



MINISTRY OF SMALL BUSINESS AND CONSUMER SERVICES

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ONTARIO PROTECTS PAYDAY LOAN USERS: McGuinty Government To License Lenders, Protect Consumers

NEWS

Ontario is taking steps to provide additional protection for users of payday loan services.

Beginning April 1, 2009, users of payday loans will benefit from stronger consumer protections in the Payday Loans Act, 2008. The legislation will:

- Require payday lenders and loan brokers to be licensed, starting on April 1, 2009.
- Prohibit certain industry practices, including "rollover" loans, effective July 1, 2009.
- Give payday loan borrowers a two-day "cooling off" period to cancel a loan with no reason without incurring a penalty, effective July 1, 2009.
- Establish an Ontario Payday Lending Education Fund, paid for by licencees.
- Set a maximum total cost of borrowing cap for payday loan agreements in Ontario of \$21 per \$100 borrowed, as recommended by Ontario's Maximum Total Cost of Borrowing Advisory Board.

The legislation also provides for enforcement and prosecution of violations and the ability to revoke, subject to appeal, the licenses of payday lenders and loan brokers.

QUOTES

"Ontario is taking a balanced approach to payday lending. Social advocacy groups have stated that Ontario's payday lending industry serves an important need for people who need immediate financial assistance. We are making sure those who need access to credit have options and protections available to them."

- Harinder Takhar, Minister of Small Business and Consumer Services

"I applaud the licensing of payday lenders in Ontario. A cooling-off period is essential for consumers to have an opportunity to cancel these loans and a cap on lending is a necessary component to this legislation. We believe these steps give consumers the protection they need when dealing with

payday loans."

- Laurie Campbell, Executive Director, Credit Canada

"The regulation of payday lenders is a positive step forward for Ontario consumers. We are encouraged by the protections and look forward to reviewing this cost structure as the industry adjusts to the new regulations."

- Roy Anderson, Leading Member, Association of Community Organizations for Reform Now (ACORN)

QUICK FACTS

- Ontario has about 750 payday loan storefronts.
- British Columbia, Manitoba, Saskatchewan, New Brunswick and Nova Scotia have passed payday lending legislation. Nova Scotia proposes to charge \$31 per \$100 borrowed for payday loans; Manitoba proposes to charge \$17 per \$100 borrowed; British Columbia proposes to charge \$23 per \$100 borrowed.
- Ontario requires federal designation before the maximum total cost of borrowing cap for payday loan agreements will come into force.

LEARN MORE

- Read about the **Payday Loans Act, 2008** (http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_08p09_e.htm) and its **regulations** (<http://www.e-laws.gov.on.ca/index.html>)
- Read about the **Maximum Total Cost of Borrowing Advisory Board's** (<http://www.gov.on.ca/mgs/graphics/264305.pdf>) report on an upper limit to the total cost of borrowing for payday loan agreements in Ontario.

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ontario.ca/small-business-news

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Backgrounder: Ontario's Payday Lending Industry Payday loans

A payday loan is a short-term loan for a small amount of money. The average payday loan in Canada is about \$300 for a term of two weeks.

This money is advanced in exchange for a post-dated cheque, a pre-authorized debit or a future payment of a similar nature.

Lenders typically require a borrower to show pay stubs proving three months of continuous employment, supply proof of address, such as a recent utility bill and have an active chequing account.

A profile of Ontario's payday lending industry

Canada's payday lending industry has grown rapidly, first appearing in western Canada in the early 1990s and migrating eastward.

There are about 1,350 payday loan storefronts in Canada -- with about 750 of these stores operating in Ontario. The payday lending industry also offers loans through the internet and by telephone.

The total payday loan volume in Canada is estimated at \$2 billion per year. The average payday loan storefront lends about \$1.5 million and makes 5,000 individual loans per year, based on an average loan of \$300.

The Payday Loans Act, 2008

Certain provisions under the Payday Loans Act, 2008, come into force beginning April 1, 2009.

This legislation:

- Creates a licensing regime for payday lenders and payday loan brokers
- Requires lenders to include in the total cost of borrowing all amounts the borrower is required to pay as a condition of entering into a payday loan agreement
- Prohibits certain industry practices, including "rollover" loans. "Rollover" loans occur when a consumer already has one payday loan, and before that loan is paid off in full, receives another payday loan from the same lender
- Provides for enforcement through prosecutions and the ability, subject to appeal, to revoke the licenses of payday lenders and loan brokers
- Establishes the Ontario Payday Lending Education Fund, made up of mandatory financial contributions from licensees, to promote understanding of the *Payday Loans Act, 2008* and general financial planning
- Will increase public confidence in the payday lending market
- Allows borrowers to cancel payday loan agreements -- without penalty -- during a two-day cooling-off period.

Licensing provisions under the Payday Loans Act, 2008, come into force beginning April 1, 2009.

On August 1, 2007, new regulations under the Consumer Protection Act, 2002, came into force.

These regulations required: lenders to post information that enables borrowers to compare lending costs; specific information to be set out on the first page of the payday credit agreement; the payday credit agreement to be delivered to the borrower upon entering into the agreement.

The Government of Canada's Bill C-26, An Act to Amend the Criminal Code provides provinces across Canada with the opportunity to set the maximum total cost of borrowing for payday loan agreements in their own jurisdictions if they meet specific requirements and request designation. British Columbia, Manitoba, Saskatchewan, New Brunswick and Nova Scotia have enacted payday lending legislation that is consistent with requirements for designation under Bill C-26. Ontario's *Payday Loans Act, 2008*, which received royal assent on June 18, 2008, provided for the setting of limits to the total cost of borrowing for payday loan agreements in Ontario. Ontario has been working in close cooperation with other provinces for several years to ensure a harmonized approach to credit agreements and the protection of borrowers.

The Maximum Total Cost of Borrowing Advisory Board

In April 2008, Ontario established a Maximum Total Cost of Borrowing Advisory Board to recommend an upper limit to the maximum total cost of borrowing for payday loan agreements in Ontario. The board consulted and heard from over 20 community advocacy groups, industry representatives, along with experts from both the financial and academic communities.

The board recommended Ontario set a maximum total cost of borrowing cap for payday loan agreements at \$21 per \$100 borrowed. This approach balances the need to ensure the competitiveness of the payday lending industry while making sure consumers who need access to this type of credit enjoy strong protections. The **report is available on the Ministry of Small Business and Consumer Services website** (<http://www.gov.on.ca/mgs/graphics/264305.pdf>).

The maximum total cost of borrowing cap for payday loan agreements in Ontario will come into force upon designation of Ontario under the Criminal code of Canada (as amended by Bill C-26).

Jurisdictional Comparisons

Maximum total cost of borrowing for payday loan agreements

Manitoba	Ontario	British Columbia	Nova Scotia
\$17 per \$100 borrowed	\$21 per \$100 borrowed	\$23 per \$100 borrowed	\$31 per \$100 borrowed