Different and Unequal: Payday Loans and Microcredit in Canada

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Abstract

The current practice of offering micro-financial services through quasi-financial organizations places at a significant disadvantage those unable to otherwise access mainstream credit. In a survey of the history, nature and current scope of microcredit and payday lending in Canada, this paper argues that the expectation of full cost recovery in the provision of these services is economically detrimental to those financially excluded. Yet, these fringe banking services have the potential to be a pathway to financial inclusion, and with it the economic improvement of the individuals who use the services, if we acknowledge and adjust—through regulation—for the social costs and benefits that exist over and above the private sector expenses and revenues.

JEL Listing: I3, G21, N82

Keywords: Payday lending, Microcredit, Fringe lending

1. Introduction

The rise since the mid 1990s in alternative financial services provided by unregulated quasi-financial organizations sitting on the fringe of the traditional Canadian banking sector has been remarkable. Virtually nonexistent before 1994, payday loan companies now total more than 1200. At about the same time, a handful of institutions in North America began experimenting with microcredit loan projects. Calmeadow—the largest microlending institution in Canada before it closed its operation in 2000—disbursed more than $4.6M in loans to Canadian microentrepreneurs, (Frankiewicz, 2001). When the United Nations declared 2005 the Year of the Microcredit, community-based microcredit projects were attracting an increasing amount of attention as a means by which even members of at-risk urban communities in developed countries might lift themselves out of poverty. In Canada, a recent study identified more than 60 such programs in operation (Social Investment Organization and Riverdale Community Development Corporation, 2003).

Sitting outside the mainstream financial sector, these fringe banking activities escape financial regulation of all kind. As micro forms of a critical capitalist service, they are held up only to the market metrics of current period
profitability and efficiency. The pervasive assumption across advocates and critics alike is that we should expect or desire these services to become profitable and thus independently self-financing. The issue arises because of the relatively high costs of providing these loans combined with the lack of collateral by which to reduce credit risk. Given the fixed costs of transacting and servicing microloan contracts, an expectation of full cost recovery means considerably higher service fees and interest rates must be charged on smaller loans.

In the absence of financial regulation controlling the abuses of power, the potential for payday lending to be predatory is high. In the absence of any accepted need to subsidize microfinance institutions the potential for these microcredit programs to fail is all but guaranteed. Such outcomes cause or maintain financial exclusion of the people who are otherwise benefiting from the use of these services. The current practice of offering micro-financial services through quasi-financial organizations thus places the poor in particular at a significant disadvantage.

This paper surveys the history, nature and current scope of microcredit and payday lending in Canada. It argues that the expectation of full cost recovery in this manner of providing financial services to the poor is effectively discriminatory. Yet, these fringe banking services have the potential to be a pathway to financial inclusion, and with it the economic empowerment of the individuals who use the services, if we acknowledge and adjust—through regulation—for the social costs and benefits that exist over and above the private sector expenses and revenues.

Three critical assumptions underlie this thesis. One, Payday Loans and Microcredit programs offer socially and economically desirable financial services to a previously excluded segment of the population. Two, for financial services to operate efficiently in both the productive and allocative senses of the term requires more regulation—broadly defined—than other services industries. And three, financial inclusion is necessary to full participation in the modern economy.

The coincident examination of these two forms of fringe lending is unique but particularly illuminating. There are informative differences yet many striking similarities. The differences exist most prominently in the perception of the two arrangements. Microcredit programs have a reputation of being a socially desirable, grass roots solution to a market failure. Pay day loans, by contrast, are viewed as predatory, preying on the impatient, appearing because of a profitable opportunity created by regulatory failure. Where microcredit loans are extended to support investment in microbusiness projects, payday loans are often used to enable consumption in excess of current income. Where microcredit is associated with facilitating the investment in social and economic capital; predatory lending is seen to be eroding them.

Yet, both arrangements provide loans to those otherwise excluded from traditional lending sources. Both arrangements offer loans in small denomination and are, for the reasons mentioned above, more expensive to deliver as a result. Both have substantial elements that are significantly less regulated than traditional lending
arrangements. And the customers of both are more likely those in the lower income quintiles.

Following a brief overview of the nature and scope of these two types of fringe lending activities in Canada, this paper challenges the widely held view that profitability is an acceptable objective in the provision of financial services to the poor. Recalling the logic of distributive justice that underpins arguments in favor of enhanced regulation of financial services, the paper concludes with an appeal for the necessity of providing these services at a cost that supports access to these services as a pathway to financial inclusion and enhanced financial capability.

2. Payday Lending in Canada
Payday loans are very short term loans against imminent income—a “small principal, unsecured loan made to the borrower upon the guarantee of a post-dated cheque or pre-authorized debit... In Canada, the average loan is approximately $300 with a term of 10 days to two weeks” (Ontario, 2007). Although the largest of the payday lending companies started in Canada in the early 1980s, it is only in the past decade or so that the industry has experienced rapid growth. The industry, which lends about $2 billion each year, serviced about two million Canadians in 2006. (CBC 2006)

Most argue that the recent growth in the industry in both Canada is due largely to the vacuum left by the closure of mainstream financial institutions in lower income neighborhoods.

In November 2004, ACORN released a report called “Protecting Canadians’ Interest: Reining in the Payday Lending Industry” that documented the closure of more than 700 bank branches across the country in just a two year period from 2001 to 2003. The report analyzed the locations of these closures and found that they were largely concentrated in lower income neighbourhoods. The report then also looked at the locations of payday loan stores and found that payday lenders had moved aggressively into the vacuum left by the banks. (ACORN, 2007)

This mirrors the industry development in the United States and indeed many of the companies operating in Canada are affiliates or subsidiaries of US companies. “[M]any mainstream banks stopped making small, unsecured consumer loans, as credit card-based cash advances became the small loan product of choice. With many credit-impaired consumers either ineligible for credit cards, or were their credit limit, payday lenders were there to pick up the slack” (Stegman, 2007: 171; see also Caskey, 1994).

At issue with payday loans is the substantial cost of the loan on an annualized basis. The effective annual rate of interest is significantly higher than the alternatives available to those able and willing to access mainstream credit services. The Financial Consumer Agency of Canada estimates the cost of a $300 loan taken for 14 days at $50, equivalent to 435 percent per year, far higher than other short-term borrowing such as cash advance on a credit card, (36 percent), overdraft
protection (21 percent), or a line of credit (10 percent), (as quoted in Pyper, 2007:6).
Karp Actuarial Services estimates an effective annual rate of interest on the payday
loans offered by one of the larger companies to be in excess of 1240 percent (as
quoted in Hamwi and Smith, 2007:17; see also Financial Consumer Agency of
Canada, 2007). A comparable loan from a pawn broker is approximately 240 percent
(National Pawnbrokers Association, 2008).

There are attractive features of the payday lending transaction, most notably
the ease with which the loan is made available. There is no traditional credit check,
loan decisions and disbursements are fast, and no collateral is required (Caskey,
2005: 20). Such features suggest that the decision to acquire a payday loan may be
the outcome of a conscious choice between the more cumbersome bank products and
the payday loan and that these types of services improve welfare. 5

In the face of explosive growth in payday lending in US demonstrating the
fact that people are paying very high interest rates for short term loans, Caskey
(2005) notes that we do not yet know if this is the outcome of an informed decision
or the result of a series of seemingly independent decisions and suggests the choice
dimension is an important area for future research.

It is possible, however, that these loans at such exorbitant rates serve to trap
borrowers in debt and are not, in fact, a “choice” in the full sense of the term.
Ostensibly a very short term loan, rollovers and chronic repeated borrowing means
that funds are effectively loaned for a much longer term. Ernst and Young (2004)
find the ratio of repeat to new Canadian customers in this industry to be
approximately 15:1. In the US, the average payday loan customer uses the service
more than seven times a year (Caskey, 2005). Such repeated use suggests that what
is technically a very short term loan is, in effect, a loan of much longer duration.
Indeed, the profitability of the industry is, according to one study of the North
Carolina PDL industry, “significantly enhanced by the successful conversion of more
and more occasional users into chronic borrowers” (Stegman and Faris, 2003: 8).
And such chronic borrowing, when there exists in the market alternatives at a
substantially lower cost, suggests the incidence is much less a choice as an
inescapable reality for those who are severely income constrained. The question
might best be put as why are individuals not accessing these alternatives?

All commentators—even those who favor some enhanced regulation of the
industry—accept as a necessary consideration of any regulatory efforts the need to
ensure full cost recovery to the lender. The level of fees that Schwartz and Robinson
recommend as an upper limit is dramatically lower than the current fees, but still
very high and significantly higher than the cost of a similar loan to higher income
Canadians (see Schwartz and Robinson, 2006).

Because these companies do not accept deposits, they are exempt from
either federal or provincial financial legislation governing deposit-taking institutions.
Currently, the industry is self-regulated. The Canadian Payday Loan Association
obliges members to follow certain standards and guidelines with respect to rollovers,
collateral, privacy protection, and advertising (Hamwi and Smith, 2007:16).
Evidence of predatory lending practices pair the high effective annual interest rates with the excess profits earned in the industry (see Robinson 2006, for example). Challenges to payday lending pricing practices have appealed to the Criminal Code citing the 60 percent usury limit. Yet, no one is arguing for a ceiling at or below this limit. Indeed, recent regulatory initiatives have targeted the high fees by exempting the fee structure from the 60 percent limit.

In May of 2007, the Federal government passed Bill C-26. The intent of this bill is to enable the provinces and territories to set provincial limits on the cost of borrowing and otherwise regulate more locally. And most of the provincial legislation recently passed or currently considered is designed to (1) ensure competitive pricing (at rates in excess of 60 percent); (2) ensure the transparency of the fees and total costs of the loans; and (3) promote consumer financial education. Such a regulatory approach stems from a neo-liberal ideology of borrower self-reliance that sits fundamentally at odds with the power imbalance entrenched by such appeals to “competitive pricing”.

The payday loan is a service used predominantly by low-income families with no alternative means of adjusting income and expenditures to consumption shocks. “Almost half of the families who used payday loans reported that they had no one to turn to for financial assistance in the face of financial difficulty, significantly more than other families” (Pyper, 2007: 10)

More generally, the Pyper’s analysis of the 2005 Survey of Financial Security reveals that payday loan borrowers were more likely to

- be younger families (3 times more likely)
- be low-income families (2 times as likely)
- have less than $500 in the bank (2.6 times more likely)
- be in the lowest fifth of net worth
- rent rather than own their home
- not have a credit card (2 times as likely for those not refused a credit card and 3 times more likely for those who had requested a credit card and been refused)
- fallen behind in bill payments (> 4 times more likely)
- have sold an asset to pay a debt or sold possessions to a pawnbroker

For all families for whom the time profile of income does not match the time profile of consumption, credit offers a consumption-smoothing service. For families in lower income brackets, with consumption a higher proportion of income, the service afforded by the small denomination short term loan is that much more valuable in the absence of any other means to adjust to consumption shocks. By differentially pricing this service, we are supporting and promoting a form of regressive price discrimination. Combined with the fact that families have higher marginal propensities to consume out of income at lower income levels, a dollar decrease in income to the very poor has as much as a five times greater impact than that same dollar to even the marginally poor (see Morduch, 1999). By charging what is
effectively a poverty premium that further constrains aggregate consumption, there are deleterious economic effects on both the families themselves and the macroeconomy.

3. Microcredit Programs

Microcredit is a term used to refer to loans of small denomination loans typically offered as joint liability contracts to support small business start up or expansion amongst a group of borrowers. The nominal beginning of what can now best be labeled a global movement is identified with the $27 loan Muhammad Yunus made in 1976 to a group of entrepreneurs in rural Bangladesh.

In Canada, microcredit programs and community investment funds offer loans to low-income Canadians who are otherwise unable to access funds from formal financial institutions. In 2003, more than 60 community funds were found to be operating across Canada (Social Investment Organization and Riverdale Community Development Corp., 2003) and have grown in popularity and incidence since then.

The segment of the population targeted by these programs is the individual who is unable to access institutionalized forms of credit for lack of a credit rating or a bad credit history and needs only a small (less than $10K) loan for starting or expanding a small business. The Consumer Federation of America finds over 50 percent of Americans living paycheck to paycheck and that 28 percent of Americans are “unbanked” (from the 1999 Census data, US GAO, 2002). In Canada, the number of Canadians with no bank account is a mere 3 percent. The number of people who have been refused access to credit is, however, substantially higher: refused a credit card, 41 percent; refused a checking account, 24 percent; or refused a line of credit, 18 percent, (Ipsos Reid, 2005: 8).

In the absence of collateral and, in many cases, an adequate credit history, the microcredit program offers a “lender of last resort” alternative to those seeking to lift their way out of poverty. Most loan contracts in these programs adopt a peer-lending model wherein a loan is made to a small group of peers rather than any one individual. This “joint-liability” contract mitigates against agency costs, reduces moral hazard, and reduces costs of verification for these otherwise high-risk borrowers by requiring self-policing by peers—effectively substituting social capital for economic capital (see Sengupta and Auchubon, 2008; Williams, 2004).

The peer-lending model has less than an acceptable performance in Canada, as is the case in most developed countries. The Calmeadow experiment failed and most other programs are currently lending to individuals rather than groups. Despite an extraordinary effort and considerable start up support ($1M), Calmeadow’s domestic experiment ended in 2000 when “fairly overwhelming evidence” proved the endeavor financially unsustainable, (Frankiewicz, 2001: 54). Such failure may be due to the presence of well-established and accessible social safety nets or the negative incentive effect from the return to a “bad” state. Notably, however, the failure of these programs to become self-financing is not due to failure of the
borrowers to repay their loans. Well managed programs have repayment rates upwards of 95 percent (Sadoulet, 2005:199; Maksoud, 2008).

Madajewicz (2005:251) argues that restricting loans to group loans may create a poverty trap; as loans grow with collateral wealth and returns to risky project grows with the size of a project, the negative return to a "bad state" (where one project in the group fails and all obligated to repay the loan out of profits to other successful projects) grows as well.

Joint liability contracts have a negative incentive effect, which causes a group of borrowers linked by joint liability to choose a riskier investments than individual borrowers would choose. Consequently, contrary to intuition, a lender may offer smaller loans to members of a group who are monitoring each other even when borrowers are credit constrained because they cannot offer much collateral. This negative incentive effect is likely to dominate the positive incentive effect of joint liability for the wealthier borrowers.

Morduch (1999: 1609-10) states:

[The "win-win" rhetoric promising poverty alleviation with profits has moved far ahead of the evidence, and even the most fundamental claims remain unsubstantiated.... Most important, all else the same it remains far more costly to lend small amounts of money to many people than to lend large amounts to a few.... Even in the best of circumstances, credit from microfinance programs helps fund self-employment activities that most often supplement income for borrowers rather than drive fundamental shifts in employment patterns. It rarely generates new jobs for others.... The best evidence to date suggests that making a real dent in poverty rates will require increasing overall levels of economic growth and employment generation. Microfinance may be able to help some households take advantage of those processes, but nothing so far suggests that it will ever drive them.

Yet, the overarching goal of these programs is an important one in view of the costs of financial exclusion and the benefits of financial inclusion. The benefits of financial inclusion were articulated succinctly in the Federal government's report on why financial capability matters (FCAC, SEDI & PRI, 2005: 1):

Social Inclusion: Increasing financial capability may promote social inclusion by increasing basic banking coverage, reducing personal financial barriers, promoting positive life-course decision making, and building assets.

Increased Economic Efficiency: Adequate financial understanding may result in better consumer choices, a larger and more dynamic market for financial sector services, and greater participation in capital markets.
Increased Government Program Effectiveness: A financially capable population may increase the efficacy of program delivery, increase the chances of program success, and provide programming options for reducing the use of certain government benefits.

Since their introduction into North American communities, there has been a debate around whether it is reasonable to expect financial sustainability as a medium-term goal. These small lending programs are operated on a very small scale (with the largest programs serving fewer than 300 active borrowers, Frankiewicz, 2001: 6, and most current Ontario programs serving no more than a dozen at any one time, Maksoud, 2008). The programs are extremely labor intensive and expensive to operate. Some believe that such programs will never be self-sufficient. They are “a public good that would have to be, and deserved to be, sustained through subsidies,” (Frankiewicz, 2001: 7).

Evidence in support of the “public good” benefit of these programs is mounting. To the extent that microcredit programs have attained any success, it appears due not to the availability of small loans per se, but to the number of complementary services bundled together with the loan as well. Rather, the success of the loan itself in lifting people out of poverty unclear—self selection bias and multiple contributing factors (such as training to build human capital) can overstate success of the micro credit, (see Madajewicz, 2005: 228). Poverty alleviation through subsidized credit has a checkered past. “[D]ebt is not an effective tool for helping most poor people enhance their economic condition -- be they operators of small farms or micro enterprises, or poor women. In most cases lack of formal loans is not the most pressing problem faced by these individuals. It must also be recognized that providing financial services to poor people is expensive and building sustainable financial institutions to do this requires patience and a keen eye for costs and risks,” (Adams and von Pischke, 1994: 9-6). Rather as Bates (2005: 175) argues, human capital and financial capital are complements. “Those who are weak in terms of human capital without financial resources, having no safety net—the truly disadvantaged—are not likely to achieve self sufficiency via business formation. A program realistically seeking to move the truly disadvantaged into business ownership would focus first on developing the human capital prerequisites that are the bedrock of small firm viability.” Gomez and Santor (2001), examining the Calmeadow loan portfolio, find evidence to support the proposition that social capital, community-wide levels of general education, and knowledge of computing are key contributors to self employment success.

If it is correct that there is a public benefit to the provision of microcredit—particularly if that benefit is derivative of bundled services—enforcing a goal of financial sustainability will ensure failure either in the winding down of the fund itself or in a drift away from its original mission. “Pressure to control loan losses and to keep the high cost of training down reinforces the tendency to lend to better
educated, more affluent clients” contrary to the original social objectives of the program (Bates and Servon, 1996, 28; quoted in Bates 2005: 153).

And if money spent to support microcredit helps to meet social objectives in ways not possible through alternative programs like workfare or direct food aid, then as Morduch (1999:1571) asks “[W]hy not continue subsidizing microfinance?” The subsidization of microfinance is justified on a public good basis and would go part way to addressing the criticism that otherwise the promotion of large scale microfinance is not grounded in arguments of market failure but is, instead, “largely a matter of ideology serving as a palliative to local disinvestment growing insecurity of labour markets, and shift from social to private insurance,” (Williams, 2004:5).

Where peer-lending models appear to be inappropriate for urban programs in developed countries, this is not the only mechanism that explains the repayment success of microcredit borrowers. [G]roup lending is not the only mechanism that differentiates microfinance contracts from standard loan contracts...[These programs] also use dynamic incentives, regular repayment schedules, and collateral substitutes to help maintain high repayment rates,” (Morduch, 1999: 1579). Where individual loan contracts omit the social “collateral” intended to reduce credit risk, requiring frequent repayments mitigates this to some extent. A weekly repayment schedule, for example, “means that the bank is effectively lending partly against the household’s steady diversified income stream, not just the risky project,” (Morduch, 1999: 1585).

The evidence to date points rather clearly toward a need for and significant benefit from the provision of microcredit. In urban areas in developed countries, if Canada’s experience is any indicator, microcredit extended to individual lenders on terms that promote access and ease of repayment, encourage social networks, and are bundled together with training to develop business and computing skills, will offer a significant “leg up” to those seeking to lift the poorest amongst us out of poverty. The evidence also points very clearly to the need to subsidize these programs to ensure their success. In view of the attendant social and macroeconomic benefits, such a subsidy is, from a broader and longer term perspective, the efficient economic solution.

4. Distributive Justice Considerations

Exclusive focus on the goal of current period profitability and utility maximization in a choice theoretic framework constrains our ability to assess the welfare implications of an economic outcome. Neoclassical economics helps us to understand how people make incremental decisions and permits an assessment of the outcomes given an existing distribution of resources and opportunities. Such theorizing offers us, however, no guidance whatsoever on how to assess the value of outcomes across alternative distributions of resources and opportunities.

Principles of distributive justice—be they grounded in utilitarian, desert-based, or libertarian notions of justice—support an unequal distribution of income under certain conditions and support state intervention in the form of regulation and
income redistribution when these certain conditions are not met. Conditions necessary to the support of an unequal distribution of income on distributive justice principles include (1) accurate market metrics (no cost or benefit externalities), (2) equality in opportunity “endowments”, and (3) abilities independent of endowed opportunities, (see Spotton Visano, 2006). If markets are incomplete and so monetary metrics of value incompletely capture and reflect social values; if the differential endowment of resources entrenches an inequality of opportunity; or if opportunity is not fixed and equally distributed at the outset but is itself created, then the resulting unequal distribution of income and hence consumption possibilities will be unjust.

The arguments in this paper have thus far supported the position that the current situations pertaining to both payday and microcredit loans reflect incomplete markets, derive from a differential endowment of resources and hence opportunities, and, as currently operating, serve to further constrain that limited opportunity by either posing a debt trap hazard or being too costly to sustain. The question then is, does access to the bundle of financial and non-financial services that characterize both payday and microcredit loans have the potential—under different contractual provisions—to promote financial inclusion and with it to create economic opportunity?

If financial liberalization and innovation together with a growing income (and wealth) gap in Canada explain the recent rise in the demand for these fringe banking services, finding ways to insulate the poor from the escalating private and social costs of these developments returns an equitable opportunity to access financial services. The skill and knowledge required to effectively and efficiently deliver these micro consumption and investment loans as well as the need to enable enhanced regulation point to changes in the provision of these services that would see them offered by established financial institutions in the formal financial system. Sadoulet (2005) citing his own earlier work identifies four factors important to the success of micro lending services in developed countries: product design and methodology; efficient processing and delivery infrastructure; sufficient range of products and services to generate sufficient revenue; and institutional credibility. The 2006 Review of the UNDP Microfinance Portfolio concludes (2006: 28-30) that microfinance will not work well where there are no capable microcredit program managers, no technical service providers, clients have unstable repayment capacity and that they are more likely to work well when delivered through institutions that specialize in financial services.

5. Regulating Fringe Banking
Financial regulation is justified on the grounds that either (a) there is a market failure in need of correction or clear public sector advantage, or (b) it is necessary to control abuses of power and therefore protect the consumer. Where public sector advantage explains the need for regulation would see governments ensuring that financial institutions direct credit to the microfinance sector for the greater social purpose of
ensuring an equality of opportunity extended to low income individuals and families to smooth consumption and to start or expand microenterprises.

Regulation may also be justified on the grounds that it is necessary to control the concentration and abuses of power. Rules designed to control its abuses and hence protect the consumer outlaw the type of explicitly opportunistic behavior of the type that appears in the payday lending market. While consumer education is a laudable objective, it should be only a complement to and not be a substitute for more proactive measures to substantially reduce the costs of credit to low income Canadians. It is not enough to prohibit "excessive" prices as defined only by prices in excess of cost recovery amounts. These services, on equity grounds, should be delivered at a cost that matches the per loan cost of loans to higher income Canadians.

There are a number of recommendations for ensuring via regulation that formal financial institutions service this disadvantaged segment of the population, and we have a number of models that are potentially adaptable. We have seen it already in the student loan market, where government guarantees and moral suasion have ensured the provision of loans for education and training. Microcredit repayment insurance could work in a similar fashion to a similar end, for example. It is beyond the scope of this paper, however, to examine the range of possibilities here.

6. Conclusion
Acknowledging the risks in lending to the poor posed by lack of credit histories, the inability to post collateral on loans, and the relatively higher cost of servicing small loans, there are nevertheless compelling reasons why Canadians in the lower income brackets should have full and equal access to a full range of financial services. On economic grounds, the pathway to financial inclusion should be smooth enough to encourage those excluded to start down it. On equity grounds, the pathway should be no more difficult to traverse than it is for higher income Canadians.

Notes
1 Brenda Spotton Visano, Professor, School of Public Policy and Administration, Department of Economics, Atkinson Faculty, York University. E-Mail: spotton@yorku.ca The author is grateful to Brian MacLean for feedback and to the students who have worked on various parts of the Black Creek West Capacity Building Project: Varun Dua, Omar Hamwi, Edric Low, Ali Maksoud, Alanna Smith, Swetha Subbial, and Gigi Yip.
2 Microcredit was initially conceived as a means of promoting development in rural areas of lesser industrialized countries, introducing institutionalized credit arrangements where traditional banks were absent. There are now more than 1200 MFIs serving clients in more than 100 developing countries listed on the Microfinance Information Exchange alone. Over the past few years, interest in the
potential for this arrangement to help at-risk urban communities in industrialized countries similarly has spawned a number of local, community-based funds.

3 Payday lenders typically offer an array of financial services in addition to payday loans, most notably check cashing services, currency exchange, and funds transfer.

4 Such explanations are challenged by industry representatives. By location, payday lenders "are not a replacement in the local market for traditional lending institutions. In each of the four cities studied [Vancouver, Toronto, Halifax, Winnipeg], more than 50 percent of the payday lenders are found within 250 meters from a traditional financial institution, and more than 90 percent of locations found within 1000 meters. (Jones et al, 2005: 4)

5 "Do moneylenders reduce welfare because they charge high interest rates? To the extent that borrowers willingly accept these loan contracts, the answer is no. These loan contracts do generate a positive surplus ex ante. That is, only those borrowers who expect to generate a rate of return from their investment that is higher than that charged by the moneylenders will enter into these contracts," (Sengupta and Aubuchon, 2008:18).

6 Other recent changes that may indirectly reduce the need for these services is the requirement introduced in 2006 that all financial institutions cash federal government cheques for recipients whether or not they held a bank account with the institution.

7 This picture stands in noticeable contrast to the picture painted by the results of the Pollara Survey of Ontario Payday Loan customers. Pollara (2007) reports, for example, a much smaller group of destitution (15 percent) of respondent payday loan customers indicate that they use payday loans because they have no other alternative sources for borrowing.

Where the Statistics Canada study suggests lower income users, respondent customer in the Pollara study (2007) "have household incomes equal to the general Ontario population. 43 percent of Ontarians report household incomes of less than $50,000 a year, compared to 42 percent of respondent payday loan customers." Where only 2 percent if homeowners with a mortgage had borrowed money through a payday loan, (Pyper, 2007: 8), 19 percent of respondent payday loan customers in Ontario currently have a home mortgage (Pollara, 2007).

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