROBINSON: Yes.

MS. PATTY KO: And upon some questions from the panel he indicated he had to go to all three (3) on each pay period because each one (1) of them would only lend him two hundred seventy-four dollars ($274) at a time?

DR. CHRIS ROBINSON: Yes, each two thirty (230) -- two hundred and thirty-four (234) --

MS. PATTY KO: Two hundred thirty-four (234).

DR. CHRIS ROBINSON: -- each store, yes.

MS. PATTY KO: Correct. Okay. I'm simply looking at the time, And I'm mindful of the time here. Perhaps I can conclude my questioning -- not conclude, adjourn my questioning and resume again tomorrow morning. Thank you.

THE PANEL CHAIRPERSON: Okay. Thank you very much, Mr. Ko. Yes, we will adjourn at this time. And I will remind people that tomorrow we will begin at 9:00 a.m. in the morning. So have a good evening. And we look forward to seeing you tomorrow morning at 9:00 a.m.

(PANEL RETIRES)

--- Upon adjourning at 5:06 p.m.

Certified correct,

____

Robert Keelaghan