

Before the Manitoba Public Utilities Board

**DETERMINING THE MAXIMUM ALLOWABLE FEE
FOR PAYDAY LOANS**

REPORT

Prepared by:

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I. INTRODUCTION

The Manitoba Public Utility Board (Board) has been given the mandate to set the maximum amount that may be charged for payday loans. I have been asked by the Canadian Payday Loan Association (CPLA) to provide my independent judgment and opinion in this matter in order to assist the Board in its determination.

I am Professor of Finance and Director, Centre for International Business Studies, University of Manitoba. Previously I have been Head, Department of Accounting and Finance at the University of Manitoba and Chairman, Finance and Business Economics at McMaster University.

I received the Bachelor of Science Degree in Economics from the Wharton School of Finance and Commerce, University of Pennsylvania in 1966. I completed the Master of Business Administration Degree in Finance from New York University in 1968 and the Doctor of Philosophy Degree in Finance from the University of Toronto in 1975.

During the last 25 years I have been employed as a consultant in a number of cases that posed a wide range of problems in applying financial theory to the determination of the cost of capital. I have testified on financial matters before the Canadian Transportation Agency, the Canadian Radio-Television and Telecommunications Commission, the Canadian Human Rights Tribunal, the New Brunswick Board of Commissioners of Public Utilities, the Newfoundland Board of Commissioners of Public Utilities, the New Mexico Public Service Commission, the Federal Communications Commission and before the Manitoba Public Utilities Board on several occasions.

I have also been engaged in academic research to extend the theory of the cost of capital. Among the subjects of this research have been the effects of income taxation on the cost of capital, the impact of growth on the cost of capital, the impact of inflation on the cost of capital, estimating the cost of capital for a non-traded division of a company and the use of the capital asset pricing model in estimating the cost of capital. I have published articles on the cost of capital and related problems in finance in the Journal of Finance, Financial Management, the Journal of Portfolio Management, the Journal of Accounting, Auditing and Finance, the Canadian Tax Journal and elsewhere.

II. STATEMENT OF THE PROBLEM

There has been a great amount of interest in the rapid growth of payday loan outlets and the payday loan companies' practice of charging relatively high fees. Opponents of the payday loan industry want payday loans prohibited on the basis of usurious interest rates or forced to operate at sharply reduced fee levels.

Characteristics of Payday Loans

A payday loan is a small, short-term loan that is intended to cover a borrower's unanticipated expenses until the next payday. It has two distinct features. First, it is a small loan. A typical payday loan would be \$300. Second, it is a very short-term loan. A typical term would be one or two weeks. It is not designed to be a form of revolving credit.

In order to qualify for a payday loan the borrower must be employed and have a personal chequing account. The payday loan company will lend up to a specified percentage of a customer's net pay to a maximum amount of \$1,500. The borrower provides identification and proof of income, and a cheque or pre-authorized debit for the principal plus interest and fees, dated on the next payday. Note that the borrower has to know exactly the total dollar cost of the loan when the post-dated cheque or pre-authorized debit is written out.

With those characteristics for a payday loan, consider the following illustration. Assume a company operates with a total fee of \$20 per \$100 of payday loan. An individual borrowing \$300 for two weeks writes a post-dated cheque for $3 \times \$20 + 300 = \360 , dated two weeks hence. Critics of the payday loan interest claim that the \$20 fee per \$100 of payday loan is usurious, amounting to over 500% as an annual percentage return, or over 11,000% as an effective annual return, which includes compounding. These calculations are provided in Table I for periods of one week, two weeks and one month.

Although the numbers in Table I make lurid headlines or catchy sound bites, the calculations are an incorrect application of financial theory. The annual percentage return and the effective annual return measures are very useful for adjusting the different ways that interest rates are quoted and their compounding methods for loans of similar term. There is no meaning to annualizing the cost of a one or two week loan, or compounding it to an annual figure as an effective annual return.

Furthermore, the \$60 fee in this example is not interest, but interest plus an administrative charge. Many financial institutions have one-time administrative charges when establishing a loan, for example, fees required to obtain a mortgage. However, these charges decrease in importance as the size of the loan increases. This is illustrated in Table 2. A \$60 fee on a five year \$100,000 mortgage is .01%, compared to 520% for a two week \$300 loan.

Conclusions

The fee charged for a payday loan has to cover operating costs, as well as interest cost. It is misleading to annualize or calculate an effective annual rate of return for this combined cost. Payday loans are high cost because of their design as short-term, small loans. With that understanding, the focus can be on the problem of determining the fee necessary to cover the costs of a payday loan and provide a fair rate of return on capital to the payday loan companies.

III. PROBLEMS IN REGULATING PAYDAY LOAN FEES

In order to gain some insight into the problems of regulating fees for payday lending, a brief review of the regulatory process for public utilities is provided. Then, the differences between regulating a public utility and regulating fees for payday lending will be examined. These differences indicate that regulating payday lending will involve difficult choices.

Public Utility Regulation

A public utility usually provides some services where it acts as a monopoly without competition in a particular market area. The competitive market system of setting prices does not function, and regulation is used as a substitute for competition. The purpose of this regulation is to provide the results of prices and a fair profit that would have been obtained with the competitive market system. In a competitive market the forces of competition hold prices to the costs of production and a fair rate of return on invested capital. The regulator substitutes for the forces of competition.

The regulator must determine the revenue requirement or cost of service. This is the set of rates for output prices that produce revenue sufficient to cover all costs, including taxes, depreciation and a return on invested capital. The return on invested capital is calculated by multiplying the rate base by an allowed return determined by the regulator. This rate base is the net book value of the assets that are used in production plus an allowance for working capital. The allowed rate of return is a weighted average of the component capital costs of the debt and equity.

The estimated revenue requirement is determined by analyzing the costs during a test year, and then adjusting for any known changes between the test year and the period over which the rates will be in effect. If the utility's revenue exceeds its cost plus the allowed rate of return on invested capital, product prices are reduced. Alternatively, if the return falls below the allowed return, product prices are increased.

Although the regulator sets prices to allow the utility to earn a specified "fair return," it is not a guaranteed return. Actual returns will differ from the allowed return if the regulator does not react instantaneously to differences between revenues and costs. This delayed reaction to outcomes that differ from expectations is regulatory lag, an important risk for investors in regulated companies.

An important part of the regulatory process is determining the appropriate operating expenses to be included in the cost of service. Expenses deemed to be excessive or unnecessary are disallowed. Although operating expenses and capital outlays are the major components of the revenue requirement, much more attention is given to controlling the rate of return on capital. This results in part from the administrative difficulty of controlling company expenses, and in part from a focus on controlling profits.

Differences in Regulating Payday Loan Fees

The Board has a mandate to set the maximum amount that can be charged for payday loans. The critical difference from the public utility case is that this is not the regulation of a single company with a monopoly to provide service. The payday loan

market is competitive with many payday loan companies providing service. In some locations in Winnipeg several companies may compete for business on the same block.

These companies may differentiate service from their competitors in several ways, including the number of offices, areas in which the stores are located and hours of service. In addition, companies may differ in the credit risk that they are willing to accept. Differences in size, quality of service or credit risk will affect the cost of service provided. Furthermore, each company may be financed differently.

The differences with the public utility case are apparent. First, and most important, each company may have a different cost structure. A company may choose to provide service in a higher cost location with longer hours of service and with short wait times to higher risk borrowers. As a result it will have higher costs, but it is not operating inefficiently. It is providing a different quality of service. Second, each company may have a different “fair” rate of return, depending on its own particular risk and capital structure.

Conclusions

In regulating a public utility, the regulator bases regulation on the company’s operating costs, adjusted from observations over a test period, and the company’s allowed rate of return on invested capital. It can then observe how the allowed rate of return compares to the earned return on invested capital and correct its decision by readjusting prices up or down as needed.

In this case, the Board’s decision on the maximum fees for payday loans will apply to a group of companies, regardless of the individual companies’ cost

characteristics or the individual companies' required return on invested capital. As will be shown in Section IV, even if the differences in capital costs are ignored, there is a wide spread in the operating costs of individual payday loan companies. As a result, the Board will have a difficult decision in setting a maximum payday lending fee that applies to all the companies in operating in Manitoba. Unlike the corrections that may take place with regulatory lag in the public utility case, there is no correction for the payday loan companies with a cost structure above that assumed in the Board's decision. They will not be able to operate in Manitoba.

IV THE ERNST & YOUNG REPORT (2004)

The Ernst & Young (E&Y) Report was commissioned by the CPLA as an independent study of the costs of providing payday loans in Canada.¹ It is the only study that I am aware of that collected and analyzed actual costs of a representative sample of the entire Canadian payday loan industry. For that reason, it is important to review E&Y's methodology and to provide a summary and analysis of the main conclusions.

Methodology

E&Y used a survey approach to develop a cost quantification model. Discussions were held with industry and government representatives to ensure an accurate approach, and the model was shared with the government representatives to obtain feedback on reasonableness and accuracy.²

E&Y provide the results of the cost analysis for three sized categories based on payday loan transactions: large (greater than \$20 million), medium (between \$2 and \$20 million) and small (less than \$2 million). The attributes of this sample are shown in Table 3. The 19 companies included in the survey had a total of 473 stores across Canada with an \$827 million volume of payday loans.

¹ At that time the CPLA was named the Canadian Association of Community Financial Service Providers (CACFS).

² As part of this process, Chris Robinson served as a consultant to Industry Canada and some of his suggestions were incorporated by E&Y. After the E&Y Report was released, Robinson wrote a report for the Association of Community Organizations for Reform Now (ACORN) that adapted the E&Y model to reach dramatically different conclusions about the appropriate fee structure for payday lenders. Robinson's report will be discussed in Section V.

Two points should be noted. First, the individual companies' data are not provided. For example, the \$1.75 million volume of payday loans per store is based on the average of five companies. Second, the five companies in this category represent 92% of the total volume of payday loans and 87% of the stores. Hence, results based on weighted averages and results based on unweighted averages will vary significantly. The weighted averages will not adequately reflect the cost structure of smaller companies in the industry.

Major Findings

The unweighted averages of the total cost per \$100 of providing a payday loan are shown in Table 4. The cost of a \$300 loan would be $3 \times \$20.66 = \61.98 . Several important results are apparent. First, costs increase significantly as business size decreases, rising from \$16.93 for large business size to \$22.88 for small business size. Second, among the cost components, operating costs are by far the most important, representing 73% of total costs, followed by bad debt expense representing 21% of the total. The fact that the cost of capital represents a very low percentage of total costs, and that operating costs vary with business size, change the emphasis of regulating payday loan companies from rate of return to cost determination.

Table 5 compares the E&Y unweighted cost estimates with the weighted cost estimates. Although the costs decrease as business size increases with both weighting methods, the weighted average total cost is significantly lower, reflecting the lower operating costs of the largest payday lenders.

For its capital costs estimates, E&Y used 7% for the cost of debt capital and 15% for the cost of equity capital. Table 6 shows the sensitivity of E&Y's weighted average cost to changes in these estimates. As noted previously, the total operating costs and bad debt costs are much higher than the small capital costs, so differences in the assumed capital cost rates have little effect. For example reducing the cost of debt capital to 6% and the cost of equity capital 10% only lowers the average by \$.38. = (\$15.69 – \$15.31).

Conclusions

As noted previously, this is the only study available that collected and analyzed actual costs of a representative sample of the entire Canadian payday loan industry. Accepting the data as valid, the main conclusions are:

- The average (unweighted) cost of providing payday loans for the industry as a whole is \$20.66 per \$100 of payday loans.
- The average (weighted) cost of providing payday loans for the industry as a whole is \$15.69 per \$100 of payday loans. However, this is a result of the fact that the largest operators have significantly lower costs than the smaller operators. This weighted average does not adequately reflect the cost structure of smaller companies in the industry.

- The cost of capital is a very small component of total costs, so different assumptions for the return on equity and interest on debt in determining the cost of capital have little effect on the estimate of total cost.
- There is very significant cost variance in the payday loan industry. The costs of the individual companies ranged from \$10 to \$35 per \$100 of payday loans.

As indicated in Section III, the regulator should set prices that allow the regulated company revenues sufficient to cover its costs plus a fair rate of return on its capital. That is, the rate must cover the average total costs of providing payday loans in order to keep the payday loan industry viable.

Even if the E&Y results are accepted by the Board, the problem of cost variance in the payday loan industry is still a critical regulatory problem. This can be illustrated by Table 7 which shows E&Y's estimates of the cost per \$100 of providing a payday loan for each company in the sample. Although we know the average is \$20.66, setting the rate at that level would eliminate a number of higher cost payday lenders. Furthermore, it would make it more difficult for new firms to enter the market, reducing competition and innovation. This problem will be discussed in Section V.

V THE ROBINSON REPORT (2006)

The E&Y Report produced an estimated \$20.66 per \$100 average cost for payday loan companies in Canada. Chris Robinson used the data from that report to determine a fee structure for payday loan companies that differs dramatically from the E&Y average cost.³ Robinson recommended two fee structures, but his preferred one is:

\$10 per loan + 5% of the principal + 60% effective interest on the principal.

The fee to borrow \$300 for two weeks using this fee structure is \$30.45 which is equivalent to \$10.15 per \$100 for comparison with the E&Y average of \$20.66.⁴ Since this recommended fee is only half the average payday loan company cost determined by E&Y, it is important to understand the underlying assumptions of the Robinson Report.

Objectives of the Robinson Report

Robinson states that he was engaged by ACORN “to determine an appropriate fee structure for payday lenders that would allow at least some of the companies to continue to operate.”⁵ His objective was to design a fee structure that would allow only the largest firms to survive. Furthermore, he goes on:

³ Robinson, Chris, “Regulation of Payday Lending in Canada: A Report to ACORN”, May 24, 2006.

⁴ Robinson’s other recommended fee structure is: 12% on the first \$250 of principal + 6% on the principal exceeding \$250. (Robinson Report, p.28). The fee to borrow \$300 for two weeks using this fee structure is \$33 or \$11 per \$100.

⁵ Robinson Report, p. 3.

“In the long run, I believe that the fee for payday lending or any similar form of short-term lending of small amounts should be lower than my recommendations. The most efficient company in the payday lending business is still very small when compared with the mainstream financial institutions. Payday lenders are very inefficient compared with banks and credit unions, because of the small volume and dollar value of the transactions they handle. Regulations setting a much lower fee schedule than I propose are consistent with the public interest, as long as the banks and credit unions respond with products that provide a reasonable substitute. The federal and provincial governments may have to exercise some moral suasion to encourage this.”⁶

In summary, Robinson’s fee schedule is calculated to allow only the largest firms to compete, but not earn excess profits. In the longer run, even the largest payday lender would not survive.

Assumptions in Setting the Fee Structure

First, it is important to note that Robinson relies on the E&Y data:

“I emphasize strongly that in my opinion E&Y did work diligently, honestly, and effectively in this data collection, and I will use its report extensively to provide a basis for parts of my cost determination using a different technique to represent the cost function.”⁷

However, Robinson maintains that because loan volumes per store have increased greatly, the costs as reported are now wrong. Therefore, he analyzes rates with loan volumes of \$3 millions and higher per store, stating the Money Mart (owned by Dollar Financial Corp.) and the Cash Store (owned by Rentcash Inc.) are almost at that level.

⁶ Robinson Report, p. 3.

⁷ Robinson Report, p. 10.

These estimates appear to be based on annualizing first quarter 2006 revenues per store and various assumptions about fees for the Cash Store.⁸

An Analysis of Dollar Financial Corp and Rentcash Inc.

There are only two payday loan companies in Canada with publicly available information. We can examine these companies, the two largest by far in the Canadian payday loan industry, with data now available for 2006 and 2007. This will allow an assessment of Robinson's assumptions about loan volumes and profitability.

Money Mart

First, let us examine Money Mart, the Canadian stores owned by Dollar Financial Corp. Money Mart does not issue financial statements, but we can extract data from Dollar Financial Corp.'s public statements and with some adjustments, get a picture of Money Mart's operations.

Several adjustments to the data are necessary, because the Canadian operations do not have complete financial statements. First, in order to examine the operations of the company owned stores, franchise fees were removed and taxes reduced assuming a 36% rate. Second, corporate interest was allocated to Canada based on the percentage of Canadian revenue to total revenue. Taxes were then reduced by 36% of the interest allocated to Canada. Third, the data was then converted from US\$ to C\$ using the

⁸ Robinson Report, pp. 14-15.

average conversion rate for each year. Finally, per share results were calculated using the average stores during the period. The estimates for the fiscal year 2007 were obtained by annualizing data for the nine months ended March 31, 2007.

Table 8 show the calculation of net income, consumer loan originations and two measures of profitability: net profit margins and return on assets for the years 2004-2007. First, note that there is a large difference between the changes in total dollars and the changes in dollars per store. For example, the consumer loan originations grew from \$560 million in 2005 to \$937 million in 2007, a growth rate of over 67% per year. However, on a per store basis, consumer loan originations grew at only 3.7%, from \$2.7 million in 2005 to \$2.9 million in 2007.

Second in terms of profitability, the net profit margin based was 13.9% in 2007 , based on the annualized nine month data, averaging 14.1% over the last three years. The return on assets was 6.75% for 2007, based on the annualized nine month data, averaging 11.5% over the last three years.

Dollar Financial Corp. has not yet released its 2007 Form 10-K Report, but in a press release on September 10, 2007 they provided some data that showed improved fourth quarter profitability. Based on this information I anticipate that the annual figures will result in a profit margin for 2007 that could be up to 150 basis points higher, raising the three year average profit margin by 50 basis points.

For comparison, Table 9 provides three measures of profitability for the Financial Post Canadian Bank Index. Since there is no separate equity for the Canadian operations, a return on equity can not be calculated, but Money Mart's profit margins and return on assets do not indicate excess profitability.

Rentcash, Inc.

Rentcash Inc. is a public company with shares trading on the TSX. As a result, some of the adjustments used for Money Mart's data are not necessary. However, Rentcash has two divisions, brokerage and rental, and it is only the brokerage operations that are relevant to payday lending.

Rentcash's data was used to develop an adjusted net income for the brokerage and rental operations separately. Corporate expense was allocated to each operation on the basis of its percentage revenue to total revenue. The adjusted brokerage net income plus the adjusted rental net income are equal to total net income reported for each year.

Table 10 shows the selected financial data and calculations for Rentcash. In addition, Rentcash does provide a figure for shareholders' equity, so its return on equity can be calculated.

As was observed for Money Mart, there is a dramatic difference between the changes in total dollars and the dollars per store. Total loan volume grew from \$281 million in 2005 to \$499 million in 2007, a growth rate of 33% per year. However, on a per store basis, loan volume declined by 11.5% per year from \$1.8 million in 2005 to \$1.4 million in 2007.

The three profit measures show the effect of sharply increased expenses and declining revenues. This has occurred as the result of a major change in the brokerage division, the eliminations of rollovers, in the fiscal year 2006. The effect of these decreasing profits can be observed in its stock price, shown in Table 11.

The Deloitte Report (2007)

The Deloitte Report was commissioned by the CPLA to provide an independent study of the costs of small payday loan companies in Manitoba⁹. It reviewed the methodology used in the E&Y Report and concluded that it was sound and appropriate for determining the cost of payday loans.¹⁰ Because the Deloitte Report uses the same methodology as the E&Y Report, it provides an opportunity to determine to what extent costs have changed since the E&Y Report was published.

A comparison of the survey results for the E&Y Report and the Deloitte Report is shown in Table 12. It provides a current cost estimate of \$26.87 for small payday loan companies in Manitoba and indicates that the costs for these companies have increased since the E&Y Report was published.

Conclusions

The underlying assumption of the Robinson Report was that the costs in the E&Y Report were wrong, based on his projections of volumes \$3 million and higher per store. On this basis he designed a fee structure that would allow the largest firms to compete and not earn excess profits.

However, with data from 2006 and 2007 available, it is apparent that the growth in Money Mart's loan volumes has been modest in recent years and its profitability has

⁹ "Cost of Providing Payday Loans in Manitoba," Deloitte & Touche, September 17, 2007.

¹⁰ "Cost of Providing Payday Loans in Manitoba," Deloitte & Touche, September 17, 2007, p. 1.

not been excessive. It is clear that if the fee schedule recommended in Robinson's Report were implemented, Money Mart would not be able to survive.

Similarly, Robinson's projected levels of loan volume of \$3 million and higher per store are certainly not applicable to Rentcash. Loan volume and profits have been decreasing. They also would not be able to survive if the fee schedule in Robinson's Report were implemented.

The risk of designing a fee schedule based on high projected loan volumes is clear. The fee structure proposed in the Robinson Report would eliminate the payday lending industry.

VI CONCLUSIONS AND RECOMMENDATIONS

As shown in Table 4, the E&Y Report estimates that the costs per \$100 of providing a payday loan range from approximately \$17 for the group of large businesses to \$23 for the group of small businesses. Based on the results obtained for small companies in Manitoba in the Deloitte Report and my analysis in Section V, I conclude that these are reasonable estimates, but understate the true costs for three reasons.

First, these estimates do not consider regulatory costs. Regulatory costs include licensing fees, bonding fees and legal costs.

Second, the cost of capital estimate used in the E&Y Report was incorrectly calculated into the cost per \$100. The E&Y Report estimated the cost of equity at 15%, but only included a 9.6% return on equity because it failed to adjust for corporate taxes. Although total costs are relatively insensitive to different estimates of the cost of capital, ignoring corporate taxes causes an understatement of about \$.60 per \$100 of payday loans.

Third, the Deloitte Report indicates that costs have increased since the publication of the E&Y Report.

Problems in Setting a Maximum Fee

It is important to note that the estimates of \$17 to \$23 are calculated to include no more than a fair rate of return on invested capital. It is the difference in operating costs of the individual payday loan companies that causes the range in the estimates.

As explained in Section III, unlike the case of regulating a single company with a monopoly to provide service, the Board's decision will apply to a group of companies, regardless of the individual companies' cost characteristics.

The smaller payday loan companies will require a fee in the range of \$23 to \$27 because they have a higher cost structure. Note, however, that this higher fee only allows them to earn a fair rate of return on capital. At the other extreme, the Board could set the maximum rate at \$17 based on the average for large payday loan companies, but the effect of this would be to eliminate the smaller companies operating in Manitoba. This would not be the result of regulation to prevent excess rates of return on capital. It would be the result of regulating fees based on the lowest operating costs of companies in the industry.

Recommendations

It is possible to construct any number of different fee structures to produce the same revenue as the fee per \$100 of payday loans. For example, a fixed charge and a variable rate would result in a higher fee for small loans and less on large loans, but could be set to produce the same revenue as a specified cost per \$100. This is similar to the rate design in public utility regulation that apportions the total costs among different customers and categories of service.

My recommendation is in terms of a fee per \$100 of payday loans. It is the measure used in the E&Y Report, the Deloitte Report, and the payday loan industry. It also has the advantage of simplicity and ease of understanding by borrowers.

Setting the maximum fee for payday loans at \$23 would allow smaller companies to operate in Manitoba and allow entry of new companies. As the fee is reduced towards \$17, an increasing number of companies would be unable to operate in Manitoba. Establishing the maximum fee based only on estimates of the largest companies is risky, as was shown in Section V. Furthermore, setting the maximum fee based on these companies would restrict the entry of new companies and have an adverse effect on innovation and the quality of services. In my judgment the maximum fee should not be set below \$20.

In conclusion, I recommend that the Board set the maximum fee for payday lending in the range of \$20 to \$23 per \$100 of payday loan. A fee of \$23 would allow smaller companies to operate in Manitoba, allowing the forces of competition to operate more fully.

TABLE 1**ANNUAL PERCENTAGE AND EFFECTIVE ANNUAL RATES OF INTEREST
\$20 FEE PER \$100 OF PAYDAY LOAN
\$300 PAYDAY LOAN**

<u>Amount of Loan</u>	<u>1 week</u>	<u>2 weeks</u>	<u>1 month</u>
Annual Percentage Rate¹	1,040%	520%	240%
Effective Annual Rate²	1,310,363	11,348	792

Source:

1. Assumes the percentage fee per \$100 for the period is annualized without compounding.
2. Assumes the percentage fee per \$100 for the period is compounded for the year.

TABLE 2**FEE EXPRESSED AS AN
ANNUAL PERCENTAGE RATE**

<u>Loan Size</u>	<u>Time Period</u>		
	<u>2 weeks</u>	<u>1 year</u>	<u>5 years</u>
\$300	520.00%	20.00%	4.00%
1,000	156.00	6.00	1.20
10,000	15.60	0.60	0.12
100,000	1.56	0.06	0.01

TABLE 3**E & Y SURVEY
SAMPLE CHARACTERISTICS**

Business Size	Number of Companies	Volume of Payday Loans	Number of Stores	Volume per Store (000,000)
Large 20M+	5	\$760	410	\$1.854
Medium \$2 M - \$20 M	6	60	52	1.154
Small <\$2 M	8	7	11	.636
Total	19	\$827	473	1.75

Source: Data from “The Cost of Providing Payday Loans in Canada,” Ernst & Young, October, 2004, p. 23

TABLE 4

**E & Y COST ESTIMATES PER \$100 LOAN
BY TYPE OF COST AND SIZE OF BUSINESS
UNWEIGHTED AVERAGES**

Type of Cost	Business Size			
	Average	Large	Medium	Small
Operating Cost	\$15.10	\$12.21	\$14.69	\$17.21
Cost of Loan Capital	.55	.54	.59	.52
Cost of Supplementary Capital	.66	.69	.60	.68
Bad Debt Cost	4.35	3.49	4.91	4.47
Total	\$20.66	\$16.93	\$20.79	\$22.88

Source: "The Cost of Providing Payday Loans in Canada," Ernst & Young, October, 2004, p. 29, Table 5A

TABLE 5**E & Y COST PER \$100 OF PROVIDING A PAYDAY LOAN
BY BUSINESS SIZE AND TYPE OF AVERAGE**

Business Size	Unweighted Average¹	Weighted Average²
Large	\$16.93	\$15.35
Medium	20.79	17.82
Small	22.88	21.22
Average	\$20.66	\$15.69

Source: "The Cost of Providing Payday Loans in Canada," Ernst & Young, October, 2004.

1. Table 5a, p.29
2. Table 5b, p.31

TABLE 6

**SENSITIVITY OF E & Y ESTIMATES OF THE COST PER \$100
OF PROVIDING A PAYDAY LOAN
TO VARIATIONS IN THE COST OF CAPITAL**

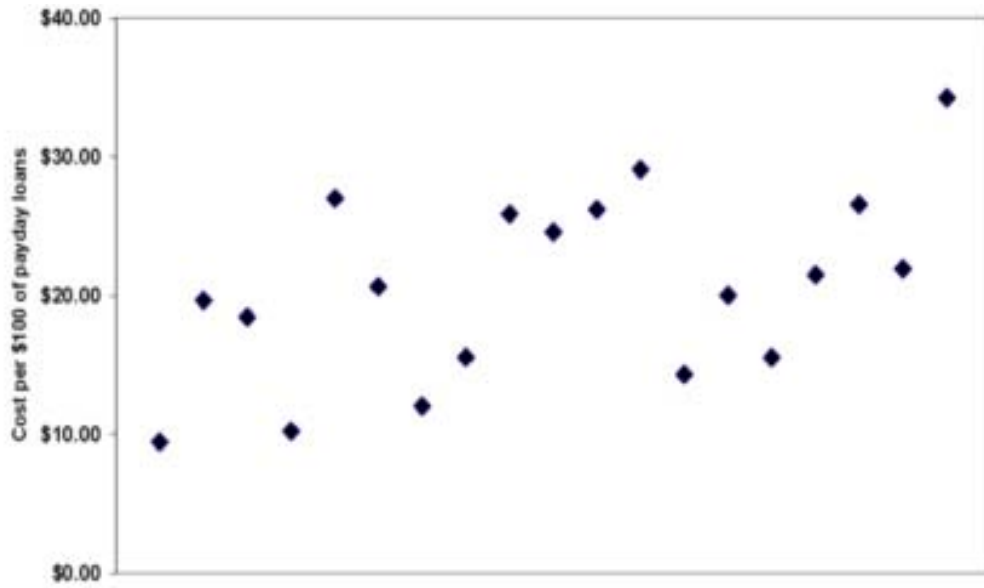
Assumed Cost of Capital		Business Size				
Equity		Debt (interest)	Average	Large	Medium	Small
Before Tax	After tax ¹					
0%	0%	7%	\$14.60	\$14.29	\$16.49	\$20.05
10	6.4	6	15.31	14.98	17.36	20.82
15	9.6	7	15.69	15.35	17.82	21.22
20	12.8	8	16.08	15.73	18.28	21.63
30	19.20	10	16.84	16.47	19.19	22.44

Source: Data from “The Cost of Providing Payday Loans in Canada,” Ernst & Young, October, 2004, Table 9, page 37.

1. Using an estimated corporate tax rate of 36%.

TABLE 7

**E & Y ESTIMATE OF TOTAL COST OF PROVIDING PAYDAY LOANS
FOR ALL SURVEY RESPONDENTS**



Source: The Cost of Providing Payday Loans in Canada, Ernst & Young, October, 2004, page 17, Figure 5.

TABLE 8

DOLLAR FINANCIAL CORP: CANADIAN OPERATIONS
SELECTED FINANCIAL DATA 2004-2007

(000)	2007 (E) ¹			2006			2,005			2004		
	US\$	C\$	Per	US\$	C\$	Per	US\$	C\$	Per	US\$	C\$	Per Store
	Total	1.1323	Store	Total	1.1625	Store	Total	1.2497	Store	Total	1.3432	Per Store
Average Stores			321			223			206			187
Sales to unaffiliated customers:												
Check cashing	63,724	72,155	225	52,096	60,562	271	43,686	54,594	264	38,483	51,690	277
Consumer lending, net	91,937	104,101	324	60,929	70,830	317	42,861	53,563	259	24,478	32,879	176
Money transfers	11,097	12,566	39	8,334	9,688	43	6,845	8,554	41	5,775	7,757	42
Other	20,008	22,655	71	14,001	16,276	73	10,665	13,328	64	8,475	11,384	61
Total sales to unaffiliated customers	186,767	211,476	659	135,360	157,356	704	104,057	130,040	629	81,211	109,083	584
Expense other than interest	123,093	139,379	434	86,394	100,433	450	69,323	86,633	419	54,556	73,280	393
Interest expense, net	14,321	16,216	51	12,238	14,227	64	12,091	15,110	73	13,240	17,784	95
Total expenses	137,415	155,595	485	98,632	114,660	513	81,414	101,743	492	67,796	91,063	488
Income before income taxes	49,352	55,881	174	36,728	42,696	191	22,643	28,297	137	13,415	18,019	97
Income tax provision	23,437	26,538	83	15,350	17,845	80	9,553	11,939	58	5,070	6,810	36
Net Income	25,915	29,344	91	21,378	24,851	111	13,090	16,359	79	8,345	11,209	60
Consumer loan originations	827,535	937,018	2,919	554,949	645,128	2,888	447,940	559,791	2,713	309,016	415,070	2,224
Identifiable assets EOY				162,603			117,987			92,835		
Identifiable assets Average	384,083			140,295			105,411			90,538		
Net Profit Margin		0.1388			0.1579			0.1258			0.1028	
Return on Assets	0.0675			0.1524			0.1242			0.0922		
Calculation of interest:												
Canada Revenues	186,767			135,360			104,057			81,211		
Total Consolidated Revenues	401,164			328,521			291,566			246,107		
Total Consolidated Interest	30,761			29,702			33,878			40,123		
Interest allocation to Canada based on revenue	14,321			12,238			12,091			13,240		
Calculation of net Income and Total Expenses:												
Income before income taxes (reported)	51,009			49,960			34,084			24,163		
Add Interest expense (reported)	12,664			-994			650			2,492		
Minus Interest Expense (Allocated)	14,321			12,238			12,091			13,240		
Income before income taxes (adjusted)	49,352			36,728			22,643			13,415		
Income Tax Provision	24,034			19,398			13,672			8,939		
Tax adjustment for additional interest @ .36	-597			-4,048			-4,119			-3,869		
Income Tax Provision (adjusted)	23,437			15,350			9,553			5,070		
Net Income	25,915			21,378			13,090			8,345		
Total Sales	186,767			135,360			104,057			81,211		
Minus Income before income taxes (reported)	-51,009			-49,960			-34,084			-24,163		
minus Interest expense (reported)	-12,664			994			-650			-2,492		
Expense other than interest	123,093			86,394			69,323			54,556		

Source: Data from Dollar Financial Corp. Annual Reports, 10-K Reports, MDA Reports and 10-Q Report dated May 10, 2007.

1. Nine months ended March 31, 2007 annualized.

TABLE 9

**PROFITABILITY MEASURES
CANADIAN BANK INDEX
2004-2006
%**

Net Profit Margin			Return on Equity			Return on Invested Capital		
2006	2005	2004	2006	2005	2004	2006	2005	2004
27.76	20.79	24.13	19.94	13.99	16.21	14.33	10.91	12.23

Source: FP Industry Reports

TABLE 10

RENTCASH INC.
SELECTED FINANCIAL DATA, 2004-2007
(000)

	2007		2006		2005		2004	
	Total	Per Store	Total	Per Store	Total	Per Store	Total	Per Store
Brokerage Revenue	123,498	354	130,061	413	63,891	416	16,530	193
Rental Revenue	24,236		24,108		12,882		5,650	
Total Revenue	147,734		154,169		76,773		22,180	
Brokerage Net Income (Reported)	16,559		24,206		9,764		1,891	
Less: Allocation of corporate expenses	7,008		6,390		1,333		1,496	
Brokerage Net Income (Adjusted)	9,551	27	17,816	57	8,431	55	395	5
Rental Net Income (Reported)	-2,294		-2,672		-1,366		-231	
Less: Allocation of corporate expenses	1,375		1,184		269		511	
Rental Net Income (Adjusted)	-3,669		-3,856		-1,635		-743	
Total Net Income	5,882	17	13,960	44	6,796	44	-348	-4
Consumer loan originations (2005-2007)	499,000	1,431	556,000	1,766	281,000	1,829		0
Total Shareholders' Equity EOY	77,645		70,301		54,715		3,506	
Total Shareholders' Equity Average	73,973		62,508		29,110		3,673	
Identifiable Brokerage Assets	75,352		70,714		66,693		6,321	
Identifiable brokerage Assets Average	73,033		68,704		36,507		5,778	
Net Profit Margin	0.0773		0.1370	0.1370	0.1320	0.1320	0.0239	
Return on Assets	0.1308		0.2593		0.2309		0.0683	
Return on Equity	0.0795		0.2233		0.2335		-0.0947	
Brokerage Assets	72,238		68,559		62,058		4,300	
Corporate assets	3,726		2,555		5,570		2,713	
Allocation to Brokerage	3,114		2,155		4,636		2,022	
Total Brokerage Assets	75,352		70,714		66,693		6,321	
Brokerage stores EOP	358		338		277		108	
Brokerage stores Average	348.75		314.875		153.625		85.625	
Corporate Expenses	8383		7574		1601.357		2007.557	

Source: Data from Rentcash Inc. Annual Reports, Quarterly Reports, and MDA Reports.

TABLE 11

RENTCASH INC.
Share Price
July 1, 2004 – June 30, 2007



Source: Big Charts.com

TABLE 12

**COMPARISON OF SURVEY RESULTS FOR
SMALL BUSINESS SIZE
COSTS PER \$100 LOAN**

Type of cost	E&Y Report¹	Deloitte Report²
Operating Cost	\$17.21	\$20.95
Cost of Loan Capital	.52	.68
Cost of Supplementary Capital	.68	.75
Bad Debt Cost	4.47	4.49
Total	\$22.88	\$26.87

Sources:

1. "The Cost of Providing Payday Loans in Canada," Ernst & Young, October, 2004, p. 29, Table 5A
2. "Cost of Providing Payday Loans in Manitoba," Deloitte & Touche, September, 2007, p. 13.