

### What we are doing

Ontario's Ministry of Government and Consumer Services is consulting on how to better protect consumers using high-cost financial services offered outside of the mainstream financial institutions of banks and credit unions (e.g., payday loans and cheque cashing). At the same time, we are looking for ways to enhance protection for consumers with debt in collections.

We are building on earlier work to identify potential solutions. This included discussions with community agencies, credit counsellors, payday loan providers and borrowers, and debt collection agencies.

We now want to hear from a broader cross-section of users of these services, their families, their community leaders, those who advocate for vulnerable Ontarians using these services, such as poverty advocates and community activists, and the businesses providing these services.

### What's the issue?

Ontarians in need of quick cash may turn to cheque cashing services, payday lenders and other alternative financial services. These services are often chosen when someone has limited access to traditional financial services. However, payday loans and other alternative financial services come at a high cost that can put consumers at risk of deeper debt.

Ontarians sending money often use money transfer (remittance) agencies rather than a bank. Transparency in these transactions is important due to a variety of factors, such as language, financial literacy, and time constraints on comparative shopping. Increased transparency could lead to more competition and thereby reduce costs for this alternative financial service.

Ontarians struggling to make ends meet may also find their debt in collections. As collection practices have evolved, consumers have become more exposed to intrusive tactics.

The government is considering reforms to better protect consumers using alternative financial services and those with debts in collections.

#### What's Inside

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#### How you can help

Review and consider the questions below or the longer discussion paper available on the regulatory registry.

Provide comments to [consumerpolicy@ontario.ca](mailto:consumerpolicy@ontario.ca).

## **Ontario Regulates Alternative Financial Services and Debt Collection**

Ontario provides numerous protections for consumers using high-cost lending services outside the traditional banking system.

Ontario's payday lending law, the Payday Loans Act ("Act"), took effect in 2009. The Act protects consumers by:

- licensing payday lenders and payday loan brokers,
- preventing licensees from engaging in prohibited practices,
- establishing a maximum total cost of borrowing, and
- providing a means of enforcement.

The Consumer Protection Act provides general consumer protection and requires credit providers to give consumers information about certain credit agreement they may be considering, such as instalment loans.

Ontario also protects consumers who have debts in collections. Under the Collection and Debt Settlement Services Act (CDSAA), companies that collect debts on behalf of creditors must be registered and comply with rules to protect against harassment and unfair collection practices.

The credit market is now more sophisticated than when the CDSAA was originally created. It is increasingly common for creditors with overdue debt to sell that debt to a third party who then becomes the creditor. When the debt is purchased by such a third party, the Act does not apply.

## **Alternative Financial Services**

Alternative financial services include cheque cashing, rent-to-own, instalment loans, money transfer (remittance) services, pawnbroking and payday loans. These products can pose risks to consumers where the cost of their use and the terms of the service are unclear. Consumers using these services may be at particular risk of harm since many of these services are designed for persons facing financial strain and with limited options to use lower-cost traditional financial services.

What do you see as the general risks to consumers of alternative financial services?

Are certain services particularly risky?

## **Costs of Payday Lending**

Payday lending is an expensive form of borrowing. The majority of payday loan borrowers borrow repeatedly in a year. A survey of Ontario borrowers found that almost one in five payday loan borrowers took out more than ten loans in a year. Payday loan borrowers generally have limited financial resources to address these costs. Reducing the risk of repeat borrowing reduces the risk of mounting payday loan debt.

To reduce the likelihood of borrowers taking on more debt than they can afford, should Ontario restrict how much lenders can offer borrowers?

To reduce the risk of added costs of multiple payday loans, should Ontario restrict borrowers from borrowing repeatedly?

## **Payday loan associated products and services**

Payday loan consumers are generally in need of immediate sources of cash. Payday lenders offer a range of services aimed to address this cash crunch, such as cheque cashing, money transfer services. While payday lenders cannot offer these services in connection with a payday loan agreement, these services are often offered in the same storefront or website as payday loans. Consumers without the time to consider different ways to address their financial needs may make decisions to use these products impulsively. The cost of these products may make it an expensive decision.

Does the financial strain of potential consumers require additional consumer protection measures?

Can these services be offered in a way that reduces the risk of consumers being harmed by hasty decisions?

## **Understanding payday loans**

Payday lenders cannot charge more than \$21 per \$100 borrowed. However, is the majority of payday loan borrowers in Ontario are unaware that the cost of a payday loan is significantly greater than the cost of other forms of credit, suggesting that borrowers find it difficult to compare their credit options. They may also be unaware of other features of the agreement and their consumer rights, despite requirements for disclosure.

Would payday loan borrowers benefit from more information on the cost of payday loans and their rights?

How could this information be provided more effectively?

## **Impact on communities**

Debt affects the individual in many ways, but it also affects their family and their relationships.

How have payday loans and other alternative financial services affected your community?

## **Clarify the cost of sending money**

In order to send money, most consumers in Ontario and Canada generally rely on money transfer agencies (versus a formal bank). Vulnerable users of these services can be low-income migrants that have difficulties in understanding the local language or have challenges in providing adequate identification to open a bank account, or lack the time and financial literacy to search out and compare different remittance services. Relevant information about the full cost

of a money transfer (remittance) service in an easily accessible and understandable format may help.

In any market, full information – i.e., transparency - is important because it enables individuals to make informed decisions about which services to use and can help to make the market as a whole, more efficient.

Would clearer information about the cost of money transfer services help consumers?

## **Expanding regulation of debt collection**

Debts that go unpaid can be collected by the original creditor, by a hired collection agency, or by a third party that buys the debt from the original creditor. Currently, Ontario law only regulates debt collection by a collection agency.

Should Ontario expand the regulation of debt collection to any firm recovering debt?

## **Simplifying debt collection for consumers**

Recovering the debt typically involves a notice and attempts at verbal communication to work out a payment solution. Consumers may have difficulty understanding how a debt was incurred, especially if the collector has purchased the debt from someone else. Concerns have also been raised that consumers may not understand their rights and options. In addition, while verbal communication can help work out a payment solution, repeated contact may be stressful and unhelpful, especially if the consumer is disputing the debt.

Do notifications of debt need to be more comprehensive to help consumers understand the source of their debt?

Do notifications of debt need to more clearly outline a debtor's options and rights?

Should consumers have the right to demand contact in writing rather than by phone?