MANITOBA PUBLIC UTILITIES BOARD

Re: TO DETERMINE MAXIMUM FEES FOR PAYDAY LOANS

Before Board Panel:

Graham Lane - Board Chairman
Monica Girouard - Board Member
Susan Proven - Board Member

HELD AT:

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--- Upon commencing at 9:10 a.m.

THE CHAIRPERSON: Okay, good morning, everyone. Sorry for the delay. Something else came up that I had to attend to.

Mr. Williams, when we broke off, I believe you were in the midst of the presentation.

COALITION PANEL:

WAYNE SIMPSON, RESUMED

CHRIS ROBINSON, RESUMED (Absent in a.m.)

JOHN OSBORNE, RESUMED

JERRY BUCKLAND, RESUMED

ANITA FRIESEN, RESUMED

TOM CARTER, RESUMED

MR. BYRON WILLIAMS: Yes, and just before we start, a couple of bookkeeping details. With -- with the permission of the -- the Board, Dr. Carter may have to excuse himself part way -- closer to noon. He's got a -- a news conference, I guess, with -- involving the provincial government that he's involved with.

I've -- I've excused Dr. Robinson. I had him up working late last night, so I've -- I've given him permission to -- to stay out of the room for -- he'll be around a bit later in the morning.

And just in terms of one of the questions that you directed towards Dr. Buckland, it was regarding the -- the differentiation in -- in terms of household debt level between non-mortgage and mortgage.

I can just indicate as a starting point that -- that the study that Dr. Buckland was referring to was one by Harchaoui which is -- the actual study. If the Board is looking for it, can be found at PUB/COALITION 2-10.

Unfortunately, it does not differentiate between non-mortgage and mortgage household debt. Dr. Buckland has kindly agreed to investigate the issue further to see if he can shed more light on it. And I'll ask him to report back early next week on that if I might, Mr. Chairman.

THE CHAIRPERSON: We had heard from another one of the witnesses earlier that I think that the non-mortgage debt was some twenty-some thousand dollars ($20,000) per person. And I just wanted to collaborate that with -- since that specific table was presented.

CONTINUED EXAMINATION-IN-CHIEF BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: That will assist Dr.

Buckland, and we're ready to proceed with the -- the Jerry Buckland show.

DR. JERRY BUCKLAND: Thank you once again, Board Chairperson Lane and Member Gerard and Member Proven.

Where I had left off yesterday was I had gone through a basic introduction to, sort of, the concept of payday lending. I talked about the ethical issues that I think have been identified in the literature, particularly highlighted in the US.

And then I talked about what I think are three (3) important theoretical approaches to understanding payday lending consumers in the market, and that included neoclassical economic theory, behavioural economics, and institutional theories.

Where I left off yesterday was looking at social and institutional changes which inform the institutional approach to understanding payday lending. And I highlighted so far in that section the issue of income changes among low-income Canadians, and I made the case that their incomes have likely stagnated.

The data suggests that incomes at the lower end of the income spectrum have stagnated and that consumer debt levels are -- are quite high.

And, finally, I want to make a point under that section on consumerism. And then I'll move to the -- the second, sort of, social and institutional change that I want to refer to today, and that has to do with mainstream banking.

So, I'm just going to fast-forward through my slides and go on with my presentation.

So, a third comment I want to make regarding the social phenomenon of payday lending has to do with consumerism. Interestingly, at Christmastime, which is celebrated by some Canadians in -- in certain ways and many Canadians in terms of the exchange of gifts, I think consumerism is a very poignant reality.

The fact is that I believe increasingly Canadians are questioning the -- the way in which we expect our -- our lifestyles and our quality of life to be delivered, and in particular the fact that we put great emphasis on the consumer aspect of our life -- the material aspect of our life. And I think this ties into the question of payday loans.

Michael Stegman (phonetic), who's a -- a researcher looking at payday lending in the US, has referred to the addiction to credit. And he quotes the US -- former US Treasury Department official with a quote regarding the relationship between payday lending and consumerism.

And I quote:

"The escalating demand for payday loan product reflects the willful inability of millions of Americans to effectively manage their finances and accumulate savings."

End of quote. This is one person's perspective, a US Treasury Department person's perspective. I'm not advocating that perspective fully, but I think it's an important factor to consider, that for many Canadians and some Canadians using payday loans, consumerism is partly what's driving that behaviour.

Now what's causing consumerism? Well I think that's a whole other area of study, and one possible cause is advertising. Advertising is an important factor, but one (1) of many causing that consumerism.

So that was just a -- a final point I wanted to make in terms of, kind of, social context of payday lending.

The -- the second part of this social and institutional change section, I want to speak about mainstream bank changes.

And once again, to start off with, I have some quotes that I would like to read from two (2) of the larger payday lenders in Canada.

Commenting on payday loan clients, Rentcash -- in its report prepared for this Hearing -- noted, and I quote:

"Many of these borrowers feel -- also feel abandoned by traditional financial institutions and are more comfortable obtaining credit through payday loan outlets."

Rentcash seems to be saying that mainstream banks are not providing the services that many low-income people need.

Dollar Financial Group, the parent company of National Money Mart, in its 2005 10-K report noted the following, and I quote:

"Despite the demand for basic financial services, access to banks has become more difficult over time for many consumers. Many banks have chosen to close their less profitable or lower traffic locations.

Typically these closings have occurred in lower-income neighbourhoods, where the branches have failed to attract a sufficient base of customer deposits.

This trend has resulted in fewer convenient alternatives for basic financial services in many neighbourhoods. Many banks have also reduced or eliminated some services that underbanked consumers need."

End of quote. So again, I believe that National Money Marts' parent company, Dollar Financial Group, in referring to their overall operations -- which includes their operation in Canada -- notes that mainstream banks are challenging, in terms of accessibility for certain Canadians.

So there's evidence that mainstream banks are disinterested or less interested in low-income clients and communities.

For instance, banks no longer offer small sum loans, opting instead for credit cards and lines. Access to small loans is an important financial service for lower-income people who either are unable to obtain credit cards or lines or pref -- prefer small loans.

So some people simply can't access credit cards, and other people prefer small loans. So if I can just parenthetically put in a point here.

An interesting insight from the institutional theory that I've referred to, specifically by Michael Sherraden, is that some people prefer the simpler borrow/repay cycle of a one (1) time loan over and above a credit card, which has a longer-term relationship that can, for some people, maybe be less discipline oriented and more tempting to -- to essentially borrow more money.

So the simple borrow/repay cycle of a small loan can be a preferable option for some -- some people. But ending in my parenthesis here, since banks no longer offer these services to consumers largely, low-income people and others are forced to go to other sources: payday lenders, rent-to-own operators, pawn shops.

Another aspect of bank services deals with the location of branches. Even if mainstream banks offer appropriate services, if they're not conveniently located and accessible, then people won't use them.

Considering low-income people are more likely to not own a car, to be more reliant on public transportation, be less likely to own a computer and have Internet access, means that these people are more likely to use in-person or ATM transactions.

If bank branches and bank ATMs have been closed down, then low-income people find it more difficult to use their services.

Conversely, if fringe banks, including payday lenders, have opened up outlets, it makes them more convenient, more accessible.

Now in Canada the data on access to mainstream bank branches is -- is limited. What we have are some studies -- case studies for Vancouver and Toronto, some inner cities there, and for Winnipeg that look at fringe bank or payday loan outlet locations and the main -- mainstream bank branch closures.

So they're not -- the studies haven't looked at the accessibility to existing mainstream banks. They look at the closure question.

And what the data seems to suggest is that lower-income neighbourhoods have been hit more significantly by mainstream bank closures and are more densely settled by fringe bank outlets.

And what I'd like to do is just summarize a couple of points that come out from this table that is looking at the neighbourhoods in Winnipeg -- neighbourhood clusters in Winnipeg, which is the far lefthand column.

So Winnipeg is broken into a number of neighbourhoods in this table. And what I've done is I've ranked the neighbourhoods on the basis of fringe banks per one hundred thousand (100,000) people, just to give a simple kind of per capita or per one hundred thousand (100,000) number.

For this calculation, I've included the number of payday lenders, cheque cashers, and pawn shops; summed the total number of fringe banks; and then divided it to obtain a per one hundred thousand (100,000) population number. This is data from 2006.

What I've done in this table is I simply ranked the order of the neighbourhoods on the basis of the total number of -- of fringe banks per one hundred thousand (100,000), going from top -- going from high to low, so descending value.

So you can see that the -- the top neighbourhoods -- say the top five (5) neighbourhoods -- are associated with a relatively high level of fringe bank per one hundred thousand (100,000) population.

And if we look at the -- which are those five (5) neighbourhoods, you can see that Point Douglas South, Downtown East, River East South, Point Douglas North, and Downtown West are the -- the neighbourhoods with the highest per capita, or per one hundred thousand (100,000), fringe bank.

My -- my point in all this is to say that if we now look at the average household income for those neighbourhoods, we note that these neighbourhoods have some of the lowest average household income as compared with the Winnipeg average.

So for instance, Point Douglas South has an average income of $25,489.

THE CHAIRPERSON: This is disposable income after tax, sir?

DR. JERRY BUCKLAND: This is the income data coming from the 2001 census and would be referring, I believe, to -- yeah, total after tax income.

So Point Douglas South would have income of $25,489 as compared with the Winnipeg average income of 53,170.

And note that the other four (4) neighbourhoods at the top, in terms of fringe bank per one hundred thousand (100,000), have additionally low income compared to the -- the Winnipeg average.

So my point of this is to say that in terms of the fringe bank locations, they are disproportionately located in the lower-income neighbourhoods.

Additionally, if you look at the bank branch closure data here -- right here, which is the second from the right column -- you see that once again the -- the top five (5) neighbourhoods, in terms of fringe bank density, also have high level of bank branch closures.

This isn't to say that they have low levels of bank branches, because I don't have that data. It's to say that they have high levels of bank branch closures.

And for other neighbourhoods, the numbers are quite a bit lower, with the exception of Assiniboia -- St. James-Assiniboia West, where they suffered four (4) bank branch closures.

So this data suggests that in Winnipeg the neighbourhoods that have the highest density of fringe banks and the highest density of mainstream bank branch closures have been the lower-income neighbourhoods.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Now, Dr. Buckland, just with reference to the Chairman's question, move on to the next panel if you will, and then perhaps at the break you can consult with your panel members --

DR. JERRY BUCKLAND: Okay.

MR. BYRON WILLIAMS: -- about that information.

DR. JERRY BUCKLAND: Okay. So then my question is finally, to kind of sum up this section, why are income and banking changes important structural issues to consider regarding payday lending?

Because I think they are affecting low and modest middle income consumers and the financial service they have access to. So that instead of payday lending maximizing consumer welfare, as neo -- neoclassical economic theory might suggest, payday lending may be reinforcing underlying economic inequality.

Instead of promoting a convergence of incomes across the economy, payday lending may be help -- helping to diverge incomes.

So the final thing I'd like to do in my presentation is to now move to some of the key concerns that have been identified for consumers of payday loans.

And I've identified three (3) concerns, two (2) of which I want to talk about in a little bit more detail. And one (1) relates more to our mystery shopping method, so I'll leave that for our mystery shopping report.

So the -- the first issue has to do with the size of the fees associated with payday loans and the question of whether these fees are high. And I know there's been some discussion in the process of preparing for this hearing whether or not payday loan fees are high or not.

And so I'd like to present an example to kind of make -- make this point. In the field research we found that the average fee for a twelve (12) day, two hundred and fifty dollar ($250) payday loan in Winnipeg averaged around sixty dollars ($60), for an APR of around 770 percent.

Now proponents of payday loans argue that payday loans involve relatively small fees, considering payday lenders face high fixed costs to staff and run multiple outlets in order to provide small loans to large numbers of people.

To convert this fee into an APR exaggerates the size of the fee and is inappropriate, as no one takes out the payday loan for anywhere near one (1) year.

Critics, on the other hand, claim that the payday loan is a form of credit and like a credit card or line of credit, an APR -- an annual percentage rate -- is an appropriate way to value that service.

Moreover, high APRs for payday loans, as compared to credit lines, demonstrate the relatively high cost of payday lending.

So to illustrate this point I want to present a numerical example, which just compares a one (1) time payday loan as compared to a one (1) time use of a credit card, and then I add multiple uses of each.

So first of all, let me explain my assumptions. In my example I assume that the cost of the payday loan is -- for a two hundred and fifty dollar ($250) payday loan is sixty-four dollars ($64) for a fourteen (14) day payday loan.

And then I compare it with the cost of a similar transaction using a credit card. And I based the fee from the credit card from information from the Canadian Bankers Association, which, in the report I reference, finds that the interest rate APR range up to 21 percent for credit cards associated with the Banking Association.

So I used the 21 percent APR in my comparison. Now let me be clear, I'm not saying that payday loans and credit cards are complete substitutes. They're not.

Payday loan is a very different type of product to a credit card. However, I can see in my mind an individual who has a credit card and undertakes one (1) or more credit card transactions to achieve the same thing that another person does to do one (1) or more payday loan -- take out one (1) or more payday loans.

So I can see this comparison in my mind. So if you'll let me, kind of, present my -- my comparison.

So what I have here is a table that looks at the comparison, to begin with, of a simple one (1) period payday loan for two hundred and fifty dollars ($250) for the duration of fourteen (14) days in one (1) period -- so a fourteen (14) day period -- will cost the client sixty-four dollars ($64). And in this calculation that would be an annual percentage rate of six hundred and sixty-seven (667).

The credit card, if is used in a way in which the person pays off the amount owing within the time frame needed, if we use the 21 percent APR, the cost for that two hundred and fifty dollar ($250) purchase, using the credit card, would be two dollars ($2). So I'm working backwards on the credit card, at a 21 percent APR would cost the consumer two dollars ($2).

So to start with, you know, this example suggests that the individual taking the two hundred and fifty dollar ($250) payday loan is -- is looking at a considerably higher fee for that transaction than the person who has the credit card.

Now what about the person who does this many times in a year? And I -- I think I'll just jump down to my last, sort of, set of examples here.

What about the individual who takes out twelve (12) payday loans in one (1) year and arranges it in such a way that they pay the sixty-four dollar ($64) fee twelve (12) times?

Well, what that means is that in -- in this time period -- lets say it's in a year -- they're going to pay seven hundred and sixty-eight dollars ($768) for that two hundred and fifty dollar ($250) payday -- those twelve (12) two hundred and fifty dollar ($250) payday loans.

Conversely, if this person is carefully using the credit card, what will happen is they would pay, at 21 percent, paying off the balance at the appropriate time, they would be paying twenty-four dollars ($24) at the end of that twelve (12) year period.

MR. BYRON WILLIAMS: Dr. Buckland, you said a twelve (12) year period.

Is that what you meant?

DR. JERRY BUCKLAND: I meant a twelve (12) month period. Thank you.

So the scenario I'm presenting is -- is one (1) possible scenario that I think is partly why some people look at the payday loan phenomenon and ask, you know, What's going on here?

And if I could just highlight for the Board this number here, this is the seven hundred and sixty-eight dollar ($768) in fees that would result from taking twelve (12) two hundred and fifty dollar ($250) payday loans at sixty-four dollars ($64) a payday loan.

And as I incorrectly noted yesterday, and I -- to correct once again, the FCAC study found that a quarter of those taking payday loans take at least one (1) per month, in other words, at least twelve (12) a year.

Now, we don't know the size of those loans, so I can't say it amounts to seven hundred and sixty-eight dollars ($768). But possibly a quarter of the payday loan clients in -- in Canada may be spending up to eight hundred dollars ($800) for that -- for that service.

And it makes -- it gives me a moment to pause and -- and to ask the question, Does neoclassical economic theory really explain this phenomenon?

I -- I'm not -- I'm just not convinced it does, and that's why I think behavioural economics is an important contribution to understanding the phenomenon of payday lending.

A second general -- sorry. A second general issue that I wanted to highlight, in terms of consumer concerns, has to do with the complex, and sometimes not fully disclosed, nature of the fees.

Critics have described --

THE CHAIRPERSON: Dr. Buckland, just before you move on, this chart that you have got up there now, if it is repeated twelve (12) times at fourteen (14) days, that means the credit would be outstanding for a hundred and sixty-eight (168) days a year.

Right?

DR. JERRY BUCKLAND: The -- the scenario I was thinking of, Chairperson Lane, was that the person would be taking out twelve (12) different -- or purchasing something twelve (12) separate times and paying off the -- the credit each -- or twelve (12) times.

So the -- the scenario isn't that they carry the --

THE CHAIRPERSON: No, no. I understand that.

DR. JERRY BUCKLAND: Oh, okay.

THE CHAIRPERSON: But I mean for a hundred and sixty-eight (168) days of the year, they would have a payday loan of two hundred and fifty dollars ($250)?

DR. JERRY BUCKLAND: The --

THE CHAIRPERSON: The credit card, you pay once a month, do you not?

DR. JERRY BUCKLAND: The credit card,

what I've -- in this scenario, I'm saying that they pay off the balance at the end of each month. I'm sorry if I'm misunderstanding your question.

THE CHAIRPERSON: I was just confirming -- you just confirmed what I was asking.

DR. JERRY BUCKLAND: Okay. Okay, so a second concern that the literature has raised, and I think our mystery shopping has found, is the concern about the complexity and, in some cases, not fully disclose -- not fully disclosed fees.

Payday loans generally involve a number of different fees: administrative fee, an interest charge, brokerage fee, cheque cashing fee, et cetera. And these fees vary across payday lenders.

It is often claimed that these fees are poorly understood by the consumer, and rarely are they combined into the form of an annual percentage rate to facilitate comparison shopping.

So this is another concern, but I won't go into detail here, because this will be discussed in more detail with the mystery shopping. But I just wanted to mention that as another issue.

So a final concern that I wanted to raise regarding payday lending has to do with the impact of the payday loan on the -- on the consumer's household. And drawing on this question of repeat loans or rollover loans -- and I know that there's some controversy in terms of the definition of a "rollover" or a "repeat loan," and I realize that different companies use different definitions. And I know that the regulation has one (1) particular definition.

If I could just spend a couple of moments explaining the definitions that I use, and then I'd like to give an example.

In early studies of payday loans, "rollovers" were identified as a practice that could be harmful to consumers. Now, what I mean by "rollover" in this case is more of a classic definition of a rollover that I've seen in the literature.

And this refers to an extension to the repayment date for a loan that involves additional fees and/or adding fees to the principal that leads to an actual increase in the loan's APR -- annual percentage rate.

So, the classic definition of a "rollover" that I'm aware of, that receives so much criticism -- particularly in the US -- is where the person's extension -- is given an extended repayment deadline, but the fees are increasing, not just additively -- not just thirty dollars ($30) plus thirty dollars ($30) -- but more multiplicatively.

So, after the first repayment period has passed, instead of an additional thirty dollars ($30), there is maybe thirty (30) plus thirty (30). And then -- or else -- and/or some of those fees are put into the principal, and that adds to the -- the interest rates.

That's my understanding of, sort of, the classic definition of a "rollover" and why it receives so much criticism in the US.

The harm was associated with the rapid rise in fees and the concern that consumers would become trapped in debt. This has lead many US states and, in Canada, the CPLA to disallow -- disallow rollovers.

However, since a large number of payday lender outlets in Canada are not part of the CPLA, this practice may still be commonly undertaken by some payday lenders. We -- we don't know.

However, more generally, the repeat nature of payday loan borrowing is concerning. Rollovers are a particular -- as I've defined them, rollovers are a particular extreme case of using a very short-term loan to address a longer-term or multi-week problem. Taking many payday loans in one (1) year, the consumer may face a high lump-sum fee seen in the example I just cited.

So now I want to draw on two (2) studies and present another numerical example, this time to demonstrate the benefits or costs to a household for taking out a payday loan and then extending that payday loan in some for -- some form of repeat or rollover. Okay.

And if I can just parenthetically point out that in the mystery shopping, we did a loan mystery shop. And in three (3) of the four (4) cases of our loan mystery shop -- which will be discussed in more detail in a minute.

In three (3) of the four (4) cases we found that there was some type of scenario, similar to what I'm going to present now, where the shopper was able to get an additional loan or extend the repayment deadline of the loan and simply pay fees at the repayment period.

So the scenario I'm describing here, I -- I think, is consistent with what we found in three (3) of the four (4) payday loan mystery shop experiences.

Okay, for this example I -- I use a household consumption and investment model. This is common in economics and finance and is used by Elliehausen and Lawrence (phonetic) in their 2001 study.

Just again parenthetically, Elliehausen and Lawrence have -- did -- did a very important study back in 2001 in the US, where they got industry-based data on payday lending in the US.

And I think it's quite widely referred to and is often noted as an example of a pro-payday loan perspective. So their conclusion in their article is -- is quite supportive of the payla -- payday loan industry. So I just wanted to parenthetically put that in there.

Okay, what they do is they look at the -- the net present value to a household of borrowing money through a payday loan and using that loan to invest in the repair of their car.

And just to explain some -- just to set up my example here, first of all, net present value -- if I could explain -- the basic idea here is that a dollar ($1) earned in two (2) weeks is not worth as much as a dollar ($1) today.

Why? Because either based on the time value of money or the opportunity cost of capital, we prefer money now. So many people would say, you know, if you can have a dollar ($1) today or a dollar ($1) in two (2) weeks, what would you prefer? Many people would say, I prefer the dollar ($1) today.

Some people would use that, maybe, to go out and buy a coffee. Other people might use that to invest in a bank account and earn some interest, although with a dollar ($1) there's not much interest to be earned.

But the point is that we do have a preference for -- for a dollar ($1) today as compared to a dollar ($1) in the future. Okay, the Elliehausen and Lawrence example involves a household where a consumer takes out a two hundred dollar ($200) two (2) week loan for a total cost of thirty dollars ($30).

So at the end of two (2) weeks they have to pay a thirty dollar ($30) fee to the payday lender. And --

MR. BYRON WILLIAMS: Dr. Buckland, if I could just interrupt you for a second, is that the next slide?

DR. JERRY BUCKLAND: Yeah, I can go to the next slide. Sure. Yeah, okay.

So this slide highlights some of the key points that I will use to set up the example. So there's the two hundred dollar ($200) payday loan and the fee of three (3) -- thirty dollars ($30). And the household is using that two hundred and fifty dollars ($250) to -- to fix their car. So it's an investment.

Now you could do this -- you could do this example where they consume it, where they go out for, you know, dinner or -- or something, and -- and the example would still work. It's just a little bit more difficult, because then you have to deal with utility or reveal preferences. But it's -- it's -- I think the -- the analysis is -- is essentially the same.

So what they do is they -- they get the -- the household is going to use the two hundred dollars ($200) to repair their car.

And what they do, then, is they calculate the net present value of the benefits to the household for repairing the car today as compared to waiting two (2) weeks and repairing the car at payday.

So it's a pretty minor repair, I guess, for two hundred dollars ($200). But what it does is it benefits the household in -- in two (2) ways, and -- and then there's a cost.

So if you could look at the box here, you see the calculation that they make. They're asking the question, How much does this household save each day because of their investment in car repair?

Well first of all, they don't have to pay bus fare. And in Washington, DC, bus fare is three (3) -- three dollars and fifty cents ($3.50) one way. So for that household they're saving seven dollars ($7) a day, because they don't have to take the bus.

On the other hand, they do take their car now, because they've repaired it. So the -- the car fuel, maintenance and depreciation they estimate to be based on a per-mile basis of thirty-one cents ($.31) per mile, which will cost the household seven dollars and forty-four cents ($7.44).

A key assumption here is the third point, where they use the opportunity cost of commuting. And this is a key savings for the family. And that is that instead of the family member taking the bus -- and that would take more time -- they're now able to take the car, and they save some time.

So the opportunity cost is a quarter (1/4) of an hour each way, so thirty (30) minutes is saved. And they take the opportunity cost by multiplying that by ten dollars ($10) as a kind of shadow wage. And that would save them -- that family five dollars ($5) a day.

So adding those three (3) items up leads a total savings per weekday of four dollars and fifty-six cents ($4.56). So by investing in the car repair today, they're going to save four dollars and fifty-six cents ($4.56) each weekday. They -- they ignore the question of weekend issues for the simplicity of their analysis.

So now to the -- the next point is that they need to discount future earnings, as I mentioned, because of the fact that we have a preference for a dollar ($1) today as compared to tomorrow. And they use a standard formula, where they discount future earnings by a discount rate.

And the discount rate that they choose in their study is here, based on the annual percentage rate of the payday loan. They -- first of all, if I can back up for a second.

The thirty dollar ($30) fee for the two hundred dollar ($200) payday loan in fourteen (14) days leads to an annual percentage rate of 390 percent. And when we divide that by three hundred sixty-five (365) days, that leads to a 1.07 percent daily discount rate. So they discount future earnings based on that.

Now, I'll go, in my example, to an alternative daily discount rate in just a minute, but if I could just proceed with the -- with the example.

I apologize for the smallness of the font, but I hope that you can follow me on the papers provided. Even on the paper it's quite small.

Now, what I've done in the middle two (2) columns here is essentially to replicate the Elliehausen and Lawrence table. In that table what you find is a daily numeration of the net cashflows.

And the way in which they set this up is that in -- on Tuesday, there's the two hundred dollar

($200) expense for the car repair. And then every weekday until the -- the payday loan, there's a four -- four dollar fifty-six cents ($4.56) net benefit to the household. Okay, because remember, they're saving almost five dollars ($5) a day because of the -- especially the commuting time that they're saving.

And then finally, on the Tuesday -- the payday -- they are now net -- their -- their cashflow is positive two hundred (200), because they don't have to pay for the car repair. They already did that. In addition, they're saving four dollars and fifty-six ($4.56) that day.

Okay, so that's the setup of the Elliehausen and Lawrence net present value calculation -- sorry -- cashflow calculation.

Then the -- the next column, where they look at the discounted cashflows, they simply apply their discount formula. They discount future benefits and costs using that discount formula, and the summation of the benefits -- this is the key conclusion from Elliehausen and Lawrence, that there's a net benefit to the household for having used the payday loan to repair the car.

So there's a positive benefit to the -- to the consumer. This is a demonstration of how the payday loan, even with the -- what some have described as the high fees, has actually benefited this family.

MR. BYRON WILLIAMS: Dr. Buckland, if I could just stop you there -- and, again, remembering the transcript can't see your little red circles.

So your -- in terms of the net present -- the net benefit, is that the fourteen dollars and fifty-nine cents ($14.59)?

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

MR. BYRON WILLIAMS: Okay, and that's about halfway down the Example 2 on slide 17.

DR. JERRY BUCKLAND: Yes, that's correct. Okay, now if I can set up my example, because what I want to do now is to integrate Robert Mayer's relative advantage critique.

Remember Mayer argues that one (1) of the ethical dilemmas faced by the payday lending industry is the question of the situation where people are taking multiple loans for -- and -- and ending up paying high fees for what turns into a multi-week loan.

So what I want to do is integrate Mayer's insight into this example by simply setting up a scenario where this family is unable to repay the loan in the first period and has to go for an extension -- or rollover or repeat, however we want to define it.

But my point is, they have to pay the fees at the repayment deadline, and then they have to pay the same fees at the next repayment deadline.

So this a particular scenario that occurs that I think is consistent with what we saw in some of the -- the pay -- the mystery shopping.

Now, I need to back up here for a second, because the way in which I set up my example is different than the way in which Elliehausen and Lawrence set it up. But the result is virtually the same at the first payday loan -- at the first -- the end of the first payday loan cycle.

So if I can just back up for a moment here and set up my example, which is in the last two (2) columns.

The -- the way in which I set up my example is instead of using the 30 percent annual percentage rate to discount future earnings, I used 10 percent APR to discount future earnings.

I think this is more consistent with what's typically done in discounting practices. I'm certainly more familiar with that in economics, to use a -- a 10 percent type discount factor. Maybe it's twenty (20).

And if I do so, I need to include the

payday loan fees. Again, to back up for a second, Elliehausen and Lawrence don't include the payday loan fees in their calculation, because they've used the -- the APR associated with the -- the fees to discount future earnings.

So what I do is I drop my discount rate to 10 percent, and I introduce the dis -- the -- the fees. How does this look?

First of all, the -- the major difference in my scenario is that -- is here. At the Tuesday, the fourteenth (14th) day, the net cash flows, instead of being two hundred and four dollars and fifty-six cents ($204.56), they are a hundred and seventy-four dollars and fifty-six cents ($174.56).

Why? Because I've subtracted the fees that the household has to pay on that date. So they have to pay thirty dollars ($30) in fees.

The other major difference is that my discounted numbers here are, you can see, different from the discounted -- discounted numbers that Elliehausen and Lawrence use, because I used 10 percent and not 390 percent APR. So the discount rate's lower.

Now, just to -- to clarify, the results of my scenario are quite similar to the results of the Elliehausen and Lawrence scenario, in the sense that the

-- the net present value for the household is -- is almost the same.

In my scenario, it's fourteen dollars and eighty-six cents ($14.86) positive net present value of this investment, as compared to the fourteen dollars and fifty-nine cents ($14.59) positive for the Elliehausen and Lawrence.

So in -- in my scenario, it's looking a little bit better, but roughly the same. So -- so my scenario is the same. Okay.

MR. BYRON WILLIAMS: I'm sorry. Just could I stop you there, Dr. Buckland, just to make sure I have it?

If I'm to look at the two (2) examples, the last two (2) columns on Example 2 on slide 17 are the Buckland approach.

Is that right, sir?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: And a major difference in -- in terms of reading the two (2) columns would be in net cash flows at Day 14.

Would that be right as well?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: And there is a thirty dollar ($30) difference with the Buckland scenario being -- in terms of net cash flows being thirty dollars ($30) lower at Day 14.

Is that right?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: And the other difference that you identified relates to discounted cash flows because you're doing a -- a different discount rate.

Is that right?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: At the end of the day, using your approach on that fourteen (14) day period, the results suggesting a somewhat favourable result for a -- a -- as a consequence of taking the payday loan is actually a bit higher using your approach.

Is that right? Just a touch.

DR. JERRY BUCKLAND: Yeah. It's -- it's roughly the same --

MR. BYRON WILLIAMS: Yeah.

DR. JERRY BUCKLAND: -- but slightly higher.

MR. BYRON WILLIAMS: Okay. Roughly the same. Thank you.

DR. JERRY BUCKLAND: Okay. Now if I can just step forward and now merge the Elliehausen and

Lawrence concept with the Robert Mayer concept of relative advantage, what if this household can't pay off the loan and are able to make some type of arrangement where the principal is outstanding for another repayment period -- another fourteen (14) day period?

Now, in this scenario there -- there's no further benefits to the household, in terms of the daily benefits that they got for the first two (2) weeks, because they would have got the car fixed. Right? So there's no more benefits for Wednesday through Monday.

On the other hand, they face another thirty dollar ($30) net cash -- minus thirty dollar ($30) net cash flow the next repayment period.

And so discounting that using the 10 percent discount rate and -- and summing that up leads to, now, a negative net present value for this household for the use of the payday loan one (1) time and the repeat for an additional time.

Now the -- the situation isn't looking positive. It's looking negative. And if we cycle that again and again, we find that the negative numbers grow.

If I can show you on the last slide, this is the result of the analysis that if the family's able to pay it off right away, then there is a positive net present value.

However, if they can't and they're able to renegotiate some type of extension, where they pay simply the fee at every repayment deadline, the net present value gets more negative and more negative, reaching minus seventy-four dollars and twelve cents ($74.12) if it goes for fifty-six (56) days, which is one (1) payday loan and three (3) repeats.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Dr. Buckland, we may be -- and Mr. Chairman, we may be moving to another area. I just want to -- a couple of questions I want to ask Dr. Buckland as we head into the next area, which will be Mr. Osborne and Ms. Friesen's testimony, with a bit of help from Dr. Buckland.

But we're -- we're starting to move towards the mystery shopping area, and you've mentioned mystery shopping in your evidence.

And you'll agree with me that under the research ethics of the University of Winnipeg, without the express permission of the firms that you mystery shopped, you're -- you're not able to disclose their identities.

Is that right?

DR. JERRY BUCKLAND: Yeah, that's correct. The ethical protocol that we followed was that in our telephone interviews and our mystery shopping we didn't identify ourselves ahead of time. We didn't ask for permission to do the mystery shopping or telephone interview. And therefore we were required to notify the firms after the fact that we had done so, and if they wanted more information or to talk more about it, they could contact me or ethics folks at the University of Winnipeg.

After we did that we were asked to investigate whether or not the various partic -- the various companies that we mystery shopped or telephone called would be willing to weigh the anonymity which we had guaranteed.

And we did get a little bit of feedback on that request. And in the end I think I got two (2) emails or phone calls asking some more information.

I had an email from one (1) payday lender who said that he -- he would be giving consent. However, I never did receive the -- the written consent from that payday lender.

And in the end we only received actual written consent from one (1) payday lender, and that was National Money Mart.

MR. BYRON WILLIAMS: Thank you. Mr. Chairman, we're -- we're moving into -- and just to finish up that thought, I guess, even in revealing the National Money Mart information it might tend to disclose others.

So that -- that would be your reluctance in terms of indicating the -- the mystery shopping results for national Money Mart.

Would that be fair, Dr. Buckland?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: Mr. Chairman, we're just moving into the next section, which will include the spatial analysis and the -- the mystery shopping results and also the fee survey.

And we're at the pleasure of the Board if you want us to -- to continue or take a -- a five (5) minute break? Either way we're happy with -- with what works for the Board.

THE CHAIRPERSON: Just carry on.

MR. BYRON WILLIAMS: Dr. Buckland and Mr. Osborne may wish to change positions.

(BRIEF PAUSE)

THE CHAIRPERSON: Just while you are

switching, Dr. Buckland, in your net present value calculations you assumed a fee rate for the payday loan of fifteen dollars ($15) a hundred (100), correct?

DR. JERRY BUCKLAND: The -- the calculation or the -- the fee for the payday loan was thirty dollars ($30) for a two -- two hundred dollar ($200) payday loan.

THE CHAIRPERSON: Right. Fifteen dollars ($15) per hundred (100).

DR. JERRY BUCKLAND: That -- that would be correct.

THE CHAIRPERSON: So if you use twenty-four dollars ($24), would it still come out as a positive net present value?

DR. JERRY BUCKLAND: I would need to do the calculation. I was essentially replicating the -- the study by Elliehausen and Lawrence. But I can certainly do that, use -- use different numbers. I -- I could certainly do that and provide that to you.

THE CHAIRPERSON: That would be fine.

DR. JERRY BUCKLAND: Twenty-four dollars ($24), okay?

THE CHAIRPERSON: Sure.

MR. BYRON WILLIAMS: Dr. Buckland has undertaken to replicate that calculation, if I'm right, using a fee level of twenty-four dollars ($24) for a fourteen (14) day payday loan?

--- UNDERTAKING NO. 83:

Dr. Buckland to replicate that calculation, using a fee level of twenty-four dollars ($24) for a fourteen (14) day payday loan

MS. SUSAN PROVEN: Dr. Buckland, just before we leave you, I just wondered about the cost of the credit card. Did you say that it was paid off every month? Like it was -- it was paid fully every month?

DR. JERRY BUCKLAND: Yeah, what I meant was that the -- the person using the credit card was using the credit card in such a way that they're making a two hundred and fifty dollar ($250) purchase, and they ended up paying the fees associated with a 21 percent annual percentage rate for fourteen (14) days.

Now I think it depends on how the credit card is structured, whether they would need to pay it off at the end of the month or whether there would need to be an outstanding balance.

I think credit cards are structured differently and interest rates apply differently. But my assumption in that example was that they were paying the -- the 21 percent APR for a fourteen (14) day period. Does that --

MS. SUSAN PROVEN: I was just wondering, because I thought there were credit cards you could get that if you did pay it off every month --

DR. JERRY BUCKLAND: Yeah.

MS. SUSAN PROVEN: -- you would not pay anything.

DR. JERRY BUCKLAND: Absolutely. Yes, so I was -- I think I was looking at maybe something --

MS. SUSAN PROVEN: You were just --

DR. JERRY BUCKLAND: -- like the worst-case scenario. Yeah.

MS. SUSAN PROVEN: Okay, thank you.

DR. JERRY BUCKLAND: Okay, so I'm going to introduce the next component of our research, which is looking at the -- the mapping of payday lenders in Manitoba with particular reference to the Winnipeg situation.

This analysis seeks to test the hypothesis, particularly in the Winnipeg situation, that payday lenders are largely opening in low-income neighbourhoods.

This analysis does not seek to establish causation. Reasons why payday loan -- payday lenders locate are likely related to a desire to be close to clients as well as to be centrally located.

We're not looking at causation. We're looking at describing the location of payday lenders. The main objective is to determine simple spatial relationships between the disadvantaged neighbourhoods and payday loan outlets.

We make reference to two (2) geographic regions in Winnipeg: the inner city and the non-inner city. These regions are based on the Core Area Initiative boundary, which goes back a couple of decades but has continued to be used by many researchers and policymakers to understand Winnipeg, and in particular disadvantaged neighbourhoods in -- in Winnipeg that are found in the inner city.

In general, inner-city neighbourhoods contain higher concentrations of socioeconomically vulnerable households that do -- that do not happen in non-inner city neighbourhoods.

So I'd like to turn it over to John, who will discuss the methods that he used as well as some of the results from the mapping method.

MR. BYRON WILLIAMS: And before we turn it over to Mr. Osborne, he will be referring to some maps on the PowerPoint presentation. There -- for some members of the audience, they may be a bit difficult to -- to view, so we've taken the liberty of giving copies to the Board.

For those who feel left out, these maps also appear as Appendix 8 to the evidence of Dr. Buckland, I think, starting about page 98. So if you're trying to follow along, if you have a colour copy, it will be helpful.

(BRIEF PAUSE)

MR. JOHN OSBORNE: Thank you, Dr. Buckland, for the introduction. Thank you to the Board for giving the opportunity to speak today, Chairperson Graham Lane, Monica Girouard, and Susan Proven, thank you.

I will begin by discussing some of the methodology involved in -- in doing the mapping section. So since there's no one authoritative source of payday lender firms and outlets, we relied primarily on the Yellow Pages -- both hardcopy book and online -- as well as some online sources to identify firms and outlets. Some individual company websites were visited to see where they have the locations.

Brick and mortar firm outlets were mapped. Now, there was a differentiation. They were referred to in the report as "call centre" and "online firms." These were not mapped. They were kept in a separate database for the fee calling section.

But call centre and online firms, these firms do not -- their geographic location is not central to their -- their business. They're operating online or through telephone, fax. So they were not included in -- in the mapping as being central to their business model.

Province-wide locations were also mapped. We mapped in Winnipeg, but also province-wide.

Now, Dr. Buckland, in his report earlier, used neighbourhood clusters. The maps that -- that were in this section of the report are -- are neighbourhoods, which is a smaller geographic unit for examining the spatial patterns, a little bit finer analytical tool.

Socioeconomic indicators found in the Winnipeg maps are from the 2001 census neighbourhood data from Statistics Canada. These indicators were chosen by the whole team under direction of Drs. Carter and Dr. Buckland.

Percentages were usually used rather than whole numbers to focus on concentrations and proportions of vulnerable residents rather than whole numbers.

Some limitations in -- within the methodology: Number 1, we cannot be sure that all outlets in the province are included. Again, just through the methodology of -- of finding all of the -- the outlets was -- was an imperfect way of doing it, possibly, if some slipped through, weren't in the Yellow Pages, and so on.

The second limitation is some frequency-based statistics are used in the analysis merely for descriptive purposes. We did not attempt examine statistical significance of the findings or anything of that nature.

I'd just like -- like to add one more point about the methodology. There was question in IRs about the Jenks Natural Breaks. I -- I tried to -- I'm not sure if my response was -- was adequate.

So basically this is -- Jenks Natural Breaks are a default, multi-classed, numerical classification method. In most of my maps you'll see five (5) different colours on the maps. And this decides who -- which neighbourhood gets what value of colour, for a more layman's term.

ArcGIS attempts to find clusters or concentration -- ArcGIS is the -- is the software used. The software attempts to find clusters or concentrations of data and places class breaks between the clusters. By default the number of classes is five (5), although you can change the number of classes if you wish. So basically I used default settings within the software, both Jenks Natural Breaks and five (5) class breaks to do that.

I hope that helps explain that section.

MR. BYRON WILLIAMS: I certainly feel a lot better now.

(BRIEF PAUSE)

MR. JOHN OSBORNE: So that -- that's a -- is a brief overview of the methodology used within the mapping procedures. I'll now move on to some key findings.

I'm not going to show any maps just yet. I'm just going to give a sort of overview of -- of what we found from the mapping component of the study, and -- and then we'll look and -- and -- in more detail at specific maps.

So the findings start, provincially, payday outlets are found in ten (10) Manitoba centres outside of Winnipeg. These outlets are of both large and small firms of which some of the small firms do not have locations in Winnipeg. They are unique to rural Manitoba.

In Winnipeg over half (1/2) of payday lender outlets are located in Winnipeg's inner city. Major routes are preferred throughout the city, and certain nodes -- like shopping centres -- are preferred in the suburban areas.

Therefore, centrality and accessibility seem to be important factors, but we believe that it is also important to consider the potential impacts on socioeconomically vulnerable concentrations of residents in both the inner city and non-inner city areas.

Bank and credit union outlet closures in Winnipeg have reduced the availability of traditional financial services to Winnipeg residents, which is especially true for the inner city and other lower-income areas. These closures have a similar spatial pattern as the growing numbers of payday lending outlets.

Various maps were produced to examine the relationship between socioeconomic attributes of Winnipeg neighbourhoods and payday lender location patterns.

We'll now look at some of these in the PowerPoint that are the same mats that were -- maps that were prepared in the Buckland, et al, report to the PUB.

MR. BYRON WILLIAMS: And just for the

benefit of audience members and the panel, some of the -- Mr. Osborne will have the maps up on the PowerPoint.

Some of the description can be found in slide -- the P -- Coalition Exhibit Number 16 will be part of the -- the language that he will be using.

Please proceed, Mr. Osborne.

MR. JOHN OSBORNE: Okay.

(BRIEF PAUSE)

MR. JOHN OSBORNE: So the -- the first slide is one of Manitoba in general. Our methods found sixty-nine (69) payday lender outlets, representing sixteen (16) different bricks and mortar firms to be located throughout the province.

Winnipeg has the largest number and highest concentration of firms in the province, with fifty-one (51) mapped locations.

Brandon is next, with five (5) active bricks and mortar outlets, and Portage la Prairie follows with three (3).

Brandon has a mix of both small and large firms. Portage la Prairie seems to be only served by the -- the Big 3.

Now, you'll see in the legend on map

Number 1 that there's four (4) different classes of -- of payday lenders identified with their different sym -- symbols.

We have -- they're -- they're a combination of both size and membership within CPLA and non-membership. So we have CPLA members not in the Big 3, CPLA members that are in the Big 3, and non-CPLA members not in the Big 3, and non-CPL members -- non-CPLA members that are in the Big 3.

Now, I want to be clear of this to -- not to have any misunderstandings. The Big 3 in the bottom corner of the map, you'll see the Big 3 status means that the store is either a Money Mart, a Cash Store, or Instaloans outlet. No differentiation was made between -- or differentiation was made between the Cash Store and Instaloans.

Again this -- this whole exercise was from a consumer point of view, who might not know that they are not the same parent company.

So overall in Manitoba, outside of Winnipeg, eighteen (18) -- eighteen (18) payday loan outlets were identified. Eight (8) of these are CPLA members, and ten (10) are non-members.

Smaller firms compose more than 50 percent of lending outlets outside of Winnipeg, Brandon, and

Portage la Prairie.

So this map pretty -- pretty -- speaks for itself. There's not a lot to highlight. You will see that Winnipeg -- I -- I haven't included any payday lenders in this map.

This is to show the general distribution throughout the Province. You'll see even northern communities, like Thompson and Flin Flon, are served -- Swan River, Russell, these -- Winkler, Steinbach. Many of these smaller communities only have one (1) payday lender serving their customers.

So moving onto slide Number 2, this is the -- more of a general Winnipeg locations map. This shows all the maps in our -- collected through our methods, located within the city of Winnipeg.

So slightly over half (1/2) of payday loan outlets -- twenty-seven (27) out of fifty-one (51), which is 52.9 percent, to be exact -- are located either within or on the inner-city boundary line.

Again this inner-city boundary line is -- is the -- from the Core Area Initiative boundary line. This deals with vulnerable populations and was decided upon decades ago, that's had some minor revisions, I understand. But this is generally accepted as an inner-city boundary for Winnipeg.

So this concentration in the inner city can be partially explained by firms desiring to maximize accessibility, centrality, and other benefits. I've seen in some transcripts the word "visibility" for locating there.

Payday lender out --

MR. BYRON WILLIAMS: Mr. -- Mr. Osborne, if I can just stop you just one second, I'm having, just from here, a bit of trouble seeing the inner cities

MR. JOHN OSBORNE: Sure.

MR. BYRON WILLIAMS: The -- I think it's the purple boundary, but if you could perhaps circle it --

MR. JOHN OSBORNE: Yes, it's the purple boundary that follows roughly, forgive my artistry, this right here. That is --

MR. BYRON WILLIAMS: Thank you, Mr. Osborne.

MR. JOHN OSBORNE: -- your rough inner -- inner-city boundary as -- as is used quite extensively in -- in our CRC work, anyways, and -- and quite widely recognized.

So payday lender outlets are, for the most part -- oh, getting back to my point where I was then. The concentration in the inner city is -- it can be partially explained by firms desiring to maximize accessibility, centrality, and other benefits such as visibility for locating there.

Payday lender outlets are, for the most part, found along major streets. You'll see in your legend this major street symbol down here. It is kind of the gold outline over some -- some streets.

That is -- those are -- those are what the -- the defaults base map I've used for all these maps is from DMTI Spatial software. And they are -- at default decide what are major streets, and these -- these are what they are.

I -- I've also checked other sources. I've looked at Google Maps, other online mappings. And they are very similar to what, for instance, Google Maps uses as their major streets. I think I make one (1) exception. There was one (1) street, maybe, that wasn't -- that was a differen -- differentiation.

So clusters emerge at -- at major nodal areas, also, in -- in the non-inner city areas like St. Bottel (phonetic), Polo Park, and Kildonan Place shopping centres.

You can see here -- where is my little tracer? Right here is the Polo Park area. You'll see a cluster of -- and -- and in different suburban areas you'll see this. And over here there's nodal areas that are -- seem to attract concentrations of payday lenders as well.

MR. BYRON WILLIAMS: Mr. Osborne, just -- the second area towards the south end or bottom of the map, that was St. Bottel that you circled.

Is -- is that right? St. Bottel?

MR. JOHN OSBORNE: Yeah. Yes.

MR. BYRON WILLIAMS: And the third one that you circled in the -- the top third, towards the right, would be Kildonan Place. Is that right, sir?

MR. JOHN OSBORNE: Yeah that's -- it's on Regent Avenue.

MR. BYRON WILLIAMS: Thank you.

MR. JOHN OSBORNE: Just under two-thirds (2/3s) of -- of outlets in -- in Winnipeg are Big 3 outlets -- Again that's Money Mart and the two (2) Rentcash -- leaving just over one-third (1/3) is outlets of smaller players in the industry.

No -- no differentiation was made as smaller players. There are other multi-outlet firms operating as well.

As for locations of the Big 3 outlets, nineteen (19) out of thirty-three (33), or 57 percent, are located outside of the inner city.

Smaller firm outlets demonstrate greater inner-city concentration. Thirteen (13) out of eighteen (18), or over 70 percent, of non-Big 3 firms can be found on or within the inner-city boundary.

(BRIEF PAUSE)

MR. JOHN OSBORNE: Now a brief examination of -- of CPLA membership. CPLA membership outlets' share is -- is twenty-two (22) out of fifty-one (51) overall in Winnipeg. Non-CPLA membership outlets' shares twenty-nine (29) out of fifty-one (51), which is about 57 percent. So slightly more non-CPLA members as CPLA members represented in our database of payday lenders.

Neither CPLA members nor nonmembers appear to show more preference for inner-city locations than the other. Both -- both have just over half (1/2) of their outlets in the inner city. There seems to be no preference between those to members or nonmembers.

Thus it would seem that size of firm appears to be the more important consideration for firms choosing between the inner city and non-inner city to locate, regardless of CPLA affiliation.

(BRIEF PAUSE)

MR. JOHN OSBORNE: Slide Number 3 -- excuse me for a moment. Slide Number 3 examines FCAC bank outlet closures. This is the Financial Consumer Agency of Canada, to explain the acronym.

Since 2002, bank branch closures have been collected into a central database at the Financial Consumer Agency of Canada. Twenty-two (22) of these close -- closures have occurred in Winnipeg; half (1/2) of these are found within the inner-city boundary.

Once again, I'll -- I'll just outline that inner-city boundary on here, roughly.

Now there appears to be a spatial relationship occurring between bank branch closures -- closures and the existence of payday loan outlets. And this phenomena appears to be more -- more pronounced in the inner city. Inner-city residents, therefore, have experienced a significant reduction in traditional banking sector options while payday loan operators have moved in to service the area.

This -- there seems to be a spatial evidence to support some of the comments made by Dr. Buckland in his earlier report.

If -- if we just look at the map here,

too, you'll see real concentrations of bank -- traditional bank closures in the inner city in this area and many payday loan outlets in there. You'll also see some similar spatial patterns in the suburban areas, although there -- there's definitely exceptions to the rule.

There -- there does seem to be spatial patterns that -- that are similar to both the --the closures and the payday lender outlet locations.

Slide Number 4 examines median income. Again this -- this -- let's quickly look at the legend down in the -- in the bottom lefthand corner. This is based on these -- these divisions are based on the Jenks Natural Breaks I told you about, which is the default choice for -- for choosing these -- what -- what colour each neighbourhood is, what value they are given, and also five (5) -- five (5) different values ranges have been chosen.

That is also a default setting in the GIS software. Any more than that and it starts to really get difficult to differentiate.

All inner-city payday lenders are located in or on borders of the bottom two (2) medium income group ranges in the legend. So that is zero to twenty-eight thousand (28,000) and twenty-eight thousand

(28,000) to forty one thousand (41,000).

That's the -- that's the yellow and the very light orange sections on the map. So you can see the high concentration of these low-income areas -- low median household income areas in the inner-city area.

Of the twenty-four (24) non-inner city locations, only six (6) -- or roughly 25 percent -- of them are not found inside or bordering one (1) of the bottom two (2) median neighbourhood income ranges.

Therefore, for all fifty-one (51) mapped payday lenders, only 11.8 percent or six (6) out of the fifty-one (51) are not found within or on borders of bottom two (2) range median neighbourhood household incomes. Conversely, twenty-five (25) of the fifty-one (51) payday lenders are located in or border the lowest yellow range of neighbourhood median household income.

So there appears to be a spatial pattern emerging where payday lenders seem to be locating in proximity to areas with lower median household incomes. So again, if you look at -- at the map, you'll see even -- even where -- where some of these suburban or non-inner city locations are, they're not choose -- they're -- they're not locating -- they're not found in the dark red or even lighter red portions. There's some in the -- in the -- in the middle orange section, but many in the yellow sections, was what I was pointing out earlier.

Slide Number 5 is "Incidents of Low Income of Population in Private Households." The trend for this variable also shows high concentration in the inner city, where more than half of Winnipeg's payday lender outlets are located.

It -- it's I think the -- the map speaks for itself in what is going on in the -- in the inner city. Much has been written in academic literature and -- and so on about the -- the state of Winnipeg's inner city, particularly with concentrations of -- of low income and so on -- very evident on this map.

Twenty-five (25) out of twenty-seven (27) inner-city payday lenders are located in or border the highest two (2) value ranges of low-income incidents.

MR. BYRON WILLIAMS: Mr. Osborne, could I just interrupt you there in terms of the colour scheme, because this is a -- in terms of -- in -- in the last map low/medium income, or the lowest tier, was in -- in a light yellow.

Could you -- in terms of the incidence of low income for the purposes of --

MR. JOHN OSBORNE: Mm-hm.

MR. BYRON WILLIAMS: -- of this map, if you could explain the -- at least the -- low -- the bottom two (2) tiers for me, in terms of the colour scheme?

MR. JOHN OSBORNE: Yes, these bottom two (2) tiers are -- this is an opposite of -- of the previous map, I guess.

The bottom two (2) value ranges are -- are higher incidence of low -- low income occurring in -- in these neighbourhoods. So the -- the bottom two (2) is the ones we're focusing on for -- for the -- the vulnerable population in -- in this -- this -- the instance of this map.

MR. BYRON WILLIAMS: So that would be the dark brown and the lighter brown or --

MR. JOHN OSBORNE: That -- that --

MR. BYRON WILLIAMS: -- could you tell me what words you're using?

MR. JOHN OSBORNE: The -- the very dark red and the -- and the less dark red -- the -- the yellow and -- and the -- and the lighter orange are -- are areas of more affluence, I guess you could say.

MR. BYRON WILLIAMS: Thank you.

MR. JOHN OSBORNE: So -- so 93 percent of these inner -- the inner-city payday lenders are located in or border the highest two (2) value ranges of low-income incidents, which is, again, the red and the dark red.

This is meaningful, since the incidence rate in these two (2) most affected value ranges is 32 percent and higher. And you can see a stretch -- it ranges up to 83%.

Citywide, twenty-eight (28) out of fifty-one -- 51 or 55 percent -- of payday loan outlets are found in or border neighbourhoods in these two (2) value ranges of highest incidence.

So what that means is that there's less low income incidents occurring in the -- in non-inner city areas in -- in Winnipeg. However, the lowest low income incident value range -- which is the light yellow, zero to eight point four (8.4) -- has very few near them.

No payday lender outlets locate -- only two (2) of the fifty-one (51) locate within 400 metres of -- of these -- of the lowest incidents of low income, basically the most -- most affluent areas of -- of Winnipeg.

So it would seem that relatively affluent neighbourhoods are avoided in favour or areas where higher concentrations of low-income households can be found.

(BRIEF PAUSE)

MR. JOHN OSBORNE: This next slide shows a percent of population spending 30 percent or more of income on shelter. I guess Dr. Carter can correct me if I'm speaking out of place -- with this leads to some disposable income opportunities. If you're spending more than 30 percent of your income on shelter, it's leaving you less money available for spending on other things such as food.

THE CHAIRPERSON: When you talk about 30 percent, that is of gross income, is it not?

MR. TOM CARTER: I didn't hear the question.

THE CHAIRPERSON: When he was talking about the 30 percent being -- talking about occupancy, he is talking about gross income there, isn't he?

DR. TOM CARTER: That's gross income, yes.

(BRIEF PAUSE)

MR. JOHN OSBORNE: Again, these data are taken directly from the 2001 census from Statistics Canada. I believe the income is based on year 2000 income.

So spending greater than 30 percent of

income on shelter leaves less disposable income for households. Again, household concentrations of this indicator are found in the inner city, where clusters of payday lenders are also located.

Non-inner city payday loan outlets also tend to locate in or border neighbourhoods whose values are found at the higher end of the spectrum, as indicated in the map legend.

You'll -- in other words you'll see, once again, the areas we want to focus in on are the darkest -- the red and the lighter red value ranges. Just from eyeballing, you can see the concentrations that tend to follow the spatial patterns of these dark-red locations. It's not a perfect relationship and, like I say, hasn't been studied for statistical correlation or significance.

But you -- you can clearly see that a payday lender like this is maybe -- can be termed and found -- I -- I've circled one (1). Sorry, for the record.

That it is -- it is found in -- in -- it borders two (2) neighbourhoods at the lower end of -- of this indicator. But it seems to be an anomaly more than -- more than not.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Then the one (1) circled, Mr. Osborne, is -- it looks like it's probably on Pembina Highway, but it's in the south end of the city.

Is that right, sir?

MR. JOHN OSBORNE: That's correct. I guess I haven't taken the time to properly explain fully my legends. It's -- you'll see some grey areas. These are referred to as "no-data neighbourhoods." These are either commercial or industrial or non-residential. Basically the Statistics Canada database did not have the information about these.

It's not because they were purposely left out for any reason. But mostly it would be because they were non-residential in nature.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I think Dr. Buckland is to read in this -- this last point on this page.

DR. JERRY BUCKLAND: Okay, so just as kind of a summary of some of the points that have been mentioned so far about the mapping that John has presented, as with other indicators, there are notable exceptions.

But the overall trend is that payday lenders are disproportionately located in economically disadvantaged and vulnerable -- vulnerable areas of the city.

MR. BYRON WILLIAMS: Back to you, Mr. Osborne.

MR. JOHN OSBORNE: Thank you. So those -- those previous slides and maps were -- were -- had income as part of their component.

We're now going to move to education, and the indicator that our team has -- has selected to display for you is less than high school completed. A little different pattern emerges in -- in the indicator itself.

You'll see that some areas of the inner city, particularly Wolseley here, there -- there are some higher education areas in -- in the inner city.

But this portion here, sort of the northern parts of the inner city -- maybe the more informal term of the North End, have -- have less occurrence of high school being completed by the population age twenty (20) or more.

So while the spatial pattern appears to maybe be not as strong or different than income related indicators, payday lenders do seem to locate in the areas with lower incidence of grade twelve (12) completion.

Again, these are the dark to -- or the lighter red, and the dark red location where less residents are completing their high school. And you -- you'll see concentrations of payday lenders locations either in or near -- or bordering those neighbourhoods.

So it can be seen that fewer outlets are found in yellow and light orange areas that are located in neighbourhoods at the dark orange and red end of the spectrum.

MR. BYRON WILLIAMS: And, if memory serves me right, for slide 8 and 9, I think we're turning it over to Dr. Buckland.

MR. JOHN OSBORNE: Yes. I -- I'll just turn it over to -- to Dr. Buckland for now. These indicators are slightly different, and I'd prefer -- we'd prefer his expertise to speak to them.

DR. JERRY BUCKLAND: One of the things that -- the surveys that we've found -- the national surveys that we found have -- seem to be quite clear on -- and Dr. Simpson will be referring to this later -- is the fact that young people are disproportionately represented in payday loan clients.

So one of the things we asked John to do was to see, using the -- the method -- the mapping method, if there was sort of a coincidence of payday lender locations based on the proportion or the absolute number of people in a youth age group. And the age group that we identified were people aged fifteen (15) to thirty-four (34).

Slide Number 8 looks at the -- or -- or maps Winnipeg, again by neighbourhood, based on the percentage of the neighbourhood that fit this age category -- per -- percentage that are young. And we still have the payday loan outlets listed there.

And if one sort of looks at that, my -- my conclusion -- which is really just based on kind of eyeballing this -- this data -- is that we don't seem -- we don't see the same kind of connection between the payday loan outlet and the neighbourhoods with a -- a high percentage of young people as we do with the connection between the payday loan outlets and the other indicators that John has spoken about.

The next slide -- John would you mind -- the next slide looks at the absolute number of people aged fifteen (15) to thirty-four (34) in each neighbourhood. And still I find -- again, just sort of eyeballing this particular map -- that there doesn't seem to be as strong a correlation or -- or relationship between payday loan outlet and neighbourhoods with a high absolute number of people in that youth category.

MR. BYRON WILLIAMS: Dr. Buckland, can -- can you sum up this section with regard to the hypothesis that you presented or -- originally?

DR. JERRY BUCKLAND: Yes. In the introduction the hypothesis was raised that payday loan outlets operate in disadvantaged neighbourhoods at a disproportionate rate in Winnipeg.

While our findings don't report on causation -- we haven't looked at causation -- the mapping exercise does seem to support the hypothesis as over one half (1/2) of the payday loan outlets in Winnipeg are located in the inner city, which represents only about 20 percent of Winnipeg's total population.

So that's the basic summary of the mapping exercise.

MR. BYRON WILLIAMS: And, Mr. Chairman, this -- next up is Ms. Friesen with the -- the mystery shopping exercise. Perhaps this would be an appropriate time to stand down for a few minutes.

THE CHAIRPERSON: Yes. We'll have our break now and be back in fifteen (15) minutes. Thank you.

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

--- Upon resuming at 10:50 a.m.

THE CHAIRPERSON: Okay, Mr. Williams.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And just -- just a reminder that Dr. Carter has to step out at 11:15. He'll do so with a minimum of disruption. He assures me he's very light-footed.

Two (2) things, I wanted to just go back to before we go back to Ms. -- or lead off with Ms. Friesen, just going back to Dr. Buckland on two (2) points of -- the -- in flowing from the discussion this morning.

One was a -- a question put to you by the -- the Chairman, and, Dr. Buckland, it relayed to an issue of after-tax or before-tax income.

And -- and perhaps you'll -- you'd like to respond -- address that.

DR. JERRY BUCKLAND: Yes, thank you. I made an error, Mr. Chairperson, and my colleagues have corrected me. The data on the table regarding in -- average income levels in neighbourhoods is before-tax income, not after-tax income.

THE CHAIRPERSON: Thank you, sir. I was

wondering how you would get the after tax.

MR. BYRON WILLIAMS: And -- and that was slide.

(BRIEF PAUSE)

THE CHAIRPERSON: They really want you to speak, Mr. Foran.

(BRIEF PAUSE)

THE CHAIRPERSON: While he is playing with that, I will grab one piece of paper I inadvertently left behind.

(BRIEF PAUSE)

THE CHAIRPERSON: It is not only the electronics that do not necessarily function properly.

MR. BYRON WILLIAMS: That wasn't another comment about my level of organization, was it, Mr. Chairman?

THE CHAIRPERSON: Mine.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Just in terms of the -- the table that Dr. Buckland was referring to, in terms of Coalition Exhibit Number 15, it was Slide 11, Table 2, "Fringe Bank Outlets and Mainstream Bank Closures."

Is that right, Dr. Buckland?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: And one other small point of clarification, just -- Dr. Buckland, on this point you were -- you were -- I'm referring to a discussion that took place with just prior to you chatting about Tab -- or excuse me -- Example 1 on -- on slide 14.

And you -- on -- on slide -- slide 14, Example 1, you're talking about a -- a payday loan for a fourteen (14) day period with an APR of 667 percent.

Is that right, sir?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: And about -- just before that in the transcript, you were talking about a payday loan of two hundred and fifty dollars ($250) with an APR of 770 percent. And I would ask you just to clarify within what time period that reference to the 700 -- the -- the payday loan of -- with an APR of 770 percent was?

DR. JERRY BUCKLAND: That was for a

twelve (12) day period.

MR. BYRON WILLIAMS: Thank you. Ms. Friesen, are you ready to proceed?

MS. ANITA FRIESEN: Good morning, Board Members and interested parties.

I'm going to speak to you a bit about the mystery shopping, just give you an overview. More details are available in the Buckland, et al, report, of course.

The mystery shopping component of the research was undertaken in order to measure the quality of the payday loan provision at twelve (12) payday loan outlets in Winnipeg. It was conducted in order to gain insights into the customer experience of inquiring about, taking, and then extending payday loans.

Specifically, the intention was to discover whether staff are respectful and polite and to determine whether customers are provided sufficient and understandable information to allow them to accurately compare the options offered by different lenders and to then make informed decisions based on that information.

Note that this is a stand-alone study. It's not intended to make comparisons to other financial institutions, but to offer insight specific to payday lending.

As far as the methodology goes, I'll have to be very brief on this. The mystery shopping process was undertaken by two (2) other researchers and I, under the supervision of Jerry Buckland and Tom Carter. The method involved three (3) separate visits with particular information collected at each visit.

The first visit we refer to as the "inquiry visit." Three (3) mystery shoppers each visited four (4) different payday loan outlets that represented a range of geographical locations, sizes, and types of lenders.

Step 1 of the inquiry visit -- now, there's two (2) steps in the inquiry visit. Step 1 consisted of observation of printed information about details of payday loans at the outlet, such as posted -- posters or brochures or even videos, and also a general inquiry by the -- by the shopper about what they would need to know before taking out a payday loan. So very basic questions in the first step.

In Step 2 the mystery shoppers asked more in- depth probing questions to find out more detailed information.

The second loan mystery shopping visit was the -- what we call the "loan taking visit." As a mystery shopper, I visited the -- I was the only one that conducted Step 2 and Step 3 or Number 2 and Number 3 of the visits.

And as a mystery shopper, I visited the same four (4) payday lenders that I visited in the first inquiry visit for a second time and -- and took a loan at each to discover what is actually involved in taking payday loan.

And in the third visit -- the "extension visit" is what we refer to it as -- I returned as a mystery shopper to the four (4) outlets on the next payday to determine whether it would be possible to extend the loan either by paying only part, paying a fee to allow for later repayment, or paying in full and then re-borrowing immediately.

So the remainder of my talk will be about the findings. Now I won't be able to speak about any specific details that might reveal the identity of the outlets that were mystery shopped as we mentioned before, because we -- we have not been able -- we have not been given permission to do so by all of the lenders, and to do so would violate the university's research ethics.

So, during the inquiry visit, none of the outlets visited had enough specifics included in their on- hand information -- so that's brochures, posters, or videos -- for a customer to be fully informed about that company's payday loan services.

MR. BYRON WILLIAMS: Ms. Friesen, maybe I could stop you there. You used the words "fully informed." What were you looking for? What do you mean by that statement?

MS. ANITA FRIESEN: Okay. We -- we were just looking for really basic information that a -- a customer would generally need to know in order to be able to take a loan.

So we were looking for -- because we identified ourselves as mystery shoppers, we didn't -- well we identified ourselves as being first-time payday loan customers and that we didn't know anything whatsoever about the payday loan process and asked for a definition or an explanation of how it all works.

So we were looking for a definition of a payday loan and/or an explanation of the process of taking and repaying a payday loan.

Another thing that we were looking for was what the lender requires of the customer in order to qualify for a payday loan, so things like documentation, references, employment status, ID, that type of thing.

Another thing that we were looking for that we thought would be necessary for a person to know in order to take a payday loan would be, of course, how much it would cost the customer to take a loan. And we were pretty broad in this, either in terms of a breakdown of the fees so that the customer could calculate it themselves, or else the total amount to be repaid based on an amount that the customer identified that they wish to borrow.

And also the last thing that we were looking for was when the repayment of the payday loan would actually be due.

MR. BYRON WILLIAMS: Thank you. Please proceed.

MS. ANITA FRIESEN: Okay. So at Step 1 of the inquiry visit, each mystery shopper indicated to the payday -- to the teller that she or he had never taken a payday loan before and then asked, What is a payday loan? How does it -- this all work?

And when the teller finished answering that question, the shopper then asked, Is there anything else I need to know? Those were the only two (2) things that -- that were asked by the mystery shoppers at that point.

And when the teller finished speaking -- this might have gone through a number of iterations where the -- the customer -- the mystery shopper would have asked again, Is there anything else I need to know, until the -- the teller was actually finished speaking.

The -- the mystery shopper would then thank the teller and began to walk away or made a motion to, and so that would be the end of the -- the conversation.

In this step, the information provided by the tellers was found to be inadequate, according to our criteria that I had discussed before, in ten (10) out of the twelve (12) cases.

For example, eight (8) of the twelve (12) tellers did not even explain what a payday loan is or the process involved in taking a payday loan. And six (6) of the twelve (12) lenders would have actually let the customer walk out of the store without knowing about any fees or costs involved.

In Step 2 of the inquiry visit, after making a move as if to leave, the mystery shoppers then turned back to the teller to ask a set of specific probing questions. They'd say, Well, you know, maybe I better write some of this down. Or, You know, I'm probably going to forget it and -- and then -- so then they'd ask for clarification and make notes on some of those things.

The specific probing questions included

such things as, What if I can't pay it back when it's due? Or -- well -- and, Do you call my employer? And what information or documents do I need to bring in? And these -- the whole list of these questions is listed in our -- our report.

At the end of this step, in half (1/2) of the cases we, the mystery shoppers, left feeling either that we were not given an adequate explanation of the entire payday loan process or that we were given incomplete or unclear information.

Nine (9) out of the ten (10) - twelve (12) tellers provided answers that left us feeling that we didn't fully understand the fees involved in taking and repaying a payday loan.

Some tellers gave unclear answers about the details of their payday loan service. Three (3) tellers were unable to answer some of the questions, and three (3) refused to answer questions altogether.

During the inquiry visit, in most cases, the tellers seemed to be fairly knowledgeable about their payday loan product and services and were polite and respectful.

But seldom would they actually volunteer additional details that would aid in clarification or understanding.

So, in general, incomplete information on various fees and charges was provided. That was what we found. And in terms of providing an answer to the question about what the interest rate on a payday loan would work out to be per year, only one (1) teller verbally provided an answer.

Another said the company's pamphlet had that information on it, which it did, as we later confirmed. However, the rates provided by these two (2) firms did not take into account all of the fees associated with taking a loan.

Therefore, with the information provided by tellers during the inquiry visit, it seems unlikely that a customer would be able to make quick, accurate comparisons between the different lenders of the full costs of taking a loan.

Now I'll move onto the second visit, the "loan taking" visit of which I -- which I undertook. On my second visit to the lenders, I took a loan of a hundred and twenty dollars ($120) at one (1) outlet and a hundred dollars ($100) at the other three (3) outlets that I visited.

After my inquiry visits, I had left feeling that the information provided from these four (4) outlets was basically fairly clear and complete. I felt that I generally -- well, in three (3) cases, I felt like I absolutely understood things. In one (1) case I was a little unclear still.

During the course of actually taking a loan at each of these outlets, however, it became apparent that quite a bit had been left out or had not been clearly explained during the first visit.

Each outlet not only required more information from me than initially stated at the inquiry visit, but some also required the signing of numerous forms -- as many as ten (10) at one (1) lender -- that were not all clearly understandable.

One main concern that I had was that three (3) of the four (4) lenders required my social insurance number in order to take out a payday loan. But according to Service Canada, and I'll quote from their website:

> "You mush provide your social insurance number to benefit from some government programs, but legally your employer is the only person to whom you must show your card."

And -- and end of quote -- and anybody who has your social insurance number could potentially use it to, and I quote again:

> "Gain access to a wide range of

services and information in your name.
Sensitive personal information may be
revealed to unauthorized people which
can lead to identity theft and other
types of fraud."

And that's end of quote.

And just a little side note on that. Because only three (3) of the four (4) lenders actually required the social insurance number, this seemed to indicate -- to me, anyways -- that it was not something that they actually absolutely needed to have from me.

In terms of unnecessary amounts of personal information required, one (1) lender, in addition to basic information such a name, address, contact information and ID, asked for the following additional information. And I'll just run through this long list quite quickly.

They asked for two (2) blank cheques, two (2) pay stubs, proof of address, bank statements, supervisor's name, supervisor's phone number, position title, photo, five (5) references, date of birth, spouse's name, name and number of my previous employer, credit card number, detailed information about my vehicle owned, plus whether the customer's residence is owned or rented and the monthly rent or mortgage payment.

Perhaps a request for only a few pieces of this information would not have concerned me, but the compounding effect raised a number of questions in my mind.

Why does the payday lender need so much information? How will they used it? Who will they share it with? And can it be stolen?

MR. BYRON WILLIAMS: Just to stop you for a minute. In terms of the -- the long list that you gave, was that your experience at -- at all four (4) or just one (1) -- just one (1) clerk?

MS. ANITA FRIESEN: No, just -- just the one (1), yeah.

MR. BYRON WILLIAMS: Okay.

MS. ANITA FRIESEN: And actually the -- the lender which required the least information is a large, well-established payday loan company, one of the Big 3.

They required contact information from my employer, two (2) references' contact information, a current bank statement, a post-dated personal cheque, two (2) pieces of ID, and they took my photo. And note that this lender did not ask for my social insurance number or any other personal information in order for me to take a payday loan.

Now, when I posed questions about confidentiality and privacy, they were not always answered to my satisfaction, nor did the written agreements provide adequate assurance in most cases.

Also, these assurances were put into question at one (1) outlet in particular where, on two (2) separate visits, I saw, just behind the counter, boxes of file folders may -- maybe half a dozen (6) boxes -- with first and last names clearly visible on them. And I assumed, as probably most people would, that those were customer names.

At this point, despite the discomfort I felt about my lack of understanding, the amount of -- large amount of personal information I had given some of the lenders, and my lack of confidence in confidentiality assurances I had been given, I still somehow felt compelled to complete the transactions.

Mostly, I think, because I was already committed to and engaged in the actual loan taking process. And also the staff had already invested quite a bit of time with me. And this feeling, this experience, gave me insights into the subtle pressures that can make it hard to back out of the loan process once engaged.

And, of course, as a mystery shopper, I didn't actually need a money. As a -- a real client with a real need for a loan, I imagine that the pressure might have been even greater.

In each of the four (4) loan taking visits, I left the outlet feeling that, if nothing else, I understood when the repayment was due -- that was clear, fairly clear -- and also how much I would pay back and how it had been calculated.

But when I actually tried to do the calculations myself, in two (2) cases I arrived at amounts owing that were lower than what the lender had indicated. And in one (1) case it took several attempts before I discovered the rather complex formula actually used by the lender to calculate the higher amount owed. It was not clear in any way.

And in the other case, the -- the fourth of the four (4) cases, no matter how hard I tried, I wasn't able to determine how the lender had calculated the amount to be repaid.

One (1) lender did not allow me to take copies of the documents I signed, but upon reviewing copies from the other lenders, I discovered that I had paid for insurance at one (1) outlet that had not been mentioned in the inquiry visit at all and had not been explained to me as being optional when I took the loan.

Later I discovered that this lender had

charged other fees that I would not have chosen to incur had the process and charges been clearly explained to me.

In two (2) of the four (4) actual loan contracts that I signed, the annual percentage rate was stated and one (1) was for 1,043 percent and the other was 2,355 percent. So that was made explicit.

Another contract indicated an annual effective rate of interest and the other an interest rate per annum. None of the latter two (2) interest rates take into account all of the fees associated with taking a payday loan and represented only a very small portion of the total fees charged.

And just to mention that the -- the lump-sum fees charged in these four (4) cases ranged from twenty dollars ($20) to forty-eight ($48) dollars per loan.

The last mystery shopping visit was the extension visit. So the third mystery shopping visit to each of the four (4) payday lenders was to determine whether it would be possible to extend the loan without payment to the principal, and, if not, whether only a partial payment could be made and a new loan taken for the remainder or whether it was possible to repay the total owed and then immediately re-borrow the same amounts.

So I tried for three (3) different options.

MR. BYRON WILLIAMS: Ms. Friesen, could I -- and -- and if this goes -- just going back to your last comment about the range from twenty (20) to forty-eight (48).

MS. ANITA FRIESEN: Yes.

MR. BYRON WILLIAMS: And if this violates the -- the university's Canon of Ethics, you'll --

MS. ANITA FRIESEN: I'll let you know.

MR. BYRON WILLIAMS: -- you -- you won't answer. In terms of the -- the forty-eight dollar ($48) amount, was that associated -- can you tell me whether it was associated with a hundred dollar ($100) or a hundred and twenty dollar ($120)?

MS. ANITA FRIESEN: One hundred dollars ($100).

MR. BYRON WILLIAMS: Okay.

MS. ANITA FRIESEN: Yeah.

MR. BYRON WILLIAMS: Thank you.

MS. ANITA FRIESEN: At one (1) outlet, none of these scenarios was an option, none of those three (3) were possible. At the remaining three (3) it was possible to re-borrow. We'll call these three (3) re-borrowing.

Each of the three (3) outlets allowed for one (1) of the different re-borrowing scenarios. At two (2) of these outlets, the charges were exactly the same as at the loan taking visit.

At the third outlet, again, it was not possible. This was the same one I couldn't determine the original fees for the calculation for them.

At the third outlet, again, it was not possible to determine whether the charges were the same or not, because I couldn't decipher the fee calculations.

However, when I returned to pay off the final amount owing at that outlet, I sort of took the initiative on my own. I was really curious as to how they did calculate them.

So I told the teller that I couldn't figure out how they calculated the fees on the re-loan. And in our conversation I learned that -- I learned three (3) things, basically.

One (1) was that an additional fee, not included in the initial loan, had been added directly to the principal of the re-loan. And this fee was not itemized in the receipt or any document, and it wasn't mentioned to me when I -- when I re-borrowed.

And it seems, actually, to duplicate one of the other fees already charged, according to the explanation I was given.

The second thing I learned was that one of the fees was calculated as a percentage of the total amount to be repaid, not as a percentage of the fees and the principal added together, as I assumed.

And the third point was that the teller -- the teller himself did not know how to calculate the interest and therefore could not explain how the amount of interest was charged.

So once the mystery shopping process was completed, all of the mystery shopping experiences combined generally left me, as a customer, experiencing a mixture of emotions that could, I guess, cumulatively be described as feeling ill at ease.

I -- I just left feeling a little uncomfortable. There were stages at which I felt fully comf -- comfortable and confident. But then upon re-evaluating that I -- I realized that I -- I didn't actually understand or feel completely comfortable with everything.

So I'll just go over some of the main findings from the mystery shopping, just a -- a brief summary, and these are in point form.

The process of taking a payday loan is generally quick and easy. The tellers are generally courteous and respectful, but not often forthcoming. There was not full disclosure of all that a potential consumer might need to know in order to accurately assess the costs and ramifications of taking a payday loan.

Understanding terms, conditions, and fees of borrowing from these businesses can be difficult. Written information about payday loan terms, conditions, and fees is insufficient.

As a customer I was not able to make accurate comparisons to the fee structures of other lenders. The amount of information required of the customer by some firms seems beyond what is necessary.

The lump-sum fees charged were, to me, seemed quite high, between twenty dollars ($20) and forty-eight dollars ($48). Payday loan consumers may run the risk of identity theft and invasion of privacy in providing so much personal information.

Assurances of confidentiality provided by the lender seemed insufficient. And re-borrowing was quick and easy to undertake.

And that's all I have. Thanks.

MR. BYRON WILLIAMS: One -- just question of clarification, and I want to be fair to the -- to the lender as well.

If I recall your evidence, you indicated that in -- in terms of the insurance property -- or the insurance purchase, you weren't aware at the time that it was an optional purchase.

Is that fair?

MS. ANITA FRIESEN: That's right, yes.

MR. BYRON WILLIAMS: How did you subsequently discover that it was optional?

MS. ANITA FRIESEN: This lender that charged the insurance rate had -- was the one with ten (10) agreements that I had to sign in the course of undertaking the loan.

And buried in there, in several lines of fine print, it was stated that it was an optional charge. But it was not mentioned to me verbally or -- when there was an explanation given by the teller about what I was signing.

MR. BYRON WILLIAMS: If I was to play devil's advocate with you, Ms. Friesen -- just, again, out of fairness to the -- to the lender -- I could say that, well, if you would've read those ten (10) documents, you -- you would have known that it was an optional fee.

MS. ANITA FRIESEN: And that's true. And I -- I could have removed myself from the loan taking process, with the lineup of people behind me, and taken -

- made the teller stop the process and whatever that would have entailed and sat down at that point and read all of these agreements from beginning to end.

But I just didn't feel comfortable doing it, that at that time. I felt compelled, almost, to continue with the process.

MR. BYRON WILLIAMS: Thank you, Ms. Friesen. We're going to be moving to -- to Mr. Osborne. Now, Dr. Buckland, we're -- we're moving to the -- you don't have any summarizing comments in terms of Ms. Friesen's mystery shopping?

DR. JERRY BUCKLAND: No.

MR. BYRON WILLIAMS: We're going to be moving to the area, again, of the -- the survey of -- of Table 3, which is a survey of payday lenders and their -- their fees on a two hundred and fifty dollar ($250) fourteen (14) day loan. So take us away, gentlemen.

THE CHAIRPERSON: First, if you do not mind, Mr. Williams, Ms. Friesen, when you were making your visits and you were negotiating out your loan, were you just at the tellers? Or were you in a separate office or cubicle or anything of that nature?

MS. ANITA FRIESEN: I was just at the tellers.

THE CHAIRPERSON: In each case?

MS. ANITA FRIESEN: Yes.

THE CHAIRPERSON: When you were going back to re-borrow, did you receive any phone calls advising you of your due date?

(BRIEF PAUSE)

MS. ANITA FRIESEN: No, I didn't, no. I'm -- I'm sure of it.

THE CHAIRPERSON: You talked about the documents that you had, without going into which specific lender, et cetera. And you had insurance with one (1) of them.

Did you have an insurance policy that you took away with you along with the proceeds?

MS. ANITA FRIESEN: Yes. Well, it -- it was an insurance agreement, I guess. I -- I -- it wasn't -- I'm -- I'm not all that good with legalistic terms, so I understood it to be an insurance agreement.

THE CHAIRPERSON: Was it clear as to what you were covered for?

MS. ANITA FRIESEN: Not entirely, no. I wouldn't say so, not by me.

THE CHAIRPERSON: The proceeds that you received for these loans, was it cash?

MS. ANITA FRIESEN: Yes.

THE CHAIRPERSON: In each case it was cash?

MS. ANITA FRIESEN: Except for one (1) was a debit card that I used.

THE CHAIRPERSON: Where did you use the debit card?

MS. ANITA FRIESEN: I used it to take out my money at my own ATM, at my own credit union.

THE CHAIRPERSON: Thank you. Mr. Williams?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And just to -- to follow up and -- and I want to be clear. In terms of the time between the first loan being -- when you took out the first loan and then repaid it, how many days were -- what was the time frame there?

MS. ANITA FRIESEN: It was short. We had a very short time frame to -- to work on. And I believe that the -- there were two (2) days on which I took out loans right at -- right next to each other.

And I -- I believe that the time frame was seven (7) days for two (2) of the loans, and then -- and that was a Friday. I think it was a Monday again, then there was five (5) days for the term of the second, until my next payday. I can --

THE CHAIRPERSON: You gave references for some of these. In making your loan application you provided references?

MS. ANITA FRIESEN: That's right, yes.

THE CHAIRPERSON: Are you aware whether your references were called?

MS. ANITA FRIESEN: In one (1) case my references were called right while I was in the store in case they couldn't get them on the phone immediately. That was one (1) of the requirements, was that they would be at the phone.

And that was difficult, because I didn't even know before going in there that I needed to give them any personal references, because they hadn't mentioned that in advance.

And in the other cases there were phone calls made, I think, only on three (3) separate occasions.

THE CHAIRPERSON: So it did not take you long to get the cash then or the debit card?

MS. ANITA FRIESEN: No, and they actually -- the other cases, they called the references after they had given me the cash.

MS. SUSAN PROVEN: I'm interested in the physical design of these places. Like, I -- when I drive by I see a lot of chairs. I don't see people sitting in the chairs. I guess those chairs would be for you to go and examine the documents.

But on the other hand, you're telling us that you were standing at a counter. Were you at a counter?

MS. ANITA FRIESEN: That's right, yes.

MS. SUSAN PROVEN: And what time of day would that have been that you went to go and negotiate these things? When did you go?

MS. ANITA FRIESEN: The time of day? Afternoon and morning, yeah. And we chose specifically -- if -- if an outlet looked busy, we chose specifically to come back at another time so that we -- the tellers would not feel rushed and so that we wouldn't feel rushed also.

MS. SUSAN PROVEN: But you are saying that sometimes there were people behind you?

MS. ANITA FRIESEN: Yes.

MS. SUSAN PROVEN: So that would be kind of difficult, because you'd always feel the pressure of their waiting behind you?

MS. ANITA FRIESEN: Yes. And

specifically in taking the loans, because that's a -- a longer process than just the inquiry visit. There's a lot of forms to -- to sign, that sort of thing -- quite a process. Then there would tend to be people lining up behind.

MS. SUSAN PROVEN: So at any point did the teller say to you, Would you like to go and sit and examine these forms? Did anyone suggest that you go and sit in those chairs?

MS. ANITA FRIESEN: One (1) did yes, and I took advantage of that. That was the -- the place where I wasn't allowed to take photocopies of the agreements with me. So I did -- I was given the opportunity.

MS. SUSAN PROVEN: Thank you.

THE CHAIRPERSON: Okay, Mr. Williams. Thank you, Ms. Friesen.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And, Ms. Friesen, I'll -- just in -- in terms of the insurance agreement or document and your discussion, certainly if you wish, you can read it over again this weekend. And if you have any further information on that, you could certainly share with the -- the Board if they'll allow you.

And let's move to -- to the issue of the Table 3. And perhaps, Dr. Buckland, you can start us off with an overview.

DR. JERRY BUCKLAND: Okay, so in terms of the sort of fourth activity we undertook for our research in Winnipeg, the -- the second part of -- of four (4). John's already gone through the mapping exercise.

The second part was to collect data on fees charged by payday lenders in Manitoba. And what we did was we used a kind of quasi-mystery shopping method to collect this information.

By quasi, I mean that John interviewed one (1) or more people at all the payday lender outlets that we identified. And he -- he identified himself as a prospective payday loan client. He did not identify himself as a -- a researcher.

And John was asked -- or was asked to follow a series of questions to identify key fees and key rules that various payday lenders follow.

So these data would be used in various ways, including to inform our analysis of payday loan cost structures and to create Table 3, which provides information on lump-sum fees, APR fees, and average fees across Winnipeg and -- and Manitoba.

And in addition this method also yielded many qualitative findings about payday loan fees. So I'll turn it over now to John to talk about the -- the methods and also some of the results from this method.

MR. BYRON WILLIAMS: And just if -- if I could, Table 3 certainly appear -- appears in the evidence of Dr. Buckland. I believe it's marked as Coalition Exhibit Number 17. Please proceed, Mr. Osborne.

MR. JOHN OSBORNE: Thank you once again, Dr. Buckland, for the overview. Thank you again to the Board for the opportunity to speak before you.

I will get right into the methodology used during this portion of the study. This method relied on telephone conversations to obtain fee information from payday lender staff. The list of outlets and firms is the same one that was created during the mapping component using the same methodology, again with Yellow Pages, online Yellow Pages, and some firm websites themselves.

One (1) firm was called, and no insight was gained into the nature of its business and, therefore, was not included in the Buckland, et al, report.

At minimum one (1) staff member at one (1) outlet for each payday lending firm in Winnipeg and

Manitoba as a whole was called.

In total twenty (20) firms were contacted including, the sixteen (16) bricks and mortar firms in the mapping section as well as call centre and web-based firms. I will have my definitions of those terms coming soon.

All firms were called during regular morning or afternoon business hours in late August.

A potential customer profile was created to have a standard story for questions posed to the researcher by payday loan staff. A copy of that is in the original report to the PUB.

A script of standard questions was followed to gather information from each outlet. I believe you all have copy of that in front of -- front of you. It's called "Researcher Shopper Script."

MR. BYRON WILLIAMS: It -- it's found at the back of Coalition 17.

(BRIEF PAUSE)

MR. JOHN OSBORNE: So I would like to, now, get into the findings for -- from the fee calling portion of the study.

But first off I'd like to start with a few definitions and clarifications.

Number 1, definition of "rollover." This is -- this is -- this was the working definition used during this -- this procedure. It's -- a rollover is any loan that was not totally repaid, including all principal and fees. This could include partial rollovers, where some of principal was repaid with the loan fees.

Number 2 was a "re-loan." This is a definition of re-loan, again a working definition used at the time. Any time a loan was repaid completely, including all principal and all fees and a new loan was taken either immediately or after a one (1) day mandatory waiting period -- a one (1) or more day mandatory waiting period that some firms require.

In phone calls the more generic terms, "loan extension" or "extend my loan beyond payday" were used so that payday lenders' customer service representative would choose the wording of what this extension or re-borrowing would be, instead of myself saying, I want a rollover or re-loan. They chose the terminology they use.

Third definition is "larger firm," is what I will use throughout here. A larger firm is a firm with multiple outlets. It's a pretty general term, because -- as the definition of "smaller firm" in this section is a firm with either a single outlet or few outlets.

Now larger and smaller firms are not meant to be inclusive or exhaustive terms for this. These are general terms for general comments about the fee calling findings.

Specific firms are not specifically categorized as being larger or smaller due to the University of Winnipeg ethics considerations. I don't want that to be able to used to identify. These are general larger or smaller firms.

Another definition, "online firm." That would be only those firms found in the Yellow Pages were used, since there seems to be many online firms available when a basic Google search was performed.

So that -- and by "many" I mean many. So that's why we as a team decided to choose only firms found in -- in the local directories.

Number 6, "call centre firms," this is a term for firms who seem to be primarily doing their business by phone, fax, or online. They were not considered location dependent, since their customers would rarely, if ever, go there in person.

The big -- the big difference between the call centre and online firm definition here is that the call centre ones have Winnipeg addresses listed in the

Yellow Pages. So their call centres are located right here in the city.

In reality they -- they act similar in nature. But that's the difference. The -- the call centre ones are -- are Winnipeg based.

Number 7, a "bricks and mortar firm," just another working definition, any firm not categorized as either online or call centre. These firms seem to perform most or all of their business face-to-face at outlet locations.

So before we take a look at Table 3, I'd like to just discuss a few of the qualitative and other -- other findings from the -- the phone calls generated.

Large firms in general offered greater amounts of fee information. Some smaller firms who did offer information were comparable to the amount and quality of information given by larger firms.

There was a greater variability in the amount of information available at the smaller firms. Sometimes no information was given over the phone. Sometimes the information was as good as the larger firms, like I said before. The variability in -- in -- between the small firms themselves was much greater.

A third point, while it is true that larger firms offered more consistent information than smaller firms, this is not to say that the fee structures were easily understandable or that the information was freely offered.

Much information had to be proactively elicited by using the script. A certain amount of adlibbing had to be done due to insufficient responses.

Basics, like what documents were needed to take out a loan, were freely offered. Overall fees for the desired loan amount wanted were usually given at least in approximation.

But breaking down the fees to find out what would actually be paid often proved more difficult, as did questions pertaining to what would happen if there was difficulty in repaying the loans.

Another point, over half (1/2) of the firms -- or nine (9) or ten (10) -- who actually broke the fee structure down seemed to be charging only a fixed percentage of principal borrowed.

Again, this was nine (9) or ten (10). It's sometimes difficult to understand exactly what was going on just from the phone call.

Other firms who responded often had multiple components to total fee costs, depending on extras desired or form of payment received or payment made. Some of the fixed percentage firms also had add-on options that resulted in multiple component fees.

Again, that's why I say nine (9) or ten (10). It's -- sometimes they're fixed fees. There's -- there's optional components sometimes. It's hard to directly classify some -- some of these fees -- options.

MR. BYRON WILLIAMS: Can I -- can I stop you here, Mr. Osborne, just for a second.

In terms of -- and -- and I'm sure you'll come to this, but right while we're on this subject, how many firms did you collect fee information for?

MR. JOHN OSBORNE: Twenty (20) -- twenty (20) firms were called, but three (3) firms did not give an -- given enough or any information about their fees to me.

MR. BYRON WILLIAMS: So you got information in terms of fees from seventeen (17) firms?

MR. JOHN OSBORNE: Yes. Of -- to some degree, seventeen (17). Again, whether it was totally understandable, but seventeen (17) gave -- gave to some degree.

MR. BYRON WILLIAMS: And of those seventeen (17), how many were a simple fixed fee?

MR. JOHN OSBORNE: A simple fixed fee was, again nine (9) or ten (10). It -- it was sometimes difficult to understand exactly, but I would say nine (9) or ten (10).

MR. BYRON WILLIAMS: Okay. So there would be at least seven (7), recognizing the difficulty in characterization, which did not use a simple fixed fee? And perhaps -- and perhaps eight (8)?

MR. JOHN OSBORNE: Yes.

MR. BYRON WILLIAMS: Is that right?

MR. JOHN OSBORNE: Yes. That -- that is true. And -- and again, some of these fixed fee ones might have an optional thing, like a credit card or something else that could be added.

MR. BYRON WILLIAMS: Okay. Thank you.

MR. JOHN OSBORNE: Okay.

MR. BYRON WILLIAMS: I think you were just on the point about no --

MR. JOHN OSBORNE: Oh, yes. Here we go.

Three (3) firms did not give enough information on the phone to learn how much a loan would cost. Some others either gave no indication of fee structure or were not clear in the description of the fee structure type used.

I have a couple of examples of what these multiple component and non-fixed percentage fees can consist of. I'll just give three (3) -- three (3) basic examples.

Firm X charged a fixed fee plus a certain amount of interest per week per one hundred dollars ($100) borrowed plus a percentage of a cheque cashed.

Firm Y charged daily interest plus brokerage fees plus insurance fees plus debit card fees or credit card options.

Firm Z charged a fixed fee plus a daily interest fee, so two (2) charges.

And, like I said, others -- other of the -- of the single component or fixed fees sometimes had offered an additional credit card option or -- or some sort.

No firms seemed to be offering lower rates for larger principals borrowed. That was one of the questions that was delved into.

Few firms offered lower fees for subsecant -- subsequent loans, but some did have preferential rates for repeat customers, a lower charge per hundred (100), for instance.

Firms seemed to have minimum and maximum loan amounts. Minimum seemed to be based on dollar figures, while maximums more -- were more likely to be based on a percentage of recent pay stubs or limited by the number of previous loans that the customer had taken. Sometimes the more loans you take, the higher your maximum can go.

Over half (1/2) of the firms did not have any fixed loan size or amounts by which the min -- or amounts beyond the minimum and maximum, but some firms only allowed loan sizes in certain increments and -- or increases in certain increments.

Smaller firms usually do not loan up to 50 percent of pay stubs, unlike larger firms. These smaller firms sometimes had absolute dollar maximums instead of percentage maximums.

Smaller firms seemed to not have debit card or credit card options, but some multi-outlet firms do have it as an option.

It's -- it's -- in some it's an option -- in some it's -- it's maybe not portrayed as an option, as well.

Cash was the most common way to receive money. Debit cards and direct deposit were also available, the latter being especially true for the online and call centre firms.

There was a very wide variety of fees and penalties from firm to firm for loans that become default. These were called many things. I heard the terms "NSF fees," "default fees," and various rates of interest were charged in addition to some of these fees.

That's where it became very confusing and jumbled almost. The tellers seemed to be uncertain. Some referred me to different -- That's a different section of our company, so some would say.

According to information gathered in phone calls, CPLA member firms indicated that they're not engaging in rollovers. It was even said by one CPLA member's customers representative that, and I quote:

> "These are big no-nos. Government regulations say that you can not do a rollover, where all you do is pay interest and keep rolling principal over."

End quote. Some non-CPLA member firms indicated that they do offer rollovers. When asked questions about repeat loans and rollovers, many tellers indicated that they were relatively easy to obtain.

Getting a re-loan was often referred to as being "quite easy to get." And this was, of course, before the first loan was even made. I was a first-time customer for their firm.

Some firms indicated that they have strict rules about what happens when payment is due on the next payday. Other firms indicated that they have more flexible policies, for example, Phone and we can work something out. Information concerning repayment options, such as re-loans, rollovers, default situations, et cetera, were less readily available than information about fees.

CPLA member firms indicated that they decline rollover requests, but many non-CPLA member firm -- many non-CPLA member firms reported rollovers -- excuse me -- that rollovers are available through their firms.

All firms seemed willing to offer re-loans once the original loan is repaid. Few barriers to accessing the re-loans seemed to exist beyond some firms requiring a waiting period of one (1) day or more.

Online firms that were contacted seemed to be very upfront about the ease of getting rollovers with them -- not just re-loans, but rollovers. Most phone calls to retail outlets were treated as basic information-gathering sessions by the teller.

However, online, call centre, and the occasional bricks and mortar outlet would recommend that I start the application process with them right then and there on the phone.

Some pressure was used, but I could decline it. In most cases the more cordial the teller was to the researcher on the phone, the greater information that the researcher was able to gain.

This seemed to me when I was dealing with people -- some people were very gruff and abrupt, and it's very difficult to find out information from those people.

The documents required to take a loan often consisted of at least one (1) recent pay stub, one (1) or two (2) personalized cheques, one (1) piece of photo ID and another piece of ID -- often government issued, to back up the photo ID -- and a recent utility bill. The utility bill was often used to provide a current address.

There was never any mention of SIN number of these other things that were mentioned by Anita during her talk.

So that wraps up some of the qualitative finding from the fee-calling process. Jerry will now, maybe, do a summary for us.

DR. JERRY BUCKLAND: Okay, thank you, John. So based on these results of this method, we have to conclude that it's not clear how much first-time or even regular payday loan customers know about the fees before the transactions occur.

Our research -- our researcher, who had a script prepared and had worked with both myself and Chris

Robinson ahead of time to identify key fees and to understand the basic workings of payday loans, he -- he had a challenge to clearly collect the information that we had asked for him. A first-time payday lender client might face even more serious challenges. The variability in accessible, understandable payday loan information is of concern.

And a second conclusion from this method is that the availability of rollovers or re-loans among some of the payday lender companies seems to be another concern, that they seem to be quite commonly available.

MR. JOHN OSBORNE: We will now move on to the, I guess, the end results, the quantitative end results of the fee-calling process. This is the Table 3 -- the famous Table 3 we've been referring to. Here it is in a Word document form. I believe that, yes --

THE CHAIRPERSON: Coalition Exhibit Number 17.

MR. JOHN OSBORNE: Okay, so there's a few things to point out in this table. I'll maybe start with looking at the loan size itself.

As -- as the researcher, I tried to find a -- ask for the fees for a loan size of two hundred and fifty ($250) dollars, but some firms are -- are very restrictive. Some don't offer that much available -- I can't get that as a first-time borrower, or they don't have increments of that sort.

So you -- you'll see some in -- in some cases getting -- getting a quote for a two hundred and fifty dollar ($250) loan just was -- was not possible.

And I -- I think I've heard it said before that some tried to just multiply by a certain amount or divide by a certain amount. But the -- the fees are -- are very -- are variable structures, and it -- it you just can't, from my understanding, you just can't do that.

So then we have the total repayment fees. So again, it -- it's based on the loan size. So it's -- it's not just a two hundred and fifty dollar ($250) loan. So you'll -- you'll see some the -- the loan sizes there are -- are Winnipeg firm -- or all -- all firms are -- are just listed as -- as letter numbered due to our university ethics.

You'll see that the Winnipeg average for loan size was two hundred and fifty dollars ($250), and the average lump-sum fee was sixty-three ($63). Now the -- from this I -- I was not the one doing these calculations. I -- others have more expertise in this area than I.

But annual percentage rate, or the APR,

for the Winnipeg average was 771 percent with the corresponding effective annual rate.

Other Manitoba firms outside of Winnipeg, their average loan size was two hundred fifty dollars ($250), the lump-sum fee average was fifty-four dollars ($54), and the annual percentage rate average was six hundred and fifty-one dollars ($651) -- or 651 percent for these firms outside of Winnipeg.

As far as web-based firms, the average loan size was two hundred and fifty dollars ($250), and the lump-sum fee was sixty-seven dollar ($67) average, for an average APR of 815 percent.

MR. BYRON WILLIAMS: If I could stop you right there. And -- and I just want to direct a question, probably, to Dr. Buckland.

Am I right, Dr. Buckland, you -- that you actually performed these calculations?

DR. JERRY BUCKLAND: That -- that's correct.

MR. BYRON WILLIAMS: When -- when I see, for example, under "Other Manitoba Firms Outside of Winnipeg," the average -- I see "Other Manitoba" average, two hundred and fifty dollars ($250).

In doing that average, were you doing it based -- and you see three (3) firms there: one (1) with the loan size of two hundred and fifty (250), another with the loan size of two hundred and fifty (250), and one (1) with the loan size of a hundred and sixty-five (165).

Just so I'm clear, was the average calculated just on the two hundred and fifty dollar ($250)) loans, sir?

DR. JERRY BUCKLAND: That is correct. For all -- well for -- for all three (3) of these categories -- the Winnipeg-based firms, the other Manitoba firms, and the web-based firms -- we did the average, a simple average, simply weighted by firm on the two hundred and fifty dollar ($250) loan number. So we excluded the non-two hundred and fifty dollar ($250) loans.

That means that there were eight (8) firms in the Winnipeg average and two (2) firms in the other Manitoba average.

Can -- can I explain one other thing?

MR. BYRON WILLIAMS: Yeah, and you might explain why you might not -- forget it -- go ahead.

DR. JERRY BUCKLAND: If I could also just explain the way in which John did the fee collection method. He undertook the method on a Monday or Tuesday, so there were two (2) days, roughly, when he undertook this method.

And he asked the payday lender how much he would be required to repay on his payday, which would be a week from Friday.

Now if we count the -- the day of the interview as Day 1 and a week from Friday as the -- the final day of the loan, this means that the payday loan would have been eleven (11) or twelve (12) days.

However, to simplify the calculation, we used the twelve (12) day loan period for all of the calcula -- all of the APR calculations.

MR. BYRON WILLIAMS: Thank you for that. And could -- could you just ask -- answer for me one other question? Mr. Osborne alluded to this. But you -- you heard him testify that of the seventeen (17) that were sampled, at least seven (7) and perhaps eight (8) used a mixed structure rather than a -- a flat structure.

Do you recall that, Dr. Buckland?

DR. JERRY BUCKLAND: Yes, I do.

MR. BYRON WILLIAMS: If I've got a -- a loan for two hundred and fifty dollars ($250) and I'm calculating the total repayment using a mixed structure -- perhaps a flat rate plus an interest rate plus a percentage of the total value, for example -- I'll arrive at a certain figure for two hundred and fifty dollars

($250).

Is that right, sir?

DR. JERRY BUCKLAND: That's correct.

MR. BYRON WILLIAMS: If I wanted to do the comparable calculation for a hundred dollars ($100) on one of these mixed structures, could I just divide by two point five (2.5)?

Would that be an accurate way to do that, sir?

DR. JERRY BUCKLAND: I have to think about that.

(BRIEF PAUSE)

DR. JERRY BUCKLAND: Off the top I -- I don't think that would be the -- lead to the same result, but if you'd let me take that away as homework, I could come back later and -- and comment on that.

MR. BYRON WILLIAMS: Okay. That's fine. Mr. Osborne, did you -- do you have anymore summary in terms of this table?

MR. JOHN OSBORNE: That completes the -- the -- Table 3 was the last -- kind of the climax to the whole event of the fee calling.

MR. BYRON WILLIAMS: Mr. Chairman, next

up is Dr. Simpson, and the time being ten (10) to 12:00, if -- if the panel wishes to stand down or if they wish us to proceed -- Dr. Simpson certainly will -- will take a bit of time. He has two (2) subjects to cover.

THE CHAIRPERSON: Okay. Well, we will start our lunch now, and we will be back at 1:00 instead of 1:15. Is that all right with you?

One question on this. If you could remind us of the concept of EAR.

MR. JOHN OSBORNE: That is a term that Dr. Robinson is much more capable of defining than I.

THE CHAIRPERSON: Okay. We will leave it for him then. See you back at 1:00. Thank you.

--- Upon Recessing at 11:50 a.m.
--- Upon Resuming at 1:02 p.m.

THE CHAIRPERSON: Okay, Mr. Williams.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Okay. Mr. Chairman, just in terms of my proposed outline for the afternoon, Dr. Simpson will lead off, and we'll -- we'll probably go, I'm guessing, forty-five (45) minutes or so. I'm not holding Dr. Simpson to that estimate. It might be longer. Don't worry about it.

Then I propose we stand down for about five (5) or so minutes just to make sure that I properly distributed all of Dr. Robinson's material.

Dr. Robinson will provide his evidence, and then Dr. Buckland will have some additional recommendations for the Board's consideration that he will provide as well.

In terms of Dr. Simpson, I believe that already marked as an exhibit is one (1) document, which is "Who are the Consumers of Payday Loans?" The -- there is another -- that's the first part of Dr. Simpson's presentation.

The second part is a PowerPoint called "The Competitiveness of the Markets Supplying Payday Loans." That has not yet been provided to the Board. I provided it to all other parties, so unless there's any concerns about it, I'd propose to distribute that to the Board and have it marked as an exhibit as well.

THE CHAIRPERSON: Do you have it there, Mr. Gaudreau? I am hearing no objections. We will await delivery. Coalition Number 19, I believe. Correct that, 20.

--- EXHIBIT NO. COALITION-20: PowerPoint by Dr. Wayne Simpsons called "The Competitiveness of the Markets Supplying Payday Loans."

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Was that marked as an exhibit, Mr. Chairman, and I missed it?

THE CHAIRPERSON: 20.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you, and good afternoon, Dr. Simpson. Just to -- to remind the Board, in the September evidence of Buckland, et al, you'd focused on information relating to -- to the consumers of payday loans. Is that right, sir?

DR. WAYNE SIMPSON: Yes, that's correct.

MR. BYRON WILLIAMS: I wonder if you can take us through your presentation relating to that subject please?

DR. WAYNE SIMPSON: Okay. Good afternoon to the -- to the Board and the Board counsel and to other interested parties.

The -- the first part of my presentation is the part I originally undertook to do, which is on the characteristics of consumers in the payday loan market.

This -- I guess to focus the first part of it, some of the discussions has been around whether payday loan clients are typical Canadians.

And in a statistical sense, as aside from any other notion of typicalness, I think the question there is whether, looking at their characteristics, there are differences between them and the rest of the population.

And I think there's some fairly clear evidence that that is the case, and so it sets out what some of those differences are.

So that looks at the demand side, and then the second part of it will look at the supply side and the providers of -- of payday loans.

So we looked at three (3) surveys. The survey of financial security, was a survey done by Statistics Canada in 2005, comprehension survey of fifty-three hundred (5,300) families -- a sound statistical basis, as Statistics Canada has a reputation for doing, and I think a very useful survey with which to compare the payday loan clients with other Canadians, the rest of the population.

The weights attached to the individuals in the survey are based on their standard Stats Can procedures related to the -- to the -- calibrated to the census and so on.

The second survey is the Financial Consumer Agency of Canada, or FCAC, survey of five thousand (5,000) Canadian adults. It is -- the weights there are less clear. I don't think it is a weighted survey, and I don't attach any weights to the results that I do.

And the third one is the Canadian Payday Lenders Association, which surveyed one thousand (1,000) in the general population and one thousand (1,000) recent users of payday loans from the CPLA member list, not from the general population of payday loan clients.

The first two (2) surveys, what I did was I -- I had access to the data. It was provided to me. And in each case I used existing published results to essentially replicate those results to satisfy myself that I was handling the data properly.

And once I'd done that, then I did make some additional calculations. The results that I have for the Canadian Payday Lenders Association survey are -- are simply from the publication. I don't have access to their -- to their data.

The -- the first question was the proportion of consumers that use payday loans, and one thing about the -- the surveys is that the percentage using payday loans is relatively small.

And this means that in a survey, you think five thousand (5,000) is a lot of observations. But of course, this is only a matter of a hundred (100) or so people who actually use payday loans. So the numbers using it are small. And this, certainly, admittedly, has some effect on the reliability of the results.

Nonetheless, I think the best estimate we have is from the survey of financial security that Statistics Canada has done, where they asked respondents in the family whether anyone in the family had taken out a payday loan in the last three (3) years.

And the and the answer was 2.7 percent which, using the weights attached to that survey, works out to about three hundred and fifty thousand (350,000) Canadian families.

The FCAA -- FCAC survey produced a similar number: 1.8 percent, ninety-two (92) respondents. And the CPLA produced a figure of 5 percent, based on their calculations, having ever used a -- having ever taken out a -- a payday loan.

In terms of the characteristics, one issue which has come up repeatedly is a question of whether the payday loan clients are from the lower end of the income spectrum.

So looking at family incomes, the survey of financial security, the mean difference there, the sixty-six (66) -- I have new technology here don't I? yes, so I should be using it.

The mean difference, sixty-six thousand (66,000) versus forty thousand (40,000), between the rest of the population and the payday loan portion of that survey is statistically significantly different. But admittedly the mean does pay -- place increased reliance on outliers at the upper end, and that would characterise some of this difference in means.

But you can see also, for example, if you simply look at the percentage of people below thirty thousand dollars ($30,000) -- this is before-tax income -- in -- in the general population versus the payday loan users, there's a sig -- a difference there of 36 percent versus 47 percent.

And that is replicated in the FCAC results -- 22 percent versus 36 percent -- and in the CPLA results -- 32 percent with incomes less than thirty-five thousand (35,000) versus 53 percent of the payday loan clients having incomes less than fif -- thirty-five thousand (35,000).

And the CPLA also gives us a mean difference, which is about fifteen thousand dollars ($15,000), which is not -- narrower than the survey of financial security. But that's, perhaps, not surprising. I don't think the CPLA survey attempts to replicate what the Statistics Canada on the survey has done.

So then the question of whether the consumers of -- of payday loans, whether it has something to do with employment, well this is, in a sense, a bit of meaningless question, because, of course, to qualify for a payday loan you have to have been fully employed at the time -- or employed at the time at which you took out the loan.

However, the survey has asked at a different point in time -- but since there is some questions that are related to stability of employment in order to qualify for the loans, it's not surprising that when we look at the proportion fully employed, say in the SFS, it's 83 percent amongst the payday loan clients versus 68 percent in the rest of the population.

Of course, the rest of the population will include the retired, for example, and they will -- if they're drawing a cheque, it's not an employment cheque.

FCAC, 70 percent versus 53 percent; CPLA, 70 percent versus 55 percent. So we get a similar picture in each of those three (3) surveys on full employment.

But the payday loan clients do have lower levels of education. In the survey financial security each of these looks at categories of education, so this is categorical information we're picking out here.

In the payday loan sample, 21 percent, no high school versus in the rest of the population 11 percent. And in the -- at the upper end, 11 percent in the survey of financial security had a university education, university degree, completed a degree, versus 25 percent in the rest of the population.

FCAC, a slightly narrower difference in terms of no high school: 16 percent versus 11 percent. Actually a bigger gap at the university end, 9 percent versus 30 percent.

But the -- the clear picture here -- the CPLA actually shows no difference in high school, which I think speaks, perhaps, to the representativeness of that as a comparison of the entire payday loan population in Canada and the rest of the population. They'd show a difference at the university end only.

The payday loan consumers tend to be younger. The survey of financial security lists the mean age of the payday loan sample at thirty-seven (37) years versus fifty-one (51) years in the rest of the population -- rest of the adult population. And that mean difference would be significant.

CPLA finds a slightly smaller difference, thirty-nine (39) years versus fifty-five (45) years. If you look at the group under thirty-five (35) years of age in the payday loan sample of the survey of financial security, it's 53 percent versus 24 percent in the rest of the population. So this is clearly a younger -- younger age group.

In the FCAC survey 51 percent versus 29 percent, so pretty comparable. This is Canada-wide. The actual figures from Manitoba, of course, may vary to some extent. We really don't know.

And they're more likely to live in families with children. A survey of financial security shows 15 percent of the payday loan sample with a child under five (5) years of age and 26 percent with a child five (5) to seventeen (17). Those can't really be aggregated because, of course, people could have a child in both categories.

The rest of the population though, only 2 percent have a child under five (5) years and 17 percent a child five (5) to seventeen (17).

The FCAC, 59 percent a child under eighteen (18) versus 40 percent in the rest of the population. And that corresponds to the typical Revenue Canada definition of a dependent child.

So this is pretty comparable to CPLA, 47 percent of payday loan sample wherein a family with a dependent child versus 32 percent in the rest of the population.

The only econometric part of this study was that we wanted to make sure that what we were seeing really reflected different characteristics of the group that would stand the test of being combined in some sort of a multi-varied analysis and that some of the characteristics -- like income, for example -- would still be important when we accounted for other factors, like age.

And so the way that we do that when we have a variable such as whether a person is a payday loan client or not, which is a qualitative or -- or dummy variable, is we typically use some sort of probit or logit analysis, which is appropriate for those kinds of circumstances.

Essentially, what it's doing is it's looking at these characteristics collectively and seeing whether they predict whether a person is a payday loan client or not, whether they have significant predictive power.

MR. BYRON WILLIAMS: Dr. Simpson, just to interrupt, if anyone's looking for that slide, it's, I believe, in the paper version, the very -- very last one that was handed out.

DR. WAYNE SIMPSON: I'm sorry. I did. Yes, I had it at the, end and I moved it to where I thought it fit better. Yes, it's the last slide. Thank you.

MR. BYRON WILLIAMS: I shall not chastise you.

DR. WAYNE SIMPSON: Okay. So what the -- the probit analysis, probit regression analysis tends to confirm is that these factors -- age, that is to say youth, lower education, larger family, and lower incomes -- all tend to be statistically significantly related to a person being a payday loan client.

And so the picture we get is that these are typical Canadians, but they're younger, less educated, in larger families, and have lower family incomes than the rest of the population.

MR. BYRON WILLIAMS: Dr. Simpson, I apologize. I was taking notes. Can you just repeat those four (4) characteristics?

DR. WAYNE SIMPSON: So what the results showed from the probit regression analysis was that payday loan use is more likely for people who are -- for individuals who are younger, in families with lower family income that are larger, and those people tend to have less education.

MR. BYRON WILLIAMS: Thank you.

DR. WAYNE SIMPSON: So all of those factors are -- are important differences with the rest of the population on their own and when they're combined.

Also, there's some other results from the surveys that I -- I think are of interest, and some of these issues have come up.

One of them, of course, is this issue of the frequency of payday loan use. And the FCAC survey casts some light on that. This is my own analysis of the survey. This is not in their -- their results.

But it -- if you look at their -- at the data, it says that 10 percent of the payday loan consumers used a cheque cashing or payday loan more than once a month.

Now, although this combines, unfortunately, both cheque cashing and payday loans, only 8 percent of those people who responded to this question were using cheque cashing services. And so 92 percent of this was payday loans. So these numbers pretty much will be the same if we were able to isolate payday loans themselves.

And then 16 percent of the payday loan clients use these services about once a month. So if we combine those two (2) numbers, this is the number that -- that I've highlighted here, which is that 26 percent of the payday loan consumers use cheque cashing or payday loans -- and that's primarily payday loans, 92 percent of it -- either more than once a month or about once a month. And so I've turned that at least monthly.

(BRIEF PAUSE)

DR. WAYNE SIMPSON: And if we look at those individuals and the relationship to their family incomes in terms of this question, I -- I think, of vulnerability that's been raised by Dr. Buckland, 52 percent using payday loans at least monthly, this category of -- of people had incomes under thirty thousand (30,000).

Compared among the rest of the payday loan clients, only 32 percent had incomes under thirty thousand (30,000). And 95 percent of those using payday loans at least monthly had incomes under fifty thousand dollars ($50,000) compared to sixty (60) -- only 65 percent of other payday loan consumers. So this group using payday loans at least monthly had lower family incomes.

Other information from the survey of financial security on credit alternatives suggests that they're more limited for payday loan consumers; 43 percent of the payday loan consumers lived in a family without a credit card, compared to 17 percent of the rest of the population. And 48 percent of payday loan consumers had no one else -- or stated that they had no one else to turn to in -- when they had financial difficulties, compared to 32 percent of the rest of the population.

So in the sense of vulnerability they're clearly -- when they're hit with a -- a negative income shock, as it was termed at one point, then the options they have are obviously fewer.

And perhaps sometimes confused about rates, 36 percent of the payday loan customer -- customers in the FCAC survey thought that rates were lower than those charged by credit card companies, which I believe is far from the truth.

Consequences of payday loan use, the FCAC survey indicated about 7 percent at -- at any point in time fail for bankruptcy, or at the point in time of the survey; 9 percent sought credit counselling; and 13 percent borrowed money to repay the payday loan.

And that concludes my first presentation.

MR. BYRON WILLIAMS: Dr. Simpson, if you would, then I'd ask you to turn to what is Coalition Exhibit Number 20. And the title of that is "The Competitiveness -- Competitiveness of the Market Supplying Payday Loans."

And you will just confirm that this highlights some of the information you provided in the rebuttal evidence provided in late October.

Is that right, sir?

DR. WAYNE SIMPSON: That's correct.

MR. BYRON WILLIAMS: Please proceed.

(BRIEF PAUSE)

DR. WAYNE SIMPSON: The first presentation was about the -- the demand side of the market, looking at the characteristics of the consumers of payday loans, admittedly at the Canadian level rather than the Manitoba level.

The other side of this is to look at the supply side and the characteristics of the providers of payday loans. You're looking at the Manitoba case.

And as was stated this is a -- a team effort. Drs. Buckland and Robinson, in particular, have -- have helped me to compile this in -- in rebuttal to -- to the interrogatories.

The -- the concept of competitiveness here, I mean, we know that firms compete in all sorts of ways, and they're always competitive. And we know that, indeed, consumers compete. You know, they're looking for that one (1) remaining Game Boy or Guitar Hero that's on the shelves at some store. There are all sorts of ways in which people compete.

But there's a specific sense in which economists talk about competitiveness, and that's in terms of what we would say price competition. And a lot of what we talk about as competing is really competing along non-price lines: advertising for finding new ways of finding customers, improving service, reducing wait times, making it quicker to get a loan, and so on.

These are all elements of competition, but they don't refer -- refer to the notion that economists are -- are focusing on, which is price competition. And in the sense of thinking about regulation and fee regulation, I think this is an important factor to -- that we obviously want to consider.

So the archetypical notion of competitiveness is this notion in neoclassical economics of perfect competition. And the characteristics of this market are -- are set out here.

The four (4) characteristics: many buyers and sellers, free entry and exit of sellers -- it s these four (4) here -- homogenous product, and perfect information.

So I'm going to talk briefly about the consequences of this kind of a market, and then I'm going to talk -- we're going to look at the -- the characteristics of the market for payday loans in Manitoba to see if, in fact, it corresponds to these -- this sort of a notion of perfect competition.

What are the consequences for the firms? Well under perfect competition, what tends to happen is that there's free entry and exit of firms, and they tend to respond to the price in the market in terms of what they think they can earn in terms of profits.

If they can't earn what we would term a normal profit -- that is to say what they could earn elsewhere, or the opportunity costs of their capital -- then they will not enter the market, and they may in fact leave the market.

So if prices are high, free entry induces firms to enter the market until prices decline to what we would call a normal profit level, that is to say, consistent with returns on investment elsewhere.

And when prices are low, free exit induces firms to leave the market. So we're observing a fair amount of entry into this market, not exit.

So there's certainly evidence that the -- the market offers attractive returns on investment. And you've heard a little bit about that, I think, already.

Consequences of perfect competition for consumers, the mar -- market tends to protect consumer interests by ensuring that no one (1) firm or a group of firms affects the market price.

The price is set by competition amongst the suppliers in the market in their anonymous attempts to attract consumers by adjusting their prices. And total welfare is maximized.

That is to say, trades continue as long as there are gains to be made by either the producers or the consumers. And that tends to be what economists consider the -- the blissful element of perfect competition.

Okay, so what we're going to do is look at the -- these four (4) characteristics, first of all.

The first one many buyers and sellers, there's certainly many buyers and there's certainly many outlets. But in terms of many sellers, we've seen that, in fact, there are two (2) dominant sellers in Manitoba: Money Mart and Rentcash.

They represent, at the time at which the data was put together -- this is changing fairly rapidly -- represent 62 percent of all outlets and about 70 percent -- I'm told that's a conservative estimate -- of total loan volume.

This is consistent with the notion that there are dominant firms in the market. And it's consistent with the ideas of all oligopoli -- oligopolistic market structure, where the dominant firms can influence the market in terms of prices and output.

And the banks and other financial institutions -- credit card companies, credit unions, and so on -- do compete in the small sum loan market, but only in a very, very limited way.

(BRIEF PAUSE)

DR. WAYNE SIMPSON: Second characteristic is free entry and exit. And the case here for free entry and exit has really been made by the Ernst & Young piece, 2004, which talks about the cost for different outlets and divides them up into the outlets large, medium and small.

And here I'm simply repeating some of the numbers that they have, which is the averages for those groups.

They find that for a hundred dollar ($100) payday loan for the small companies with loan volume of six hundred and thirty-six thousand (636,000) per store, the cost of a loan is twenty-two dollars and eighty-eight cents ($22.88), compared to the large companies -- $1.8 million per store -- sixteen dollars and ninety-three cents ($16.93), or 26 percent less.

And if you look at the numbers in their -- in their survey, the loan costs per store vary substantially, from about ten dollars ($10) per -- per loan to thirty dollars ($30) per loan. And the general direction is they tend to decline with loan volume.

So this is consistent with the idea that there are economies of scale in the provision of these -- the loans, and the larger outlets and larger firms can provide them more -- more cheaply.

MR. BYRON WILLIAMS: Dr. Simpson, if I could just stop you on this page for a minute.

In terms of the evidence of large economies of scale, what, if any, implications do those have to free entry or exit?

DR. WAYNE SIMPSON: Well, the -- the implication is that if you are a small firm hoping to enter the market in the ideal of -- of perfect competition, that it will be difficult for you to compete if, in fact, it's costing you, say, twenty-two dollars and eighty-eight cents ($22.88) for a hundred dollar ($100) payday loan, and other firms can charge sixteen ninety-three ($16.93), unless those firms are not willing to compete on price and in fact are able to earn what we would consider above normal returns.

MR. BYRON WILLIAMS: Thank you for that.

DR. WAYNE SIMPSON: In addition, there's evidence of what we would call economies of scope, which is that the larger firms are multi-service providers. They're providing cheque cashing, money wiring, bill payment services, and so on.

This all is of benefit to the consumer, but it also makes it more difficult for smaller firms to enter the market.

So the notion that there are no barriers to entry is certainly not the case if in fact they're both economies of scale and economies of scope.

And in addition we've seen that there is some significant advertising in the market, which also ups the cost. I think a figure was used yesterday by

310-Loan of a hundred and twenty-five dollars ($125) per client. That's a significant entry cost if that's true for other firms in the market as well, although they're an online provider.

The third characteristic is this question of a homogeneous product. And it strikes me that this is a relatively homogeneous product. You get money now, and you promise to repay money at some future point, typically short-term, fourteen (14) day loan.

And although it's sometimes unclear just exactly what you're paying, as we've heard, you know, this is a fairly simply concept at this basic level to understand and a fairly homogeneous product.

It's -- it's the same for everybody. Everybody's selling the same -- same thing: money now for a promise to repay in the future.

The reason the product price is not standard is, of course, is a variety of fixed fees and a variety of interest rates being applied. So the homogeneity occurs at the end of the provider's terms of -- of providing the service.

These prices are generally not posted. And these loan rates tend to vary, as you've seen in the results that were put up before, from forty-four dollars ($44) to a hundred and nine dollars ($109) on a two hundred and fifty dollar ($250) loan in Winnipeg.

So I'm hoping the question that the Board will ask is, Why would consumers pay such a high price, a hundred and nine dollars ($109), for a product available at a low price?

Now, obviously there are some differences in the product in terms of what consumers have to provide in terms of information and what the level of service and so on. And is that worth, in this case, sixty-five ($65) for a two hundred and fifty dollar ($250) two (2) week loan?

MR. BYRON WILLIAMS: If I could just stop you on this page as well.

You've talked about -- and if I mispronounce it, it won't be the first time -- a homogeneous product. And you've used payday loans as an example of something you consider relatively homogenous.

Is that correct?

DR. WAYNE SIMPSON: Mm-hm.

MR. BYRON WILLIAMS: Can you give me an example of one that is not homogenous or heterogenous, any that spring to mind?

DR. WAYNE SIMPSON: Women's clothing, where there are dramatic differences in the -- the way that the -- the good, if you call it women's clothing, is that women's clothing is, you know, provided to -- there's -- there's different styles, and there's different ways of marketing the product. So it's -- it's -- clearly, there are differences in the product when you say "women's clothing."

When you say a "loan" or a "payday loan," I think there's as fairly common understanding of what that involves, and -- and a dollar is a dollar.

MR. BYRON WILLIAMS: You made me blush. You may continue.

DR. WAYNE SIMPSON: All right. I'm sure that was very coherent. I'm sorry.

The fourth characteristic is this question of perfect information. And you've heard from the mystery shopping and other things about just how confusing this process can be.

But in fact, typically, the simple loan cost is not posted or provided to consumers in -- in any form that is easy to -- to either absorb or to compare with other -- other providers.

Thus consumers cannot easily shop for the best price without posted and comparable prices. And in addition the opportunities to search for low prices are limited by the lack of credit or alternative sources of funds and sometimes the urgent need for funds.

So I think there are questions about the -- the ability of consumers to, in fact, comparison shop and to -- to identify exactly what the costs are of the product that they are obtaining, which is not true on a variety of other products, either where the prices are posted or can be easily obtained.

What are the consequences of the lack of competitiveness? Well, the normal consequence is that the return on capital in an industry that is not competitive will be higher than the return on capital in a competitive industry.

And there are some results from Ernst & Young that suggest that the payday lends are earning similar profits to other segments of the financial industry, about 19 percent.

And without commenting on the competitiveness of the rest of the financial industry, this suggests that at least some firms are doing considerably better than this. And I think you've heard of some returns on investment that are considerably above 19 percent, which strikes me as higher than what would be available on alternative investments.

The entry of firms continues, which again is evidence that there is -- there are above normal profits to be earned in the industry. It's an attractive industry to -- to be involved in.

Although I don't think there's any clear evidence of price competition, in other words, that loan rates, the price in this industry is falling or that there is an exit of firms as yet.

So there's considerable entry, and there's indeed firms that are willing to overcome the barriers to entry. We've just heard Advance America is entering the market. But that's without any clear evidence of declining prices.

Competitive model predicts that entry firms will induce price competition and that the high-cost firms will in fact leave the market. Instead, prices appear to remain high in competition.

That is competition, in the sense it's often used -- as opposed to the sense economists use that I talked about at the beginning -- occurs only on the non-price aspects: store hours, wait times, assessment of borrower/ default risk.

MR. BYRON WILLIAMS: Dr. Simpson, just on the -- the last point, which is also one of your first points, for economists, why do they tend to focus on -- on price competition when they talk about competition?

DR. WAYNE SIMPSON: Well, price is clearly an important component of competition and one that has a substantial bearing on -- on social welfare in the sense that you want an economy to be efficient, and you want it to supply goods to consumers at a relatively low price.

And in order for that to happen the providers of the service are going to have to compete on price.

MR. BYRON WILLIAMS: Thank you. Dr. Simpson, does that con -- conclude your -- your presentation?

DR. WAYNE SIMPSON: Yes.

MR. BYRON WILLIAMS: Mr. Chairman, just for logistical purposes, if we could stand down just for a few minutes to make sure that the documents for Dr. Robinson have been --

THE CHAIRPERSON: If you do not mind, I just have one question --

MR. BYRON WILLIAMS: Whenever you are -- yes.

THE CHAIRPERSON: -- for Dr. Simpson.

Dr. Simpson, just on the last slide that you put up the point you make it says, "Instead prices remain high." Okay?

Just on that simple point, did you read the transcripts with respect to Dr. Gould's evidence?

DR. WAYNE SIMPSON: Yes, I have, yes.

THE CHAIRPERSON: He was indicating that the traded payday loan companies were not earning any more than the banks on a rate of return. Do you have any comment on that?

In other words, he was comparing the larger firms against traded stocks in the stock market and the yields that the large chartered banks in Canada were making.

DR. WAYNE SIMPSON: Well, I guess my one comment would be that no one has claimed that -- that banking is a competitive industry. In fact, it's an oligopoly by legislation.

THE CHAIRPERSON: Mr. Williams, do you want to stand down now?

Thank you, Dr. Simpson.

MR. BYRON WILLIAMS: Just for a few minutes. Thank you.

--- Upon recessing at 1:40 p.m.
--- Upon resuming at 1:50 p.m.

THE CHAIRPERSON: Okay, Mr. Williams.

MR. BYRON WILLIAMS: We'll maybe wait one more second, Mr. Chairman. I think I've -- if I've not given a heart attack to the Board advisers yet, I -- I soon will, so...

THE CHAIRPERSON: It's good for them, Mr. Williams.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Gaudreau used to have hair. It was only last week, I think.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Chairman, before proceeding -- and I do apologize for the -- the delay. And -- and it's -- the fault is wholly mine. My -- my colleague, Ms. McCandless, has reminded me that I'm not allowed to touch any more paper for the duration of the Hearing. So I hope everyone in the room has received the material. I apologize for any inconvenience.

What I'm going to do, Mr. Chairman, is describe, basically, to you what these documents are and propose an exhibit number for them. And, certainly if My Friends have concerns, they -- they're more than welcome to speak up.

The first one that you should have before you is a single page. In handwriting at the top of it is -- is "Money Mart from 10-Ks." I'm just waiting for...

THE CHAIRPERSON: Is it simple extracts from their 10-Ks over the years?

MR. BYRON WILLIAMS: Yeah, and -- and what it actually is, Mr. Chairman, it's simply a replication of the Coalition's response to PUB/Coalition-B-13, or at least one (1) page from that.

And it's -- I'm proposing that it be marked as Exhibit 21. We just felt it would be easier for the Board to review in this form -- hist -- I may be proved wrong on that, but I'm -- I'm hopeful that will be helpful.

The second document that I propose that you review, it's a two (2) page table. In the top lefthand corner is something saying, "Number of Advance America Stores." And in the middle is something saying, "Fee Information from RC/Coalition-33," which I would be -- propose be Exhibit Number 22.

And just so you know, obviously in this Hearing we're all hitting a -- a moving evidentiary target. And what this is, is it's incorporating some information from the Advance America Stores PUBs, which was filed on Tuesday. It's some in -- information from the 10-Ks and also information from RC/Coalition-33.

The third document I would propose be marked as Exhibit 23 is a one (1) page table. In the top corner is a title, "Advance America Costs." And this is Dr. Robinson's calculations based upon the new information filed on Tuesday. And what he's done is attempted to replicate the results of -- he performed a similar calculation for -- for Money Mart, and this is just a calculation he's performed.

THE CHAIRPERSON: That's number 23?

--- EXHIBIT NO. COALITION-21: "Money Mart from 10-Ks."

--- EXHIBIT NO. COALITION-22: "Number of Advance America Stores" and "Fee Information from RC/Coalition-33"

--- EXHIBIT NO. COALITION-23: "Advance America Costs"

MR. BYRON WILLIAMS: Yes, sir. Number 24 is the PowerPoint presentation for Dr. Robinson. The new information in -- in there is as a consequence of reviewing the Advance America information, Dr. Robinson's been able to use that information to achieve a bit more precision in terms of his final recommendations, and that's reflected in here.

THE CHAIRPERSON: Number 24?

--- EXHIBIT NO. COALITION-24: PowerPoint Presentation of Dr. Robinson.

MR. BYRON WILLIAMS: Yes, sir. The next document is a -- I would propose be marked as Number 25, is in the top lefthand corner is "Spread Sheet for Final Recommendations" by Chris Robinson. And it is, as I've said, a spreadsheet frozen in time, and it's derived from the incorporation of this most recent data.

And I would propose that be twenty-five (25).

--- EXHIBIT NO. COALITION-25: Document entitled "Spread Sheet for Final Recommendations" by Chris Robinson

MR. BYRON WILLIAMS: Marked -- I would propose be marked as Number 26 is a three (3) page document. It's called "In the Matter of Regulating Payday Loan Fees before the Manitoba Public Utilities Board: Different Costs, Volume and Fee Scenarios, Robinson Model." And it will be used to -- as a talking point for -- by Mr. Robinson. I propose that be twenty-six (26).

--- EXHIBIT NO. COALITION-26: Document entitled "In the Matter of Regulating Payday Loan Fees before the Manitoba Public Utilities Board: Different Costs, Volume and Fee Scenarios, Robinson Model"

MR. BYRON WILLIAMS: And quite some time ago the Public Utilities Board, in its second round interrogatory, requested that Dr. Robinson try to incorporate his recommendations into the language of the legislation into the cost of credit.

And before you is Dr. Robinson's fee recommendations attempted to be put forward in the language of the legislation, recognizing that he's not a lawyer but he's doing his best with the -- the very helpful language from the legislation.

I propose that be marked as twenty-seven (27).

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. COALITION-27: Dr. Robinson's fee recommendations

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Mr. Chairman, we've received a lot of good information, and I just want to harken back to my initial comments where we had -- as a group of presenters of information to the Board -- had the opportunity first to present and then first -- secondly the opportunity to present a rebuttal in a written form.

And then following that up to very close to when the Hearing started, the Coalition kept on providing us with useful information but continued to provide us with information. And reviewing this briefly, I see again additional information being provided, which accountants and economists will have to consider and perhaps respond to.

And while I encourage the Board having as much information as it can, I do raise again some concerns about having this volume of new information come out at this stage of the Hearing and raise a concern that we wish to perhaps be able to digest this and perhaps provide information in response to it.

THE CHAIRPERSON: Well, you certainly have to be given an opportunity to digest that. There is no doubt about that, Mr. Hacault. But let us see how the presentation goes and how much of this is new and how much of it is slightly amended from the past filings.

Mr. Williams...?

MR. BYRON WILLIAMS: And certainly, Mr. Chairman.

And I -- I recognize the fairness of Mr. Hacault's comments. And just in fairness to the Coalition, the new material, as I interpret it, is in response to new information related to Advance America that's been put on the record. And we're, like everyone else, trying to stay up with the game.

And certainly, from my client's perspective, if there's a sense of unfairness on the other parties, we're always welcome to -- certainly willing to chat with them about it and accommodate process-wise to the extent that we can.

THE CHAIRPERSON: That is fine. I think all parties -- Mr. Hacault is acknowledging it too -- the scene seems to be constantly shifting. This is a unique process. We have never had a hearing quite of this specific nature, and we are undertaking a charge that is being put before us.

And it makes sense for us to have as much relevant information as possible. And there is no doubt this Advance America case is a significantly new entry into the field. And it is important that we understand the ramifications of that.

Okay, Mr. Williams...?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And Mr. -- excuse me -- Dr. Robinson, or Mr. Robinson, I'd ask you to -- to perhaps turn to what's Exhibit 24 of the Coalition, which is your PowerPoint presentation, "Rate Regulation for Payday Loans in Manitoba."

And perhaps you can lead us through that document, sir?

DR. CHRIS ROBINSON: Thank you, Mr. Williams.

Board Chairman Lane, Board members Ms. Girouard and Ms. Proven. Thank you for inviting me here.

Unlike other people that come to Winnipeg, when I came out this morning into the cold and blowy weather I felt really good. I am really happy to be here. I had hoped to see some colder weather; I gather I'm going to see more of it before the end of the day.

I grew up two (2) days east of here, so

this feels really good. I'm glad I'm -- I'm regretting I'm not more often in Manitoba.

THE CHAIRPERSON: We thought it was warmer today.

DR. CHRIS ROBINSON: Well, yes, that's the sort of feeling that I have actually. I thought, Where is the real Manitoba weather? But I come from Toronto, and what we have for winters there is slush.

THE CHAIRPERSON: Well, we played the football game for the Grey Cups in this weather, we probably would have won.

DR. CHRIS ROBINSON: Okay. Well, thank you for the invitation.

Thank you also for your patience with the changes and new information that I have been bringing frequently to your attention. And I also recognize the -- the kindness of staff in not throwing things at me and the forbearance of -- of the other Intervenors and industry participants who've had to cope with all of this.

I only found out about Advance America having entered into the market a very short time ago over the telephone from Mr. Williams. I had looked at their information previously but not used it, because they were not in Canada. And so we're all playing catch-up with this.

However, you will see that it simply fits into what I've been doing already. This is not a dramatic change. None of what I've been doing more recently, it's a dramatic change.

So I'd like to turn -- and I -- I hope you don't all go to sleep in this. This is a very lengthy presentation with a great deal of numerical analysis engaged in it.

And first I'd like to explain, because it's very important for -- for a scholar to -- to understand his or her biases. We all tell stories. There is no objective reality. Okay. This does not matter what school of thought you're in. You're all biased.

And neoclassical economics and finance adherents believe it is value free. You've already heard Dr. Buckland talk about that. I do not accept that as part of my belief structure. I never have, even though my education is entirely in neoclassical economics and finance -- my original degrees and so on.

The University of Toronto believes it knows the truth. I believe institutions and practices exist in a complex social web, where all judgments have ethical implications. And that has been clear throughout this Hearing in everything I have read everywhere.

And so I'm going to make my beliefs clear as I'm talking to you about this, about where I see that there are ethical issues; recognizing that I have ethical beliefs; that I have prior training in education that leads me in particular ways; and so that I am biased. And what I am saying is that I believe that all participants in this are biased.

And it's the challenge -- one of the challenges for the Board is to sort through these things --this is just the ordinary human condition -- and make the decisions. So I will do my honest best to give you my expert evidence to assist you in this process, but I can't see all of my own biases. That's in the nature of them.

Okay. So since I'm talking about storytelling, and I -- I take that quite seriously, that these are only stories. I have indeed commissioned papers in one of the organizations that I created to explain stories in financial economics and how people tell stories.

So is this a story of rapacious, greedy, and evil moneylenders preying upon the poor? Now, you have heard that story already. Okay. You have heard that story very explicitly early in your testimony from a number of individuals and organizations who view it that way.

You know that -- that I wrote a previous paper for ACORN. They had nothing to do with the paper itself. They just said, Write a paper, and I did it. But clearly their view is -- is in this direction. Okay. They also view landlords as grasping, rapacious, and greedy, and that's their biggest single operation.

Or, alternatively, is this a story of small or medium-sized businesses dealing with customers who are often unsophisticated in financial matters and who lack alternative sources of credit? That's the other main story that we have here.

And I, of course, didn't think about which story I was telling when I started out doing this research a number of years ago. You only start to understand the story you're -- you're seeing and telling as you think about it yourself.

And so I had to think, what story is it that I'm -- actually is driving me? And you see on the one side, I have a very strong social conscience. On the other hand, I have a very strong business and financial background -- all neoclassical, great deal of technical training in many fields.

And so the story that I see, and I believe that the other expert witnesses for the Coalition, I believe they're telling the business story.

I think that that is the way that we are thinking. I believe that is essentially how I am viewing this problem. That is where my overall bias lies. Those are the techniques and tools that I use.

And it occurred to me since Dr. Gould is in the room, Dr. Gould in fact has the same educational background as I do in -- in very important respects.

He took a PhD from the University of Toronto. His supervisor was also on my committee -- very eminent man who is, in fact, appeared in front of you, Dr. Byron Gordon -- and that, in fact, ultimately, even though we have considerable differences to how we see it, our stories end up being more similar than other stories.

And I'll show you how that happens and why it is -- how this affects the interest -- and then where I differ from his story.

Now, I'd like to talk to you about the horse and rabbit stew. You have to realize how -- how nice it was of the secretary for the Public Interest Law Centre to pull this out for me, given that she's a vegetarian, and the idea of eating a horse and a rabbit -- she has a pet rabbit -- is -- is pretty awful.

However, this is an old folk aphorism. I offer you a horse and rabbit stew, and that sounds pretty good. Now horse meat is not a great choice of food, okay? I -- I don't know if anybody here has eaten horse meat.

Back in the '50s there was a lot of horse meat around as the lumber -- as the lumber industry and the pulp and paper industry were converting to machine skidders.

But rabbit's pretty tasty. So if you have a horse and rabbit stew, that should be okay.

The trouble is -- and this is the point that Merton Miller, the late Merton Miller, a Nobel prize winner who's -- in finance and economics.

He pointed out that if what you've got is one (1) horse and one (1) rabbit, essentially what you've got is a horse stew. And it's not going to taste very good, especially if the horse is twenty-five (25) years old and it's been pulling a wagon all that time. And I'm going to be using this metaphor constantly.

Now you're already heard me qualified as an expert witness in qualitative research, and of course only qualitative researchers are permitted to -- to speak in metaphor. This is part of our qualifications.

So the quantitative researchers that you've seen elsewhere here do not have that same -- that same permission, okay? This is -- this is one these professional things.

So I will be responding to this and showing you where, in the business story, I think we have a horse and rabbit stew.

I think it is very important for -- I -- I see that there are certain horses that the Board will wish to deal with.

And there are certain places where the Board may be getting distracted and where we all may get distracted by rabbits, but the rabbits aren't important. No, the rabbits are important to the rabbits, but they -- they needn't be to us in our stew.

So here's the road map to the presentation. First, I'm going to explain what I think a just and reasonable rate is. I came to this late because I had to -- I had to realize what is it that I'm actually responding to, the requirements in front of the Board.

And I had to go back and define this. So what -- what do I actually think it is? Because that, of course, determines many of the choices I will make in my analysis.

I will then present -- because I believe in giving answers first rather than like a murder mystery, I'll present my recommended fee caps in -- in brief. And I have simplified them from the previous submissions I've made to the Board.

That has been the major change, and it's because, actually, your -- some of your questions I finally thought about the right way, when you were asking me which will be easiest for consumers for -- etcetera, etcetera.

And I thought, Wait a second now. This stuff is all easy for me. I mean, I'm supposed to be good at it, but nobody else has. And we've seen the evidence and the problems that people are having figuring out these fees.

I mean, you know, Ms. Friesen and -- and Mr. Osborne are -- are very sophisticated, clever people and they're finding this really hard. I found it really hard, so...

Business characteristics of payday lending, you've seen some of this from Dr. Simpson. You've seen some of this all over. I get to go last, so I get to steal from everybody else and pretend I did the work.

And I will try to bring this together, because we can't regulate the industry without understanding the fundamental business characteristics.

How fees are charged and definitions, I

will spend some time going through of all the messy, different things that we have found over the years about fees.

I started this one out, but in fact, although everybody's referred to me giving them guidance on this, I have been continuing to learn from them. Even today, when Ms. Friesen and Mr. Osborne were presenting, a couple of more things came up. And this is going to be important for the Board to consider the details of this. This is -- we've got to get down to the dirty work in regulating.

Then we get to the -- the heavy stuff, ways of evaluating a just and reasonable rate, Robinson, Gould and Clinton. And I will explain them. I will then explain why -- what my objections are with Gould and Clinton. I'll leave it to somebody else to object with me.

And then it gets really painful. We go into my analysis in excruciating detail.

So what I will do is, in fact, project a spreadsheet for you and show you how I did this and show you how it fits with everything I've done, because this is where the numbers come out of. And I think that I can do this so that you will understand it. I hope so, because if I can't then I've failed. This is not a -- a case of anybody but the explainer who's responsible.

US experience with rate regulation, okay, because one of the charges to the Board is to consider jurisdiction in other regulations -- sorry, in other jurisdictions.

And in fact, we've summarized that. That is one of the exhibits that's here today, and I'll show you the -- take you to the basic things you should see from this.

Alternatives for smaller communities, this is a big here. This is an ethical issue. What do we do if payday lenders cannot operate in small communities?

Now as I understand it, there are -- there is no payday lender in Arborg now; there is no payday lender in Gimli. It doesn't seem likely we're going to see them there. So this is part of what I will be talking about. It is not just who is here today, but what are we doing with this entire industry for the province? Okay.

And I -- I do in fact know something of Manitoba. I didn't just take those names off a map. I've in fact cycled through them. My wife and I did a cycling trip in southern Manitoba, and that also has informed my understanding of how this should be regulated and what should happen in this industry.

And finally my conclusions, and by this time, of course, you'll be totally exhausted if not dead asleep. And so I -- I'm doing them really fast.

So my definition: A just and reasonable rate for a payday lender to charge is a rate that allows an efficient lender to recover costs and earn a reasonable profit but not earn an excess profit.

We can debate the definition like this forever, but there it is. This is what I'm dealing with, and you need to know that. And so what I am trying to do is find a balance, a balance between consumer interests and the interests of an industry which, once you have regulated it, will be operating under the law.

Okay. We have had -- up until now it has been arguable, I'm not a lawyer, but there have certainly been many cases that payday lending industry has been -- and well, actually still is -- technically, illegal under Section 347 of the Criminal Code. Once you regulate it, that ceases to be the case.

And so we're now talking about finding a balance between an industry that you will make legal and, you know, you will be the final step in making it legal, your -- your decision, and the consumers who use it. And of course that's what you're doing all the time. So that's where my definition leads.

So here's what I'm recommending. And now, I must explain, this looks different from the last one. It is virtually the same as the previous format, as the previous -- as 2B-15, which everyone has seen and which I recommended a fee cap of ten dollars ($10) fixed fee plus -- see, I've already managed to forget what it was I previously recommended. It is essentially equivalent in terms of the revenue it would generate across the payday lending industry.

So the reason I have changed to this format is because this is simpler. That is why I have changed. And the benefits that I had argued for previously in the much more complex fee structure I had, which was a fixed-rate plus a principal -- an interest portion of principal plus an interest rate, there is, in fact, no real benefit to such a complex fee.

In fact, I think I fell into the trap of, this is what Money Mart and Pay -- and Rentcash were charging, you know. I mean, that's the way they were doing it. And it, I mean, there's nothing wrong with that fee, and there's nothing wrong with somebody continuing it as long as they would stay under a rate cap.

But they originally, I believe, throw in this interest rate, everybody's at fifty-nine (59) or

60 percent as an attempt -- and we'll not comment on whether that attempt would succeed in a serious Court challenge -- but as an attempt to claim that they were not charging more than the criminal rate of interest.

Now I've already said I'm talking about a business case rather than rapacious lenders. Nobody in the room is under any misapprehension that payday lenders in any form, as they -- as we now see them, could be charging 6 percent per annum or 20 percent per annum. These -- these are expensive loans, and they will continue to be expensive.

So there's no need to have this interest rate in there. We're just trying to cover the costs and not allow any more than a fair rate of return. So why make the fee more complicated?

I will give you alternatives that are even simpler than this that have the same equivalent revenue effect. Okay.

So, 17 percent of the first two hundred and fifty (250), 12 percent of the next two hundred and fifty (250), 10 percent on anything over five hundred (500), plus a fixed fee of ten dollars ($10) only for a new customer.

Why this particular format? I mean, of course, it -- it -- you'll see later how it meets my criteria, in terms of the numbers I chose. But this format, we know that there are significant fixed costs in giving a loan.

So that whether they borrow two fifty (250) or a thousand (1,000), somebody's got to stay there and take a bunch of information from them, and consequently the costs are borne -- the costs are greater for smaller loans.

A single percentage right across the spectrum does not capture that. And so I'm recommending a stepped fee schedule, which is similar to a number of American jurisdictions. Okay, they do exactly the same thing.

In addition, we know from the Ernst & Young report that there is a substantial difference in costs for repeat -- or sorry -- substantial difference in costs between established customers and the first time. The first time the person comes in you have to take all this information down, familiarize them with the loan, etcetera.

Okay, we've heard that Ms. Friesen was going in and making -- borrowing loans as a first-time customer, so they had to -- now she, of course, knew a great deal, but she couldn't tell them, Well, I actually -- I actually know everything, you know. Just -- just give me the details.

She had to act like a customer. So it took quite a long time, and you've heard her explain that, and it took varying amounts of time.

And Ernst & Young found huge variations in the estimates made by its respondents. So it's very hard to pin this down. So I can't really give you an analysis that says it should be ten dollars ($10), should be eight dollars ($8), should be sixteen (16). I'm just giving a reasonable number. But it is my feeling that cost of the new customer should be reflected.

If you feel this is still making things too complicated I have, you know, I -- I can deal with that too. I can show you what the fee would be without it. Okay. So those are -- that's -- that's the -- the answer that I'm recommending to you.

And so now I spend the rest of the time trying to explain how I got there.

I have to, unfortunately, make some definitions. That's the mane -- shall we say that's the horse -- there's the biggest part of the fees.

Okay, we have to define "default." And I'm defining it as the borrower doesn't repay and doesn't tell the lender. Okay.

And the lenders will appreciate the

difference, I think, between this -- at least as I understand what they've said -- that you get one (1) customer who phones you up and says, I can't pay; I've got to do an -- an extension on this loan. And you go through the deal that you -- you do it.

So that you're behaving the way that Ms. Friesen did when she was going in and saying, Well, how -- what would I do if I want to re-extend? And she comes in and tries to extend it sort of thing.

Or you get the customer who goes missing for two (2) weeks on a bender and the cheque bounces. And you make seventeen (17) phone calls to try and find out what's happened to the money that you loaned in good faith. So I think that there should be an additional charge for such a loan, okay. Or I think that that should be permitted.

I believe Rentcash has just announced that it's reducing or waiving that fee or something; I don't remember the details. That, of course, is a competitive choice how you do that. I'm just saying that the opportunity should be there.

Okay. Recommended fee caps, I'm going to define the "payday loan" as -- and this is following the legislation -- as the cash given to the borrower, or loaded, or put into a bank account, any -- any form, okay. That's his value received.

Okay, there are implications -- I've gone into it in much more detail in the paper -- there are implication as to what account and where. And that is one of the issues that Ms. Friesen was alluding to and that was giving Mr. Osborne so many difficulties in his phone surveys, just what is in here and what isn't.

The value received for a replacement loan -- and I'm defining this, and I do it in my analysis, as the total owing on the previous loan or loans excluding default fees.

So I don't say you just charge -- that -- that the lender is required to charge the replacement fee solely on the original principal, your two (2) weeks is up -- you owe the lender the -- the fees, the interest, whatever -- now that is the new loan. Okay. So I'm defining it that way.

You could define it either way. It just changes the percent, the -- the charge -- the fee that you charge in the future. I'm defining it that way. That is the way it would be done in finance ordinarily.

And now I just now -- I -- we lost one (1) slide here, and I don't know how. Okay, I'm sorry. I'm just going to do -- I'm just going to have to do this orally. I lost a slide. I have no idea how.

The one (1) slide that's missing is the other part of the fees. And that is what is the fee on a replacement loan.

It is in that paper that I've written for you, the recommended fees, the eight (8) page paper, of course, but I don't know -- and I did have it on this. So I did something foolish last night.

The replacement loan fee, that is the replacement loan where comes in -- phones you or comes in -- and says, Can't pay off, please extend it.

Now the legislation, Rentcash, and CPLA bans rollovers. Rentcash got out of rollovers at great expense. Money Mart doesn't allow rollovers. This is a big issue, and I will be coming back to it.

The legislation does not talk of rollovers, it -- and it does not ban them. So we don't have that choice. Okay, that -- that's not something that the Board can either go back and recommend banning of them.

But I actually think that the legislation as it's written is better, that instead it costs more to have a replacement loan. There should be some fee associated. But I will show later that rollovers as they are practised by some lenders are -- really are -- should not be allowed.

So the fee that I have come up with -- and again it's difficult to be -- it's vastly lower than rollovers, but I cannot give you an argument that says this is the right fee -- is a fee of ten dollars ($10), fixed charge for doing the replacement.

So I phoned you up said, I can't pay off. Whatever arrangement you make is going to cost you ten dollars ($10), whatever the loan size, plus 1 percent for every week or portion of week of that rollover amount.

That's 52 percent APR, higher is an EAR. It is in fact close to what Rentcash currently on a replacement, you know, on a con -- extension of a loan, would be charging, 59 percent APR. So, however, I went for simplicity. That's why 1 percent per week or portion.

If you want to get very cute about interest rates, in fact, 1 percent charged on the first three (3) days is a really high rate of interest. But, you know, we -- we sort of have to simplify to some extent here.

This -- you'll see what rollovers look like. I'll show you shortly. And they're really horrible.

Okay, so this is a fair alternative to allow lenders to recover the extra costs to provide borrowers with an incentive to get the loan paid off and stay out of trouble.

Okay, these are things that we all want to achieve. You know, the business does not want to lose money. They want to get money. They want to get their loans repaid, but it doesn't become so overwhelming that the guy just walks away from it.

Okay, so -- so I said this is a business story that I'm giving you. This is the way I'm intending to view this.

Now value received for payday, for replacement, oh, yes. Okay, definitions are a significant challenge. I've written more about them in the paper. They do not -- it's not a -- an exciting topic for a -- an oral presentation, but I think it has become very clear -- and again you notice I get to rely on everybody else's hard work -- it's become very clear that definitions of what it is that's going on are essential.

And now the work I -- I am qualified as qualitative researcher. Reading their work, working with them, and listening to -- to Ms. Friesen and Mr. Osborne, they have done this very well. Much better than the work that I did, which was merely to find out what was going on.

So I, of course, have done phone calls and even talked to people in -- in lenders. I've talked at length to a guy running it out of a -- a hock store, this sort of thing. They did this work very well and, therefore, we can rely on that evidence as showing the problems that they say it does.

Okay, now that said, there's something that's very important here. Again, this is a business story as opposed to the evil, rapacious lenders. It is not payday lenders who created the debt problems that consumers are in, and it's not them who created the fact that finances can be confusing to people. So we can't hold payday lenders responsible for all of the failings of society, much as we like to find scapegoats.

This doesn't mean I'm letting them off the hook on their fees, but we do have to keep in mind that this is an industry that's trying to cope in a market. And so consequently, we've got to provide the definitions.

We have in fact seen -- and -- and it's -- it's very evident to the Board, I'm sure, that there is a certain battle between the two (2) largest going on, as to certain definitions and how fees are charged. And each of them are trying to make sure that everybody recognizes what the other one is doing.

I recognize and recognized long before these Hearings what they're doing. And we have to deal with both of those. But there are other things going on with smaller firms we just haven't noticed that they may not even have figured out.

I have to tell you that in a court case I was engaged in it became clear that the Bank of Nova Scotia was not aware of how to calculate interest rates under the law, under the Student Loans Act, and cheated tens of thousands of students. Okay, and I proved that in court. But, you know, we -- we don't always get it right.

So that's part of the job of the legislation. And it -- this is going to be one of your challenges and one of your -- you know, I'm saying this as an expert. This will be a challenge for you to face and work out with lawyers and so on.

The legislation is a very good starting point so that you've got the mechanism in place to get these definitions down so everybody is charging according to the law and consumers have a better chance of understanding.

But if people haven't a clue about finance and money, you can't expect the payday lenders to be responsible for that.

Okay. Now, an equivalent to the sliding scale of fees for a payday loan. So I had that schedule back there.

MR. BYRON WILLIAMS: Dr. Robinson --

DR. CHRIS ROBINSON: Yes?

MR. BYRON WILLIAMS: -- if I could back you up to that slide.

DR. CHRIS ROBINSON: This one here?

MR. BYRON WILLIAMS: No, the one that you were on just previously.

DR. CHRIS ROBINSON: Yeah.

MR. BYRON WILLIAMS: No, the --

DR. CHRIS ROBINSON: Whoops, sorry.

MR. BYRON WILLIAMS: -- the one "Recommended Fee Caps: Additional Issues," you were talking about definitions as a significant --

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: -- challenge.

And I heard your explanation of why they're a challenge, but did you -- this -- under the first bullet, do you wish to add anything about which ones you think should be added and why?

DR. CHRIS ROBINSON: Well, actually I --

MR. BYRON WILLIAMS: Or are you going to do that?

DR. CHRIS ROBINSON: -- have done that in the written stuff. It's just that, you know, I mean I've got a limited time available here.

So, I mean, I -- I've mentioned there debit card usage, cheque cashing fee. Those are two (2) of the contentious issues. But in fact all the things have got to be in or dealt with, ruled on, etcetera. And it's got to be done in language that catches the things that nobody has done yet, but they're going to figure out.

MR. BYRON WILLIAMS: And, Dr. Robinson, just -- is the criteria you use for suggesting that, for example, the cheque cashing fee should in the idea that -- that essentially, for people who need money right away, that they have --

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: I'm trying to get --

DR. CHRIS ROBINSON: I will actually -- I'll deal with that later. I'll deal with that detail later. Okay.

MR. BYRON WILLIAMS: Carry on.

DR. CHRIS ROBINSON: But I think I'll answer your question.

So just going back here. So the equivalent to this slide -- and I will -- I can show it to you on -- I will actually be showing you the analysis that leads to that.

But the equivalent to this slide right here, seventeen (17) plus twelve (12) plus ten (10) plus a fixed fee of ten (10), the closest equivalent to replacing all of that at once with a flat rate is 17 percent.

And that's because, you know, the bulk of the loan is under two-fifty (250), the average loan is three (3), three-fifty (350), something like that, varying numbers. There aren't many big loans. Most juris -- most American jurisdictions cap it at five -- five (5), six hundred dollars ($600). And then the fixed-fee, of course, gives a -- a hefty belt on the -- on the lower price loans.

So that's just the way the numbers shake out, okay. It's not -- I can't show it to you except by going through a spreadsheet. But so there is your -- your simple alternative.

I prefer the stepped rates. I believe that applying the cost -- the costs more where they fall is part of the right way to regulate the market. So I'm making a judgment there.

But in terms of the total revenue that comes out of it, 17 percent generates a little bit more, okay. They -- but, you know what I mean? We -- it's not like we can be precise about everything here.

Okay. So let's turn to the business characteristics of payday lenders. You've seen the essence of what I'm recommending, okay. None of the Intervenors have -- have yet fainted or anything, so we'll continue to look at the business.

And of course they are, I mean, I am informed by, you know, everybody in this room, really. I mean, your questions, my colleagues here with all the things they've said, the submissions from the payday lenders, going out and grubbing around with them in the marketplace, their websites. So I'm trying to pull this all together.

And the first one I did, this is actually going to be somewhat controversial, and I will be using this implicitly later in my analysis. And that is the -- oh, yes, my -- part of the slide -- there it is, a horse and rabbit stew.

The big firms dominate. National Cash Advance, which is America Advance, okay, I will refer to them just as Rentcash, as both Instaloans and Money Mart, you know. I sort of refer back and forth, because they have a corporate name under which all the documents are registered.

So, here is the Manitoba market, okay. The first column is the numbers which you have already more or less seen, okay.

Now they -- you have to realize the numbers will change a bit between us, among other things because I treat Cash Store and Instaloans together, since they are the same really, and because every time we -- we turn around somebody else has opened another store or closed one. And it drives you nuts.

Anyway, I've been through this at the national level as well. But this is still pretty accurate.

But I couldn't get -- put National Cash Advance in. It would be unreasonable to do so. They cannot have very much volume. They've opened within weeks. I really can't believe they affect this table very much. They will presumably increase the total volume in the market. Okay. When you bring more outlets in you do.

So, Money Mart, eighteen (18) -- 28 percent of the stores, their volume nationally. Money Mart is not appearing in this -- in this Hearing, at least not -- not visibly. And so consequently we've not been able to ask them what is their volume in Manitoba.

However, as I have shown elsewhere, it's likely that the volume nationally is at or very close to $3 million. I have more recent figures than Dr. Gould has, but he agreed with me. He gave it 2.9 million.

So they would have 54 million of the market. They state everywhere in their public releases that they have a lot more share of the market than the number -- they have the number of stores. They're the longest established player.

So my estimate is they've got 53 percent of the -- of the Manitoba market by volume. That is -- so this is actually even stronger evidence than Dr. Simpson put in. There's a problem with there's so much material flying around that nobody is able to read it all.

The Cash Store and Instaloans, when combined -- and I combined them because they're operating under the same properties -- we have from them a disclosure, which if you multiply two (2) numbers together, gives a volume of close to 1.2 million.

I have written elsewhere to the Board that of course since these include stores that have not come to maturity, that all these volumes can be understated. So I tend to raise them, and I've done that formally -- done formal analysis of Money Mart for that.

So, however, it's clear that the Cash

Store is much smaller. The Cash Store nationally is probably more like 1.6 million, so it seems to smaller in Manitoba. But, you know, I mean I -- I don't have any -- I can't prove that. That's what it seems to be. Thirty-one (31) million, so they've got 31 percent of the market.

And then there's everybody else. Cash Money is the only other really national operation. Okay? They've got -- last time I counted, they had seventy-one (71) stores across Canada, and they've got five (5) in Manitoba.

However, for Cash Store, Mogo, Sorensen's, and Fast Cash I have no independent evidence. I have only the Deloitte & Touche study, which I have indicated elsewhere I think is seriously flawed in -- in so many regards that I don't use it for much. But this is the best I've got.

And so there is my estimate. This -- this is what MBA students do, you know, and I used to teach MBA students. You take the best data, and there's your estimate.

And then finally, there are single stores. And some of those single stores must be in the Deloitte & Touche study. So in that sense it's got to be partly representative of these bottom stores.

And this thing -- the thing misprinted again. There's this problem with PowerPoint, depending on who's set you're on.

The total, and it should appear correctly in your printed version, should say two (2) -- two million four hundred -- or 6,440,000 and 6.3 percent. I think it appears that way in the printed version. It doesn't? Okay. Well --

MR. BYRON WILLIAMS: And just -- just so I -- Dr. Robinson, it's no -- no big deal, but just so I'm sure of the line you're referring to, you're referring to the line "Single Stores"?

DR. CHRIS ROBINSON: "Single Stores."

MR. BYRON WILLIAMS: And what should the total --

DR. CHRIS ROBINSON: Okay. So the total dollar volume for those should be 6,444,000. And it was when I ran it on a different computer yesterday -- when I printed it on a different computer.

And it should be 6.3 percent for the percentage of total, and then the Manitoba total is 100 percent.

MR. BYRON WILLIAMS: And if I could, Dr. Robinson, just for a second, so PUB/COALITION -- or Coalition Exhibit 24, the slide "Business Characteristics of Payday Lenders," sub (1), the -- the second-last line under the column "Total," the figure should read 6,444,000.

Is that right, sir?

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: And in terms of the percentage of total, again on the second-last line, referring to single stores, it should be 6.3 percent. Is that right?

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: Okay. Thank you.

DR. CHRIS ROBINSON: Yes, Mr. Williams was reproving me for being too fidgety yesterday. In fact, what I was doing was trying to correct this error, which I did correct. It appears, however, computers have memories different than mine; they remember what they want to.

Okay. So what we see is, of course, a highly concentrated market. Okay. And you can disagree with these numbers, but you can't disagree with the overall conclusion of them.

This is a highly -- highly concentrated market for payday loans, and it's mostly concentrated in the cities. And this is the case across Canada.

Okay. Business characteristics -- some

more. It's a retail service business with direct human interaction. Now, even 310-Loan, Mr. Slee's operation, I mean, this is a telephone operation. You call up. You talk to a -- an operator on the phone, and they have to explain things to you. Okay.

This is not something where you phone up, you press some buttons and the money pops out. Okay. If it -- if it were, Mr. Slee would -- would be out of business by now, I suspect, from crooks.

So, you know, this is -- this is -- and in that sense we can think of other retail businesses, okay. I mean business characteristics have things in common.

Each store is quite small. Now you're of course -- you're primarily regulating bricks and mortar: ten (10) to thirty (30) loans per day; loan volume five hundred thousand (500,000) to 4 million, with a few stores up to 7 million; revenue a hundred and twenty-five thousand (125,000) to 2 1/2 million, including cheque cashing and other services. So that varies considerably among different businesses.

But most have revenue under 1 million. So these -- each store is quite small, there are a couple of -- three (3) chains that could be called, you know, medium-size businesses.

But this is not the Royal Bank of Canada.

This industry -- in certain statistical characteristics, I could fit the entire industry inside a single bank branch, okay? It isn't a huge, huge industry.

This is not like the Royal Bank of Canada: high cost per hundred dollars ($100) loan, far higher than mainstream financial institutions -- both Ernst & Young and Deloitte and Touche, common sense tells us that; all this human processing for a small amount of money; high -- you know, higher than normal risk of default.

We know this is a high cost business. We can't get away from that. That is why we can't -- we can't accept these stories -- the rapacious lender story -- and say, Well, you've got to charge what the banks charge.

That doesn't work, okay? Can't do it. I will show you the evidence later.

American jurisdictions that have tried to regulate to that level. The payday lenders leave. They don't when the regulation is at reasonable rates. And I will go through that with you, and I have quite extensive information on it now. Okay?

So there's, you know, that story of let's say, Well, credit cards are 28 percent, so that's what we'll let you charge. They can't survive.

I will disagree with all kinds of things about the numbers that are presented, but that's an order of magnitude out of -- you know, there's -- there's no such question like that.

Operating costs of the stores is the bulk of the cost. Again, common sense tells us that. All these people, rent, small volume, it's going to be the operating cost. In particular, EY Table 5(b) page 31, which is already in evidence before the Board -- actually a bunch of their tables show the same thing, sliced and diced in different ways, but there is no question: Operating cost is the most important thing, well over 50 percent of the costs.

And that is one of the horses. In other words, in my analysis, in any analysis, that's something we really have to take seriously. That is not something we can leave aside.

Significant economies of scale Dr. Simpson has already referred to this. I'm using exactly the same -- same sources. Significant economies of scope, same source. Okay? Dr. Simpson has already talked about that.

Hard to make a dent in Money Mart's lead in cheque cashing. Now Rentcash has stated that in its rebuttal. However, I can support that from the evidence that I've seen in other sources.

You need only read Rentcash's annual reports and where its volumes are. I'll come back to that -- particularly that issue in general.

And therefore it is -- it's not the easiest thing in the world to just say, We should go into cheque cashing and do that too, okay.

There are, however, examples of adding payday lending and cheque cashing to other businesses to achieve sufficient revenue to justify fixed costs.

I spoke about that in PUB/Coalition-1-B4. I will talk about that in more -- in -- in this presentation even than I did there. And I will provide more alternatives and ideas, because this is an important issue for Manitoba, I would think. Well, probably for any province.

And I'll again cite the sort of things I've seen. These are not things where you can have evidence and tables and that sort of thing yet, but there are ways. After all, we have been told -- the payday lenders have told us the benefits of competition. I'll be arguing this is how they should be competing.

Okay. Bad debts is the second largest expense and much less than half (1/2) of the operating costs. Okay? So bad debts, very important in here.

Bad debts on consumer loans, I'm sure banks spend a great deal of attention to. But, you know, if you're analyzing a bank business overall, you don't spend much time on that variable. You worry instead about the asset backed commercial paper. You worry about anything that -- that CIBC lends to.

So default rates are much higher than banks experience, okay. I think I gave an example. I actually went to a bank statement and just dug it out and -- but I think you can appreciate that they are much lower. The rates range from less than 1 percent to an outlier of 14.1 percent in the Ernst & Young report.

I -- my expectation is that the 14.1 percent is in fact CashX, which did withdraw some stores. I think that's what's going on. But CashX didn't provide me with the volumes initially when I was looking at it, so I couldn't confirm that. The Ernst & Young report said that that firm was then going to leave.

Okay. So 14.1, would we use that, no. I have -- in my various submissions I have summarized what the EY report says, but an awful lot of guys are -- are less than 4 percent, okay.

Money Mart's default rate from 2003 to 2007 varied from one point zero (1.0) to 1.6 percent. That's, in fact, in the exhibit -- the table on Money

Mart's costs that shows that for you now -- in front of you, and it's previously been submitted. Okay.

So Money Mart's doing very well in this -- in this respect. It's not the best. There are a number -- smaller stores, in fact, we can tell from the Ernst & Young report, that are under 1 percent.

Advance America's most recent 10-Q shows default rates of 2.7 to 4.7 percent. There are challenges with interpreting Advance America information, because, like Rentcash, they've been going through some changes recently.

And, now did I -- whoops, okay, I didn't. Yeah, there's another one I should of put in here -- and that is remind you of the Deloitte & Touche report, which finds 3.5 percent, okay, for five (5) small Manitoba firms. So there's the sort of ranges. So, you know, 2, 3, 4 percent is the reasonable expectation.

Now you've heard a very different number from Rentcash. We can talk about that, but I'm telling you what we see generally in the market, including from giants.

And, Advance America is the giant. They have close to three thousand (3,000) stores in the US. They're just a payday lender. I mean, just for their entry into Manitoba they've opened seven (7) stores.

That's just, you know, opening Salvo (phonetic) in Canada. So they're really big. And so that's the evidence of what some firms do.

More business characteristics, okay, horse and rabbit stew again. I have already argued this in my written submissions to -- to the Board. Debt default is not the big story. This is definitely a rabbit compared to the horse of operating costs and specifically to risk of the firm. It is not the risk of any one component of a firm that matters in a firm's operations. Okay.

I don't care if a company I've invested in cuts its dividend when it's investing the money in a project; I care about what the project is. If the project is $ 1 billion to put a man on Mars, I may consider it pretty risky. No, I guess that would be $1 trillion.

If the project instead is to buy a bunch of commercial real estate, refurbish it, and rent it out, I regard that as much less risky. Whether they cut the dividend or not is kind of not all that important.

It's the same thing here. Debt default is an important expense. We have to model it. We have to deal with variations in it, but variations in it by itself.

First of all, it's highly diversified.

Second, it's not going to change much over time, and we can see it's not changing dramatically, and it's not the breaker. Okay.

Operating costs are larger, whoops, bad debts are not fluctuating. Now Rentcash, of course, suffered a problem. I would argue that Rentcash's problem is similar to the problem of -- all right, now let me be very careful here, because I don't want to give you the impression that Rentcash or anybody else is in -- is like this. But one of the problems in financial reporting of financial institutions is when they hide loan losses by rolling their debts.

But we're not talking about rolling hundred dollar ($100) loans. We're talking about Castor Holdings, which is one of the biggest frauds in Canadian history, where they were rolling a -- 1.4 billion and hiding the fact that the guys were paying no interest. These were corporate clients who were bust, and all they did was roll a loan so it looked like they had more.

To some extent I believe that's what Rentcash suffered, is that it had bad debts that it didn't recognize. It had bad debts, they were just rolling it, and they were going get a high bad debt rate when they stopped it.

So it was a good business decision to stop it, but you take a real hit when it starts. And that, of course, makes the results look really bad.

Advance America is suffering somewhat of the same thing. It's been knocked out of a couple of markets because of changes in regulation. And so it's getting higher bad debt rates in those markets because people say, Oh, you're gone, I don't have to worry about you. They're closing down their centres and giving up. Okay. So you get some -- some effects like this.

But this is the horse and the risk, and this is not at -- is not related to what you were recog -- to what you are charged with regulating. The horse is the largest failure is to develop enough volume.

Banks generally aren't willing to loan to restaurants because -- new restaurants. They know that a restaurant, 50 percent of chance of failing within a year. And it is a small retail business, highly service oriented.

Now, you may not think it's like a payday lender, but it is. It's got all those characteristics. It doesn't get the people in the -- now it does, of course, differentiate itself, which the payday lenders can't to the same extent.

But that's it. Anybody who does bankruptcy work, anybody who does work in small business says, You've got to do this business planning. You've got to figure out where your costs are going, what's going to happen. Do you have enough money to keep you going?

I've in fact explicitly allowed for that problem in my analysis in a way that nobody else has done, in my analysis of what are the legitimate costs of a business?

So that's not the risk. So when we talk about these businesses, Money Mart, Rentcash and The Cash Store, at the very, least do not face the same risk as the single stores. And that makes it difficult, of course, regulating, because regulations will have differential effects.

Money Mart, to open a new store, it's already got advertised, everybody's copying -- well not everybody, but a lot of people are copying the Money Mart colour scheme. I don't know if you've recognized this. They copy the Money Mart colour scheme, staying just outside of the laws that prevent you from being charged with violating trademarks, because people recognize that colour and they think, Oh, yeah, yeah, right, payday lender, yeah, that's -- I know that one. And they go in there. Certainly in Toronto all the payday lenders all look like they're yellow and red.

Okay. So there are a bunch of opportunities. In a sense that's what Dr. Simpson is talking about with the barriers to entry. Okay? The big stores have overcome that barrier to entering a new store into a -- or not overcome it, but have reduced that barrier to entry for them. But a single store operator doesn't have that benefit.

Okay. Oh, yes, and the large chains are also diversifying a lot of the risk away because they're in many areas. So that if an area turns bad, it doesn't kill the -- it doesn't kill the company, it's just part of the business. Another area will do well.

Suppose you locate it in a marginal community, which then got a big, new business and the population jumped. Think of northern Alberta. Okay? Payday lenders must be having a wonderful time in northern Alberta, because they got in and all of a sudden the population went nuts. And so they're there, you know, with this huge increase in volume.

So -- but the single store, you know, they either get Alberta or they get some place where their business shuts down and they get ruined.

Okay. So I've discussed this a good deal more. You've already seen this discussion. I won't continue with it orally.

Okay. Cost of capital is another horse and rabbit stew. It's huge in many of the things that you regulate. It is totally unimportant here. The amount of capital in this business is very small. This is not Manitoba Hydro. Okay?

Variations in estimating the rate have only small effects on total costs. Dr. Gould agrees with me on that point. He doesn't agree with me on how to calculate the cost of capital. I do everything by real rates, which is the only correct way, in my opinion.

But it's -- it's not worth spending any time on. This is a really small rabbit. We're not going to change the regulation to what we regulate to by arguing about cost of capital here.

So all the finance professors with their fancy models are -- are a waste, and you notice that neither Dr. Gould nor I cited any complex models of how you determine, you know, a tenth (1/10) of a percent of cost of capital. It's just not important.

Okay. Now this is a little more contentious. Differentiated service quality is another horse and rabbit stew. Okay? And in this sense Dr. Simpson and I are in agreement. It was very nice to have him going before me, because it meant -- meant that I didn't have to do so much.

Payday loans are homogeneous. The hours of service among the payday lenders are much the same. I go around looking at the doors. I mean if you wish to ask me in an undertaking, Will I go and survey a whole bunch of them for their hours, you can. But it isn't going to turn up anything.

And we have not seen the payday lending industry provide us with any evidence that they in fact have -- one (1) firm is open twenty-four (24) hours a day and another firm is only open four (4) hours on Sunday. They're pretty much the same.

Big traffic locations will be twenty-four (24) hours a day and others not, but they tend to be clustered geographically, as Mr. Osborne has shown you. Okay? I'm not making an argument of exploitation or anything else here, just they are clustered -- clustered that way. So where's the differentiation?

As I just told you, nobody's surveying Arbourg; nobody's serving Gimli. There is one (1) small firm, Fast Cash, which is in three (3) smaller communities. That's really rare in my experience in Canada that they would be doing that. Typically they'd be in the bigger communities, and then maybe a big firm will put something out in a smaller community because it can afford to do so.

The personal service aspect is similar across the lenders. In other words, Mr. Osborne and Ms. Friesen have not shown us that in their shopping exercise or in anything -- they -- they get differentiation.

But it's not a differentiation that accounts for anything relative to the size or the difference in the prices charged. And I've heard no evidence from them that the people with the highest prices were all sweet and light. Okay?

The cost of the loan is overwhelmingly the important point of difference. And an interesting thing -- I'm still considering this; you can think of it in many ways -- yesterday I submitted a one (1) page screen capture from Money Mart's website as to what its conditions are.

And, you know, it's three (3) little bullet points. It's really simple. They don't ask for your social insurance number, they don't ask for X, Y or Z.

Advance America, you need only go to its 10-K, which you have filed -- I just don't have time to put all this up on screens for you, I'm afraid -- and you'll see that they use very simple, they say: We get your bank statement, two (2) pay stubs, your cheque, and I think they say evidence of identification. And that's it. We make our decision, and we don't do any kind of credit cheque or anything else. We just make a decision right there.

So that low price -- and Money Mart and Advance America are low-price operators, low -- they charge low prices relative to the markets, considerably low prices. And yet they're asking for less credit information and making decisions fast.

So the large quantity of information that Ms. Friesen was telling us she was having dragged out of her in some places doesn't seem to necessarily lead to anything. Now, she can't break confidence, but I can in the sense that I'm telling you, Here's two (2) of the low-cost producers, low-cost, low-price producers. And they're asking for less information. Of course there's lower costs. They're not -- they're just making their decisions. That's all they need to do.

So that's what can evidently be done in the market and Money Mart's got a really, really low debt rate, debt default rate.

So this is an important point in considering what it is, you know, these arguments about all this differentiation, that you've got to allow a very high rate in order that the right levels of service be provided to people. I don't see the evidence of that.

MR. BYRON WILLIAMS: Dr. Robinson --

DR. CHRIS ROBINSON: Yes?

MR. BYRON WILLIAMS: -- and this is -- I'll seek guidance from the Chair. It's ten to 3:00. Dr. Robinson has been going since a bit after -- well for a while. And I see we've left one subject. Would this be a convenient point for you to take a -- a break and --

DR. CHRIS ROBINSON: Yes.

MR. BYRON WILLIAMS: -- allow the Board members to have --

DR. CHRIS ROBINSON: Yes, sir, that's --

MR. BYRON WILLIAMS: -- a break as well.

DR. CHRIS ROBINSON: Is that's fine with Chair?

THE CHAIRPERSON: Okay, we will take a break now.

DR. CHRIS ROBINSON: Sure.

--- Upon recessing at 2:50 p.m.

--- Upon resuming at 3:05 p.m.

THE CHAIRPERSON: Okay, welcome back everyone.

Mr. Williams, do you want to start up again?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes. Thank you, members of the Panel. And Dr. Robinson, I believe when we left off we were just moving into fees.

If you could take us through that in your gentle, careful manner.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Thank you.

Okay, fees. I've already written a lot about this for you. It seems that every time I turn around we learn a little bit more. And it is important, I believe, to discuss it again briefly, simply so that we reiterate the importance of all of these different sorts of fees and how they affect what the consumer faces, and also are very clear to understand what's -- what's going to have to be regulated and which things matter the most.

So different structures for payday loan, okay, so a single percentage of value received, many companies, commonly 20 or 25 percent. In fact if you were to go down the Table 3 and simply divide the fee by the loan principal, you'll find 20 percent, point two (.2) dead on, is the commonest result. Okay.

And it is the smaller companies. We

already know that Rentcash and Money Mart charge these more complex fees. Cash Money charges 20 percent. Sorensen, I wrote down here, "Sorensen, 22 percent," and that was a -- I think that's a mental lapse, because I'm pretty sure Sorensen charges 22 percent plus a 59 percent interest, okay. So, but, just picturing -- picturing that, yes. So, however, you get the point.

A sliding scale percent of value received, I give the example of Mogo. I don't know that Mogo is still doing that. I -- it was at one point not very long ago in Manitoba. Somebody told me they changed. I simply haven't been able to -- to verify that.

Indiana State law -- and -- and a number of other states. Indiana happens to have been the one I've cited before to the Board, but you'll see there are a number who do that. And my proposal to the Board are all sliding scale of value received.

Then there's a set dollar value on specific-sized loans and other sizes not allowed. Now my example is Unicash in Ontario, but I now understand from -- from Ms. Friesen's testimony -- and I think it's also Mr. Osborne's testimony -- today that it is happening with some of the smaller ones in Manitoba. And Unicash is not in Manitoba. So that, you know, I mean again I couldn't survey every -- every lender, but -- so we do see that.

And then we have the complex combinations of fees: Money Mart, Rentcash, and I guess I should add Sorensen to that, and probably other firms too -- well definitely other firms, because I can't identify fixed percentages in everything that's on Table -- Table 3 that Mr. Osborne presented.

MR. BYRON WILLIAMS: And -- and just before you leave this page, Dr. Robinson, I'll in -- in terms of Sorensen's just because we don't want to leave something incorrect on the record, we'll -- we'll double check that. I'm -- I'm sure you've got -- and then we will undertake to provide a -- a correct answer to this slide just so that there's no miscommunication.

DR. CHRIS ROBINSON: Right.

MR. BYRON WILLIAMS: Is that all right with you, sir?

DR. CHRIS ROBINSON: Yes, that's fine.

--- UNDERTAKING NO. 84: Dr. Chris Robinson to check whether Sorensen uses a complex combinations of fees

DR. CHRIS ROBINSON: Okay, the complex stuff. So the complex people enter. And -- actually that -- that undertaking applies to this slide as well, because I kept on referring to Sorensen's.

Interest on value received, usually at a 59 percent APR, Money Mart and Rentcash, and for its opening Salvo National Cash in Manitoba. But that is only temporary. They are waiting for your decision before they charge anything more than the criminal rate of interest.

So for a -- a while -- for a while anybody else and -- competing in the areas where those stores are in Manitoba is facing some pretty horrendous competition. And you have heard reference yesterday that they may be doing even more, but I have no knowledge of that. But what I do understand is that they're only charging the APR and nothing else, no other fee.

However, the important ones are Money Mart, Rentcash. Some firms divide a fee that is a fixed percentage between an interest portion and a fixed percent of value received, that is the contract you get -- Cash Money, as an example, says, You're actually paying 18. -- well, I can't remember -- 18.2 percent fee for us doing this favour for you, and 1.8 percent, which amounts to a 5 -- 59 percent APR.

An interesting distinction that has been in the market as long as I've been engaged in this research is that Money Mart charges -- Money Mart apparently is the only company other than -- place other than me in Canada that understands what an EAR is.

They charge an effective annual rate. That is they charge a rate that compounds to 59 percent annually. And I know that they're doing this right. I've checked it on many occasions. It works out to five (5) decimal places. They really are accurate, and so -- which means it's a -- they quote it as if they're doing weekly. It's 46.44 percent APR. Again the amounts are trivial relative to the other parts of the fee.

Okay, however, this has become sort of -- we have to know this is here, but it's become sort of irrelevant because once you set the rates the criminal rate of interest no loner applies. We don't need to call it interest. It is a fee and a cheque cashing fee the customer can't avoid.

Now without naming anybody, you have heard this referred to without names attached. But I'm attaching the name. It is Money Mart that does this, and it has always done this.

I have now discovered from a discussion with Ms. Friesen that I may also be misinterpreting the Money Mart contract in a very subtle way, which I think, given the expertise that I possess, really does underscore the difficulties of figuring out the fees here.

But in any case Money Mart -- the way Money Mart does it is that the -- and Ms. Friesen will correct me if I've got this wrong, because this -- they have given her permission to discuss what they do. So she has ethical permission to discuss them.

Money Mart charges its fee on the basis of the due date is the day before your payday. If you pay off before payday, you face nothing but the interest. If, however, we have to cash the cheque, Well we have this extra cheque cashing fee, which is 13.99 percent of the value of the cheque. And the question between Ms. Friesen and me is whether -- I believe it's principal plus interest they charge it on, because that's how I understand they write it. Or it may be the value of the whole cheque, which means there will be a complex mathematical calculation.

But in any case -- and I have been -- it has been suggested to me, Well, the customer can avoid it. I'm a personal finance expert. And people who are in this situation, regardless of where they are in life, if they had to borrow from a payday lender, they do not have the alternative of paying off before the payday. If they could have done that they wouldn't be there.

So as far as I'm concerned the regulation should incorporate this. Of course that point has been made forcibly to you by a certain party already.

But optional insurance, we've got to deal with the optional insurance. I won't comment further on it. Of course it has to be disclosed that it is optional. If it isn't optional then it becomes part of the cost of the credit.

You do notice that optional insurance benefits the lender more than the -- the borrower, because it just builds up a pool that they use to protect themselves. It is not actuarially sound; the rates are much too high. However, it's not -- it's another rabbit. It's not a horse.

A brokerage fee to process a loan for a lender who's independent of the store, Rentcash, Rentcash is the one in Canada that I know who does this. And I should think you'd have to be fairly large for this to ever work. And of course you've received various testimony from Rentcash and Assistive and so on.

Advance America in the US has abandoned this model. And it has done it very recently, one of the things that makes it complicated for me to deal with their numbers. It's not that they were doing it exclusively in any case.

They had -- the bulk of their operations were, but they've gotten out of it completely. So their most recent quarterly 10-Q report, which is on file with you, shows no service fees. Okay, it's all their own loans from their own stores.

There are other American companies doing this. Sometimes it's because of the American jurisdiction and its laws. There are a lot of American jurisdictions, and I can't advise you on every one of them.

A debit card purchase fee, the loan amount is loaded onto the card. For example, Rentcash. Now another party has pointed out this amount and that this should be included. And -- and I agree, and that is what I had in mind in my recommendations, where I specified an amount.

In other words, I don't regard this -- remember I keep saying this is a business case. I don't regard this as an unreasonable or, you know, exploitive behaviour on the part of Rentcash at all -- perfectly sensible.

And I suspect others are going to start adopting that. It's the easiest for a big company, because it costs money to put together such a system. But we do have to account for it and regulate it, because it, you know, could an amount of money. It could be that they're going to charge it each time.

Then -- and this one, of course, is very difficult. And I can't give you an expert answer in every aspect of it. But it is my advice that you need to consider the third -- third-party ATM usage fee that a customer can't avoid.

And now, first of all, there are sometimes agreements -- and I simply don't know what's happening in these cases. I believe Rentcash has said this is not the case. But there are agreements sometimes where third-party ATM shares the fee it charges with whoever initiated. But I'm not going there, because I simply don't know enough, and I suspect it depends on the situation.

However, there is a third-party ATM usage fee. And if I understand correctly how this kind of a debit card has to work, it is not a generalized debit card like my Toronto Dominion Bank card. It is a card with a specific amount loaded on it, something like the French Smart Cards. And consequently it has to be withdrawn from an ATM.

Now if I'm wrong, you can correct me, but I believe that most merchants don't accept that. So you have to go the third-party ATM and get your money out.

And if that's the case you're paying a fee.

And since we have customers who we know need money fast, suggesting to them that an alternative is to receive a cheque in the mail -- and I don't know about you, but I have troubles even with electronic funds transfer, let alone waiting for it through the mail. I had World Bank hang $400,000 in the air over me for two (2) weeks that way.

So -- and these people, I mean, you know, you've got the money out for -- you can't get the money for three (3) days and you're paying interest on it and it's only a fourteen (14) day loan. Give me a break. Okay, this is not reasonable. So I argue that the third-party ATM usage fee is something the customer can't avoid, not realistically.

This is not the business where the customer can avoid that. So therefore it has to be allowed for in the regulation. The way to do it, as I proposed in more detail somewhere in my writings there, is that you do it through the -- deduct it from the value received.

However, I can't tell you what to deduct from the value received, because the fees vary. I am happy to leave that conundrum to the Board, because I don't know what to advise. Something, but I don't know what the number should be.

Okay, more fees, default fees. We've already heard some evidence, wide variation, not all firms charge them. It's always a fixed dollar amount. It's always the claim that it's for NSFs, but NSFs don't cost that much.

However, as I have said very clearly, it is a cost to the lender. Now, those costs are, of course, built into the lender's whole cost structure when I do my analysis, right?

I mean, staff are paid. They aren't paid so many dollars for making phone calls about defaults and so many dollars for issuing loans. They're paid salaries and so on. However, it is a cost. It's something to be discouraged.

If you want to be really moralistic about what we should encourage people in society to do, you'd also want to discourage people from not paying off their debts. They also charge, sometimes, a separate fee for an NSF cheque and sometimes not.

In other words, default fee plus, We -- we had cheque bounce. It's not a large source of revenue. In my models, the -- you know, the -- my -- the Intervenors can inform you better than I can, but a -- quite a number of these things must ultimately end up uncollected. I mean, that's where the bad debts come from.

And so consequently, I don't think that -- that these fees are a large source of their revenue. So this is another rabbit. It's a rabbit that we should deal with, but it's not a big issue. I can't see it being a large source of fees.

Rollovers, we have lots of agreement on rollovers, but I wish to push this point home. So let us imagine that we have an honest but poor cow herder, John Osborne here, working on a ranch outside Souris, owned by Byron Williams, who's a pretty tough task master at the best of times.

And John is smitten by the charms of Anita Friesen, the -- the milkmaid. And so he -- he goes to Jovial Jerry Buckland for a payday loan, because he wants to buy her a really nice necklace. So he borrows three hundred dollars ($300).

Well, this doesn't sit well with farmer Williams. We won't discuss his motives in this, but he fires John. So here's John, stuck. Anita's got the lovely necklace. John's been thrown off the farm. He owes three hundred dollars ($300) to Jovial Jerry.

And despite Jovial Jerry's protestations of social responsibility, he does rollovers. So borrow three hundred (300) at 20 percent. You notice I didn't make him a high cos -- this highest cost lender. Straight 20 percent fee, nothing fancy about it. 20 percent for two (2) weeks. It'll end up to 25 percent of biweekly net pay.

End of two (2) weeks, John owes three hundred and sixty (360), but he's lost his job and the cheque bounces. He's the farmboy. He doesn't realize the cheques bounced.

So Jovial Jerry charges a thirty dollar ($30) default -- you'll notice this is not the highest default he could have charged -- thirty dollars ($30) for the NSF.

Cons innocent John here into believing that -- that he actually had to pay thirty bucks ($30) -- it's not that high -- and rolls the loan over for his standard 20 percent fee. This is a rollover. This is an example. I'm not picking on one particular company other than Jovial Jerry here, but this is a standard one.

End of four (4) weeks, he owes five hundred and four dollars ($504). Six (6) weeks, he owes six hundred and five (605).

Eight (8) weeks, he has job at the same pay, okay? So, you know, a kindly -- another Jovial Gerry Gaudreau hires him as a -- as a cowherd. And --

and he's back at work. And he actually does know how to look after cattle, by the way, if you're -- if you're -- if you need somebody.

Now, he owes seven hundred and twenty-six (726), but of course Gerry isn't quite so generous as to pay him in advance. So it isn't until ten (10) weeks he gets his first paycheque. Same rate, so it's twelve hundred bucks ($1,200). And he is now required to pay the lender eight hundred and seventy-one dollars ($871) of that twelve hundred (1,200).

So he has no money. Anita has this beautiful necklace, but he has no money to take her out. He doesn't even have money for the bus fare. He's in a different location. He's not in Surras anymore. He's now working in Gimli. And the romance founders.

You know, everybody is unhappy except for Jovial Jerry here, who gets his pound of flesh. I think I've made the point about rollovers. Okay?

Now, we have agreement from CPLA. We have agreement from Rentcash. Money Mart doesn't do rollovers. Not all, but most American states ban them. Okay.

We do not have that choice, as I understand the law. Manitoba has chosen to pass a law that says "replacement" rather that -- you know, that replacement loans have to be regulated, but not that they're barred.

So I've tried to define it as at a reasonable rate, and now you remember what I said before? Ten dollars ($10) plus 1 percent. And I guess I should have done this example over again and said suppose, instead, John was caught with -- with my rules.

Well, I think you can imagine that the amounts would -- would be nowhere near the same. Okay? He would not be just ruined on his first paycheque, unable to have enough to even eat. Okay?

So there is two (2) issues. Rollovers, I think very clearly, are one (1) of the horses. Okay. So my advice to the Board is that this one requires very careful attention and that the law requires it to be in the form of a replacement fee.

There are quite a few dollars for the lenders. The biggest horse is still the fundamental fee on the first loan, because remember, some of the rollovers will fail and all the rest of it.

So that's the biggest part of their money, is coming from the first payday loan. But the rollover produces a fair bit of money, and more importantly, it places some consumers in a terrible position.

So if we are balancing, as I said earlier, the interests of consumers and lenders, we do not want the revenue for the payday lender coming from rollovers.

We want that revenue coming from the main loan, because if you don't have the rollovers, you have to have a higher fee. I mean, you have heard that story from Rentcash. It's absolutely true.

And so that's how my fee recommendations are -- are working. This is not really all that controversial, but I wanted to make it clear how important it is and how careful, in view of what Ms. Friesen and Mr. Osborne have told us, how careful we have to be about how it gets defined in order that -- I mean, you know, we've -- we've heard that these companies that are offering -- offering Ms. Friesen a rollover -- sorry. It was Ms. Friesen only who talked about rollovers.

She's being offered rollovers. But apparently by companies that don't owe -- don't do rollovers, although none -- the one (1) company said they're not allowed to by law. The only thing that's stopping them is their CPLA code of ethics.

But -- so this is a horse, and I'm leaving it, you know -- I mean I'm advising you that this is the effect that it has.

Okay. So how do we determine a just and reasonable rate? All right. So now I'm -- I'm heading into the -- the actual, really gory numerical work that I did and -- and explaining it.

And, so first I'll talk about how I did it. Just an overview. I mean this is very messy stuff, but let's see it basically.

So I model a cost and revenue structure of stores and companies. Basically I do it per store. It's the easiest way to do it. That way I capture both the company and the individual proprietor, including the cost of capital as an expense.

Now this is not the way that it appears in financial statements, for example. Cost of capital is not charged that way. And in regulatory hearings, you can do it either by charging it as an expense or by saying, Here's your capital. Here's the permitted rate of return. We allow you to earn that much. It -- it has exactly the same effect.

But it is important to remember, and some of the -- quite a number of the interrogatories to me -- although I thought I'd explained this clearly, but clearly, you know, I didn't do it well enough -- so that all of my analytical tools, which I have given -- given to you, and -- and will give the, you know, the most recent ones to you, use that as an expense, just as Ernst & Young did when it was determining its costs.

It put a dollar figure on cost of capital. You know, a rate times a -- a rate base. So that I'm doing that, and therefore the ultimate output of any model is excess profit. Not net income, not cash flow, but an excess profit, so that you're aiming to be at zero.

And I have been criticized in some of the interrogatories for saying, Well, you can't allow us to have zero profit. But of course I'm not. The profit has been built in.

The profit is also supposed to be built in by everybody in the form of paying an appropriate wage, or a salary, to an owner/manager who works in the business. I have requested but received no information upon what values were used by Deloitte and Touche and Ernst & Young, and I've received -- you know, there -- there is no evidence.

I mean the only evidence I can cite for, I guess, is the compensation to the two (2) chief -- two (2) senior executives of Rentcash. And so consequently -- anyway that's how my model will work. So that's very important to understand.

We're aiming -- of course, we don't get to a zero figure. Actually I did in one of the -- one of the runs that I did yesterday I actually came up with a zero figure, but just never happens. But you get around zero and that's where you're aiming for.

Okay. So that is me applying my definition of a fair -- of a just and reasonable rate to the actual spreadsheet.

Find reasonable empirical data to use in the model. This, of course is highly contentions and we will be debating that, you know, for the rest of our natural lives and -- and long after. But I will discuss what I have and that is where many of the differences occur when there are differences between my own views and the views of -- of other evidence you've seen.

Estimate the volume of loans as the underlying driver of revenue and cost. Okay, Ernst & Young and Deloitte & Touche expressed it that way. They made a serious error in my opinion in -- in one (1) aspect of that, but that general principle is something that I follow as well. Something drives the business; an accountant might recognize this as something like activity based cost. Everything's tied to the volume of loans or practically everything.

Estimate a fair real equity rate of return and apply it to get an estimate of net capital investment required to get the cost of capital.

Now -- and I -- I actually really explain

-- explained that in the first -- in my first point. It has also been a point of debate as to what a fair equity rate of return is. I have in -- introduced interrogatories to try and get people to -- other people to acknowledge whether they're talking about real or nominal rates. It is my expert advice that doing the analysis this way on a single year is assuming a perpetuity and it, therefore, must be a real rate of return, without anybody who's using a rate that is effectively a -- you know, an inflation included rate, would then need to do, you know, a spread sheet of many years in which all of the revenues and costs are inflated as well.

A very -- very tedious undertaking will not get you a better answer. However, if you're going to do it the way I'm doing it with a single year you are assuming a perpetuity and it must be a real rate. Okay.

This is not one of those things where we are talking about a -- a difference of social views or something. We're talking about a matter of -- of finance principles applied properly. If you're going to use this kind of rate regulation, you have to use a real rate.

Now -- and I used equity. I used equity because the big business may be able to borrow money, but the small businesses they can't borrow money. They borrow money sure and they have to put up, you know, they -- they have put up the wife, the kids and the house for collateral. Okay. And the bank will take -- take the house and -- and sell the kids into slavery, if -- if it has to, to get it's money back.

So who's taking the risk? It's the owner. So you may borrow, but it's -- your risk is equity. So I just use a straight equity rate of return.

However, I've said enough about this because as Dr. Gould and I have agreed this is not -- this is a rabbit. This is not big.

And then the final thing is you fiddle. You use trial and error. You just simply put up fees. Now, I've done enough work for long enough on this. I now have a fair idea which fees will work so it doesn't take very long, but you use trial and error to find fees that when entered into the model yield approximately zero excess profit and those are the fees that are just and reasonable rate. Okay. That is how I get it.

And I will shortly show you the spreadsheet and show you -- and we already filed it in -- in evidence, a series of results from this spreadsheet, just a summary, so that you can see what happens if you make different assumptions. And that's how you use a spreadsheet like this. You can do whatever assumptions you want.

The Board is -- you know, the Board will have the -- the spreadsheet itself -- you know, I mean the actual Excel file and you are free to use it and decide from all the evidence you've received what you actually think should be in there. Okay, that's -- that's how you can -- you can use that.

The only thing is and -- and I'm -- I'm not trying to be either funny or -- or rude or anything, but you're going to have to get it directly from me for computer reasons. Okay. And it's just a problem with computer systems through the public interest law centre. Any spreadsheet that you take through there will be corrupted. It's -- it has to do with the -- the Linux operating system.

I'm sorry, I'm just warning. You -- you in fact --

MR. BYRON WILLIAMS: Not -- not politically corrupted, Dr. Buckland (sic), but just technically, right?

DR. CHRIS ROBINSON: Yes -- yes, no they're not -- they're not corrupted, no.

No, the problems we've had with con -- okay, so, I mean I probably shouldn't be saying this but, you know, I'm going to save your staff some horrendous problems, because they'll just get junk if it goes through that route. So I will give you the spreadsheets directly off my data keys. Okay.

I mean if you don't want them then you don't have to have them, but you know, I'm -- I'm -- you see, I'm trying to make sure that you -- that you actually agree to make the cost determination in the end and pay my fee, so I want to persuade you.

So, Dr. Gould, now you should -- you should reveal connections and -- and biases and so on here, and I already have revealed part of it. Of course I've known Dr. Gould or we've know each other for many years, and we don't work together directly. You know, we're not co-authors, though we share the benefit of having worked with Myron Gordon.

However, we do have this common background. You know, we both grew up in incredibly cold, windy terrain. We both went to the University of Toronto for a doctorate. And Dr. Gould's work is, I have come to realize, I've come to appreciate what he's done, is actually quite close to mine. It's -- in principle it is the same as mine. I'm going to argue why I think you should accept what I do instead of what he does, but I can identify what the differences are and where they've -- where they've come from. Okay.

So with that let me talk about Dr. Gould. Now Dr. Gould actually does two (2) things. One (1) of them you cannot do, and this is in my area of expertise. He compares the accounting rate of return of payday lenders with that of banks. You can't do that. It doesn't work.

And the reason it doesn't work is because of the accounting difficulties inherent in using any accounting numbers. And in fact if you wanted to do this you would be comparing market rates of return. I'll give you the example of banks versus payday lenders -- and this is only one (1) part, as -- because you have seen and heard in the expert evidence, I work in this field, I expose accounting frauds as -- as part of my livelihood.

One (1) of the problems with a book rate of return is that the equity is stated in historic cost dollars. You may recall how ancient Canadian banks are; their equity has been built up over many years and so the dollars are not comparable. So if you take current income, this year's income, and divide it by equity that's been built up in layers over many years, with no inflation adjustment, you get high rates of return.

If you take a payday lender, they're much newer firms, therefore, their rate of return will automatically look higher, relative to the banks, simply because their capital has been built up very recently, their equity.

So return on equity and return on assets -- the same problem occurs -- will be -- the denominator is forcibly much higher relative to the same income. You have to use market rates to avoid this problem and of course most of the payday lenders are not traded. The only one that is traded is Rentcash.

Now you also need long histories. I've discussed all these issues in -- in more detail in one of the Interrogatories. But I simply can't accept using the accounting rate of account return. If you do wish me to do that then I will also introduce Advance America, which has got an absolutely killer rate of return, but I would reject if for the reasons I've just stated, as being not valid. But it's doing really well. Okay.

So, however, really what Dr. Gould is doing, you know, what the main part of what is and where he comes up with recommendations, is he relies on the cost figures from the Ernst & Young and Deloitte & Touche study and thus the just and reasonable rate is equal to some average of the cost figures per hundred that they provide. Okay. I mean, you got to cover the costs, and the cost of capital is in there. Okay.

So that conceptually this is same thing as

I am doing. Okay. This is the same thing. The differences occur with respect to the data and the question of balance, okay. So let's be very clear where these differences are occurring.

And it also should be said -- something else should be said -- Dr. Gould pointed out that I seem to be wrong with certain numbers because he said, Here are the most recent numbers and it looks like it's not going as fast as Dr. Rob -- the sales aren't rising as fast as Dr. Robinson said. And, yes, he's quite right and I in fact have changed my opinions about that.

Within maybe two (2) days after Dr. Gould filed his study the Money Mart annual report -- annual results came out and it's 10K, and so I was able to update again and therefore leap-frog over Dr. Gould's numbers. And that is one (1) of the problems always that happens here, so that we are -- keep changing the numbers.

So he and I are both trying to provide you with the most recent data that you can think of. Okay. So that also provides some -- you know, creates some differences. And then of course neither of us anticipated Advance America coming which just makes it more complicated. And I have -- I have incorporated Advance America into my work now.

But -- okay, so his conclusion was 20 to 23 percent of principal should be the cap. Okay. And he gave a range, which was a perfectly reasonable way, and that's what I did in PUB-18 -- 1-PUB-18 Revised. I'm now -- have, of course, come to a single number, and I'll explain why that is, but.

So what are my reservations with Dr. Gould? Okay. The accounting rate of return I've all ready told you about. Okay.

There is a less detailed examination of the underlying data. I have all ready written criticisms of Deloitte & Touche. You've also received criticisms of Deloitte & Touch from other members of the Coalition Group of -- of expert witnesses with respect to sample, selection, and so on.

The Deloitte & Touche study, although I occasionally used some numbers for it when it seems to where I've got nothing else or where it seems to me that they're less likely to be biassed, it's cost figures are not credible for doing this. You've seen my market rates of return. They excluded 90 percent of the market. This is not valid. Okay. 90 percent of the volume is excluded. You can't use this for a regulatory decision, in my opinion.

I don't mean that they only sa -- got 10 percent sample. I mean, they excluded from the start 90 percent of the loan market.

However, Ernst & Young did not do that. It did not have as large a sample. It had some interesting artifacts from the sample, one (1) of which only occurred to me, finally. I was -- and -- and this will interest Dr. Gould. I -- I had not thought of the weighted versus -- because I was rejecting their numbers, I'd not thought of the issue of weighted -- of which weighting you should use.

The weighting, if they were to do it today, would change considerably and the reason is because they were assume -- they were sampling stores that were under the control of, I believe. I don't actually know this, but the count are -- at that time, Money Mart had so many stores already under the Money Mart banner, that they should have had far greater percentage of the study than they did.

And the reason they didn't, I realized, almost certainly is because at that time, Money Mart had far more franchises. It's been buying all its franchises back, and so consequently it has a lot more stores now.

But at that time, it was, you know, about 50/50 franchise and non-franchise. And so Money Mart actually wasn't as big a proportion of the CP -- of the

CP -- of the original Ernst & Young study as we would expect.

Nonetheless, they do tend to bias that. I prefer always if I can to use actual identifiable numbers. But the biggest problem -- well there are a number of problems, but the big one, the -- the horse in the stew again, is that they froze in time. They took an observation of cost and divided it by the volume at that time. And it was an industry that was expanding rapidly.

Consequently it had -- and you may realize this from retail an -- an analysis of retail operations. You always talk about same store sales; compare same store sales year over year. Because if you open a new store, of course it doesn't do -- get all its volume in the first year. There has been evidence filed from statements by -- Gordon Republic, statements by Gordon Reykdal, the Chief Executive Officer of Rentcash, that Rentcash stores break even at eight (8) months.

But break even is not the same as making a fair rate of return yet, either. And it in fact his -- as I interpret his speeches, it takes -- can take two (2) or three (3) years before they get to the mature volume. I have made allowances for this in my analysis to the extent that I can, but of course it's very much an approximation.

However, it means that the costs in the Ernst & Young study are biassed upwards by a very substantial amount -- likewise in Deloitte & Touche -- and I have no way of analysing them, because I do not have the maturity pattern of the stores; how many stores were open within a year, how many within two (2) years, et cetera.

Deloitte and Touche gave a bit of evidence on that. They'd obviously heard about my criticisms, but they didn't actually remedy them, which they could have done, but for whatever reason did not do so. I mean, my criticisms were public. They were published in the Acorn Report.

So those numbers are biassed very high and that is one (1) of the reason why you're seeing such high numbers and they work out. I don't do it quite the same way in my regulatory stuff, but they come out higher than what I use. Higher than what I observe for Money Mart and now for Advance America. And that is why I do not use those.

I use some aspects of the EY study, and you know, it's -- I mean there a lot -- a lot of very good things. They worked very hard on it.

There is some illusion created that I was actually a consultant to them. The reality is that they would give me what they were proposing to do, and say, But our client wants it to hurry, so we need to hear from you by tomorrow or you can't -- we won't change anything, so that I did have some effect.

But unfortunately, I didn't think of this problem of that they should have made some allowance -- figured out a weighting to allow for the -- how long the store had been open until long after.

I mean, had I thought of it, of course, I would have advised them and I think they might well have considered that and tried to do something about it. But I just didn't think of it and that's because they didn't give me enough time and the client didn't. And doesn't this sound very familiar to how we work in business, anyway.

So now there's also an ethical choice, which it's clear, and I'm making it clear that it is an ethical choice. I'm tending to make the ethical choice of what will benefit most borrowers. And to some extent, it's a choice between that and what some lenders and borrowers get.

So if you go -- if you leave -- take rates that seem to allow a greater number of stores to remain open, this means that there's more service available to -- in the market, you know, in various locations.

But this only benefits some lenders -- or sorry -- some lenders, right. I mean, some of the lenders are -- you know, are not affected by this -- and only benefits some borrowers. And as I've already shown, the volume is very concentrated. Furthermore, the mapping studies show that the volume is all in Winnipeg really. Okay.

I mean, let's not kid ourselves. This is a study where we are looking of provision of a wide range of services to small communities. We're looking at a wide range -- a wide range of people making almost all of their money in Winnipeg. Okay. And that's the reality. That's not a morale statement, that's just the reality.

You know, I mean, we don't see -- we don't see the -- the Fyxx downstairs, the coffee service downstairs does not have outlets in every small community in -- in Winnipeg -- in Manitoba, it wouldn't make any money.

So there's an ethical choice, okay. You chose lower fees, you chose lower fee cap. Some more lenders will -- will find it very difficult to operate, but borrow -- a whole lot of borrowers will benefit. Okay.

Okay. Oh, yes, and I've already talked about that point.

Okay, Dr. Clinton, the third approach given to you.

So really all I'm -- really what I'm saying is that Dr. Gould and I are very similar in how we are approaching this problem. I didn't appreciate that at first with his report, but I do now.

And if I thought about -- the doctoral courses that he took, you know, two (2) or three (3) years ahead of me with the same professors, I should have realized that we would do the same thing.

Okay, Clinton. Now, Dr. Clinton's method is -- Dr. Clinton's method is difficult to explain. It is, however, something that -- that -- you know, that is used and -- and widely used and -- and widely understood among economists. And -- and as part of my education, I was forced to learn a whole lot of economics and I haven't forgotten all of it yet.

So assume that demand and supply curves are in equilibrium, okay. So whenever there's -- we've got a competitive market, and so the observed prices are equilibrium ones and on a market that is soon to be a competitive. Now, you've al -- well, we'll -- we'll get back to the criticism, okay -- this is what you've got. You've got to make a lot of assumptions to make this work. Okay. This is something you make undergraduate students do because -- so they learn the technique.

But assume demand is pricey and elastic. And this is then assuming that producers are selling at a price equal to marginal cost. That's what -- otherwise this doesn't work, okay, you can't do the analysis at all because you're not measuring correctly the surpluses.

So what you're doing is you're saying -- let me explain this slightly differently. I -- I think -- I think you've had enough of this stuff, right.

Okay. Let me explain this differently. You've got a bunch of people in a market who are demanding payday loans. He's assuming the pri -- demand is pricey and elastic but it isn't. More people will demand them if they're lower. I mean, heck, you know, if payday loans were at 2 percent, I supposed I'd take them because I can make more than that off my money. All right. So that's a ridiculous situation.

But if payday loans were at, you know, 25 percent interest, they'd be competing with the bank credit cards. So it -- you know, the whole population could be using them. If, however, they are offered at 30 percent of principal and they break your kneecaps if you don't pay up in two (2) weeks, not so many people will want them.

So some people are willing to pay 30

percent, but the market ends up at 20. Those people who are willing to pay 30 percent only have to pay 20, they gain. They actually win because the price is lower than they were willing to pay. So some people get what we call a consumer surplus, okay.

So that -- and then -- you know, I mean, my -- my cup of coffee's an obvious example. I could surely get a cheaper cup of coffee at Tim Horton's than I could at The Fyxx.

Now in this case I -- I argue that there's some quality-- well, actually I -- from what I hear I don't drink coffee, this is something else -- but I understand that there isn't a quality of difference, that Tim Horton's is really good.

But in any case, if I'm willing to pay the Fyxx prices -- if I go to Tim Horton's I get a real benefit. I get a genuine benefit economically. I pay less for my coffee and I would of paid more.

At the same time there are payday lenders who are really efficient and who could charge 10 percent and they observe a market price of 20 percent and they make pots of money, far more than we think they should be making, and that is a producers surplus.

What Dr. Clinton is arguing with a whole lot of other assumptions, so we can actually put numbers to it -- so that concept is -- is perfectly legitimate. Okay, that's a perfectly reasonable way to look at it. What we want to do is maximize the total surplus that everybody gets.

That -- to actually measure that you have make all these assumptions and that's why I sort of, you know, I looked at his numbers and I said, Well yes, you know, you can get any numbers you want if you do make enough assumptions. But he came with a -- seemingly a counterintuitive conclusion that a net -- the fee cap of 35 percent provides greater total surplus and lower fee caps.

So he's saying that the benefits of allowing every consumer to pay really high rates are greater and -- and plus allowing the producers now to produce, you know, and make huge profits -- are in fact unequivocally better than allowing consumers to pay less, but then the producers lose something. Okay.

So that's what he's saying. And he's putting numbers on it by making some very strong assumptions, one of which is that his price observations rep -- represent equilibrium. Now we've already had the discussions from Dr. Simpson that this isn't an equilibrium; this isn't the competitive equilibrium at all and it -- it clearly isn't.

But -- so there is, however -- so that's the economist errors. We see a economist looks at it and says, Well this one -- it doesn't work in this situation. But I have an argument that comes from finance theory and more important a data argument, so that -- okay -- so this is a long established economics concept -- construct. It is neoclassical economics.

And here is where I don't like it in principle. And this is a finance -- actually a finance observation, not that finance has many principles, but in this situation in -- sorry in -- this welfare analysis is always measuring dollar for dollar. The producer dollar is the same as a consumer dollar, you're just trying to maximize the total that's available. Okay. But we know that this decision here, we are in fact having to make a tradeoff between the two (2).

The implied -- well actually, explicit tradeoff in a neoclassical framework is a dollar is a dollar no matter who's getting it or losing it, and since the -- the value of the surplus is -- is positive under 35 percent, given all the assumptions, and this has got to be good. And that ignores the utility or marginal utility of a dollar to the different players.

One (1) of the entries in his thing is that if the producers make less money they pay less income tax. Now I'm all for companies paying more income tax, especially -- you know, I love it when payday lenders pay lots of income tax because who do you think pays my salary as a university professor.

However, do you really think that Izzy Asper gets the same benefit from a hundred dollars ($100) less in taxes that is given up by a working poor person in downtown Winnipeg gets from paying a hundred dollars ($100) more on payday loans. I submit -- and that's utility concept and it's long established in the very original political economists and welfare theorists of economics. And that is what this -- this is something that finance does consider is -- is utility functions, utility of money, and that is something that Dr. Clinton is not considering.

So I argue that even if he can make -- do the numbers this is an implied hidden ethical decision and I think it is wrong. I think that it is in the Board's purview to make the ethical decision that in fact a dollar to the producers is not the same as a doll -- same welfare value as a dollar to the consumers, within some bounds. I mean, if we have no industry at all then no consumers can borrow and they have other problems.

You will recall Dr. Buckland's example from Elliehausen of how if you borrow a loan and don't roll it or anything you may get a benefit from a payday loan, outrageous though it might seem, because you get to go to work everyday. Okay. Or because you're able to -- you don't have to take TDC.

Now, of course, my argument is a -- as an extreme environmentalist, is you shouldn't own a car in the first place, but that one wasn't allowed in that analysis.

So this, however, is another problem. He assumes that payday lenders are pricing fairly for their costs, but that is something that must be demonstrated. In other words, you've got to demonstrate a competitive market. That's what I'm trying to demonstrate. But he assumes it.

Well, he's assuming what it is he's trying to regulate and you can't do that.

However -- okay. He's using an unweighted average. You remember he had this table where he says, Well, I sort of find that the average payday loan rate is here. Actually, he made a whole lot of mistakes with this one and -- and I used the word mistakes advisedly. I'm not taking cheap shots here. He used an unweighted average of all the observed rates, but as I've shown on the market concentration table, two (2) firms account for 84 percent of the market. And even if my numbers are not perfect, maybe they'll change tomorrow, it's a huge concentration factor.

And one (1) of those firms is Money Mart with 50 percent. And Money Mart charges the lowest fees around. So consequently, it's assuming that Money Mart is -- his welfare analysis is actually assuming that Money Mart is charging the market average, but it isn't.

So what's going to happen if we raise the rates to 35 percent. Well, there's nothing to constrain Money Market -- Money Market -- sorry, Money Mart from raising its rates, nothing whatsoever. It can still do that and still be below others.

And in addition the om -- observed prices he's using. You will notice that I am -- that I work always with the pricing formulas of the payday lenders. I do not say, Well, it costs this much for hundred (100), this much for three hundred (300) let's take some number of that. That's quite inaccurate unless everybody charges a flat percentage of principal and nothing else. You can't average it otherwise. You have to, in fact, work out what it costs for each loan and then aggregate them. And that is what I do in my analysis and he does not. And that also a very serious error.

So when he says it's actually 35 percent is the average, he's including in that the first time loan from RentCash. I mean, if you compare first -- first time loan from RentCash in the APR -- okay, and buried somewhere in Ms. Friesen's work is Rentcash, and I can tell without revealing which one it is that, of course, it's going to look high because she was a first time customer. So she had to pay eight dollars ($8) for the debit card. But I've already said that's a perfectly reasonable sort of way to structure your fees. It'll be a lot lower on the second time. I'll show you that on a -- on a spreadsheet.

So he didn't actually capture what the market really is. He's saying, Oh, they're charging up, but he's taking the highest possible rates. And he's doing it on relatively lower loans and the rates decline on lower -- on higher loans for some forms of fee structure. Okay.

So -- although, Dr. Clinton's theoretical basis is well accepted in economics, I'm rejecting it both on welfare grounds and then rejecting his application of it in that the data is irretrievably wrong, and therefore, that it -- that I do not believe the Board can -- we can rely upon -- upon that evidence.

I know these are very strong terms to use, but that is -- is what I have to say about that. Okay.

MR. BYRON WILLIAMS: Mr. -- Mr. Chairman, the times for -- I'd like to check in terms of the Board's -- there -- there is a bit more to go with Dr. Robinson and certainly we're at the Board's pleasure, but I want to make sure my witness has a bit of a break if we're going to go on further.

And I leave that to -- to your -- to the panel's discretion.

DR. CHRIS ROBINSON: Mr. Williams, the witness -- okay.

THE CHAIRPERSON: I notice that Dr. Robinson is saying here his analysis is coming in excruciating detail.

DR. CHRIS ROBINSON: Yes.

THE CHAIRPERSON: So --

DR. CHRIS ROBINSON: Well, depends how much detail you can cope with, how much you want, but it is -- there is a fair bit to go, and I cannot judge -- I mean, you have to determine by asking me what -- until you understand what I'm doing or until I can explain it properly. It may go very quickly, but it's not going to be that quick.

THE CHAIRPERSON: Well, we will do it properly then. We will adjourn now, and we will take up again with your detail on Monday.

Yes, Mr. Williams...?

MR. BYRON WILLIAMS: Mr. Chairman, a couple of things. Certainly, I've had a -- a request from a couple of firms into -- into -- we will make sure that parties who wish the tables of Dr. -- Dr. Robinson will provide or the -- the Board counsel with a -- the Excel tables, we'll provide them with those, electronically avoiding the Public Interest Law Centre system.

Also, I -- I do note that Dr. Buckland -- a couple parties have requested, he did calculations of net present value this morning on a spreadsheet and a couple parties have requested that; I believe Mr. Slee and perhaps Mr. Hacault, on behalf of their -- their clients or on behalf of 310. So if any other parties wish that or if the Board would like Dr. Buckland to provide that electronically, I promise it won't touch my hands and we'd be happy to do that.

THE CHAIRPERSON: Mr. Hacault...?

MR. ANTOINE HACAULT: Mr. Chairman, my -- and members of the Board, my biggest concern now is given that the time that it's taken for direct evidence, and there is a lot of information, I -- I have serious concerns about whether or not Monday and Tuesday will allow all parties to put the information and ask the questions that need to be asked, so that we can actually argue this on January 11 and 12 as planned.

I -- I just raise that now, because just the explanation itself will have lasted about a day and a half and may -- maybe more. We'll probably have another half a day for Dr. Robinson to complete his explanation of his table, et cetera. And it's -- be pretty important from my client's perspective that we try to finish this if we can.

THE CHAIRPERSON: Okay. We will leave Ms. Southall to have a look at the agenda, but if necessary the Board will also sit on Wednesday, so we will add an extra day. We want to make sure that everyone has a fair opportunity.

We have a problem. Mr. Foran...?

MR. ALLAN FORAN: Yes. I may have indicated before but I actually have a completely contemporaneous hearing that's going on and I was supposed to conduct a direct and cross today. With leave of the other tribunal they've actually moved multiple parties to next Wednesday to allow me to participate in that, on the basis that this was scheduled Monday and Tuesday.

THE CHAIRPERSON: We will have a look at the schedule. We may have to go into the evening on Monday or Tuesday.

(BRIEF PAUSE)

THE CHAIRPERSON: My panel mate has just reminded me, we have another hearing on Tuesday, so if we are going to go into the evening, it is going to have to be Monday.

(BRIEF PAUSE)

MR. ALLAN FORAN: Let me speak to Ms. Southall. My other hearing has actually been an eight (8) day hearing of which I have shown up on one (1) day, and it is scheduled Wednesday and Thursday, but I don't know. I think I'm doing well, Mr. Williams, thank you. Probably as well there as I am here.

THE CHAIRPERSON: Well, I am a very poor organizer. I guess I fall into the same bracket as Mr. Williams with his paperwork, I do not know. he is probably doing better with his paperwork than I am doing with organizing.

So I will leave it to Ms. Southall to consult with the various counsels and we will arrive at something that is reasonable for everybody.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. We stand adjourned. We will see you back on Monday, that much is for sure.

(WITNESS RETIRES)

--- Upon adjourning at 4:02 p.m.

Certified correct,

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Wendy Warnock, Ms.