



*June 3, 2009*

## **Alberta government protects payday loan consumers**

*Edmonton...* Payday loan companies will have to follow new rules limiting borrowing costs, banning rollover loans and giving borrowers a cooling-off period under a consumer protection regulation introduced by the Alberta government.

“Many Albertans use payday lenders for short-term small cash loans, but some get caught up in a vicious cycle of debt at high borrowing costs,” said Service Alberta Minister Heather Klimchuk. “We are setting clear rules that protect consumers and ensure people know what they will be paying for when they borrow from a payday lender.”

The new regulation sets the maximum total cost of borrowing at \$23 per \$100 borrowed, including interest and any fees charged as a condition of the loan. The amount requires federal approval before it comes into effect.

Other consumer protection provisions of the regulation come into effect September 1 and include:

- prohibiting “rollover” loans which allow consumers to pay off previous payday loans at an extra cost;
- a two-day cooling off period during which time consumers can return the money and cancel the loan without incurring any costs;
- prohibiting “discounting,” the practice of putting some fees into the amount of the loan, as it makes it harder to determine the true cost and can result in consumers walking away with less than they intended to borrow;
- prohibiting lenders from requiring, requesting or accepting information that gives them access to the borrower’s bank account, except for pre-authorized repayments;
- disclosure provisions requiring lenders to prominently post information in their stores explaining the cost of borrowing;
- a requirement that payday lenders use plain-language contracts; and
- a requirement that payday lenders be licensed by the provincial government.

“This regulation was developed after extensive consultation with Albertans and the industry,” said Klimchuk. “Most importantly, we consulted directly with the people who use payday loan services. To our knowledge, no other jurisdiction in North America has gone to that length.”

Under federal legislation, payday loans are limited to a maximum of \$1,500 for up to 62 days.

**Background:** Payday loan consultation highlights

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# Backgrounder

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## Payday loan consultation highlights

Service Alberta consulted with Albertans in developing regulations for the payday loan industry. The consultation included a telephone survey of 700 Albertans, including 300 people who used payday loans.

The study estimated that three per cent of Albertans have taken a payday loan. Most said they use payday loans as a last resort, and cited reasons including the ease and short time it takes to obtain a loan.

The majority of respondents (85 per cent of users and 84 per cent of non-users) said payday lenders should be regulated. More specifically, they said the regulation should apply to the following areas:

- the total cost of the loan, including interest and fees (79 per cent users, 71 per cent non-users);
- give consumers a cooling-off period to cancel the loan (81 per cent users, 68 per cent non-users);
- rollovers (71 per cent users, 66 per cent non-users)
- the practice of discounting (75 per cent users, 67 per cent non-users);
- make lending agreements easier to understand (81 per cent users, 68 per cent non-users);
- requiring payday lenders to post a bond or other security (72 per cent users, 69 per cent non-users).

Service Alberta also consulted with the payday loan industry and consumer organizations. A majority of both industry and consumer stakeholders indicated they were in favour of a maximum cost of borrowing and the banning of rollovers and discounting.

A full consultation report is available online at [www.servicealberta.ca](http://www.servicealberta.ca).

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