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PAYDAY LOAN COMPANIES IN CANADA: DETERMINING THE PUBLIC INTEREST

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INTRODUCTION

Governments have historically tried to criminalize usury, that is, the charging of exorbitant interest rates. In Canada, section 347 of the *Criminal Code*(1) makes it a criminal offence to charge more than 60% interest per annum. The recent growth of the payday loan industry has focused attention on the industry and its practice of charging relatively high rates of interest. While critics call for the outright prohibition of payday loans on the basis of usurious interest rates, proponents point to the growth of payday loan companies as evidence that the industry is fulfilling an unmet need for short-term credit and/or convenience. Policy makers are left to define the best interests of the public, and to evaluate the effectiveness of the current approach to the payday loan industry in protecting that public interest.

WHAT IS A PAYDAY LOAN?

A payday loan is a short-term loan for a relatively small sum of money, provided by a non-traditional lender.(2) Statistics from the Canadian payday loan industry suggest that the average payday loan is valued at $280 and is extended for a period of 10 days.(3)

In order to qualify for a payday loan, the borrower generally must have identification, a personal chequing account, and a pay stub or alternative proof of a regular income. Payday lenders typically extend credit based on a percentage of the borrower's net pay until his/her next payday (generally within two weeks or less). The borrower provides the payday lender with a post-dated cheque, or authorizes a direct withdrawal, for the value of the loan plus any interest or fees charged.

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(1) R.S. 1985, c. C-46.

(2) A distinction is made between "traditional" and "non-traditional" lenders; the former term includes banks and other financial institutions that are subject to existing regulatory regimes, while the latter refers to payday loan companies.

(3) Bob Whitelaw, "$280 till payday: The short-term loan industry says it provides a service the (average) Canadian needs, wants and appreciates," *Vancouver Sun*, 8 June 2005, available at: http://www.cpla-acps.ca/files/June8,2005VancouverSun.doc. Bob Whitelaw is the President and CEO of the Canadian Payday Loan Association.

Some payday lenders will cash the borrower's post-dated cheque or process the direct withdrawal on the due date of the loan. Others will require that the borrower repay the loan in cash on or before the due date, and may charge an additional fee if the loan is not repaid and they must cash the cheque or process the direct withdrawal subsequent to the loan due date. If there are insufficient funds in the borrower's account, the borrower may also be required to pay a return fee to the payday lender and/or a non-sufficient funds (NSF) fee to his/her bank or credit union. In this instance, the borrower may have the option of "rolling over" the loan – that is, taking out another payday loan to pay off the original loan – for an additional fee.

WHO USES PAYDAY LOANS AND WHY?

In early 2005, the Financial Consumer Agency of Canada placed questions on the Canadian Ipsos-Reid Express (CIRE) – a national omnibus poll of Canadian adults – about Canadians' experiences with, and motivations for, using cheque-cashing and payday loan services.(4) The survey found that approximately 7% of survey respondents had used a cheque-cashing or payday loan company. Cheque cashing was the most frequently used service (57%), followed by payday loans (25%) and tax refund anticipation loans (5%). Certain respondents were more likely to have used these services, including:

- men;
- those between the ages of 18 and 34 years;
- urban residents;
- residents of British Columbia, Alberta, Saskatchewan and Manitoba;
- those with household incomes less than $30,000 per year; and
- those with some post-secondary education.

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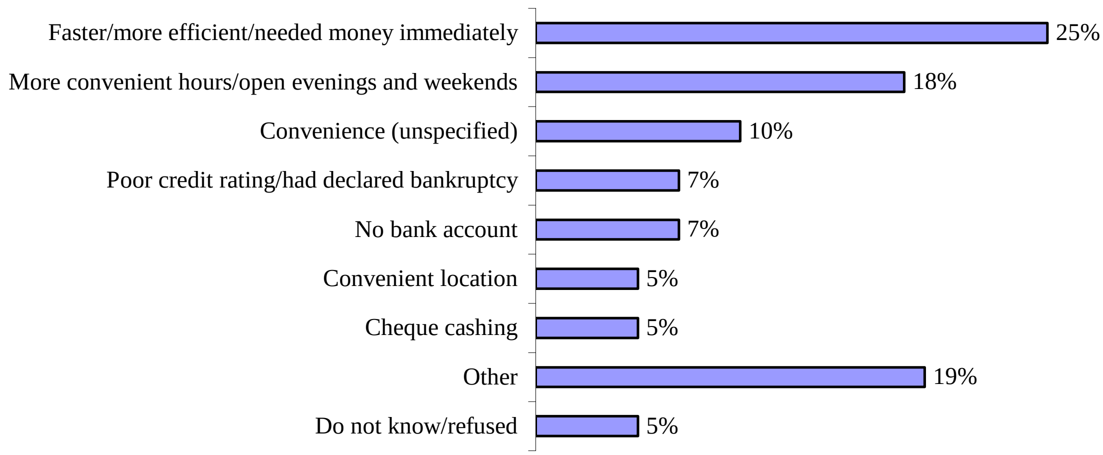
(4) Cheque-cashing services allow individuals to cash cheques and immediately receive cash, subject to a charge that is usually calculated as a percentage of the face value of the cheque plus a handling fee. Financial Consumer Agency of Canada, *Public Experience with Financial Services and Awareness of the FCAC*, 24 March 2005, available at: http://www.fcac-acfc.gc.ca/eng/media/PDFs/PublicExpFinServAwareRpt_e.pdf.

Figure 1 shows the most commonly cited reasons for using cheque-cashing or payday loan companies rather than traditional financial institutions, while Figure 2 shows frequency of use. The customer profile described above tends to vary depending on the reason for using cheque-cashing or payday loan services and the frequency of use of these services.

Figure 1

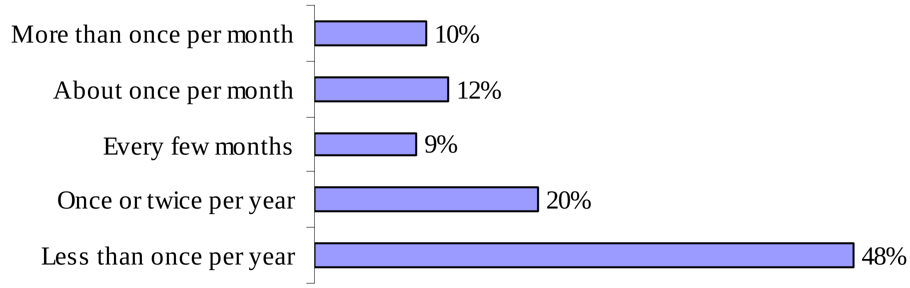
Reasons for Using Cheque-Cashing or Payday Loan Companies



Source: Financial Consumer Agency of Canada (2005), p. 11.

Figure 2

Frequency of Use of Cheque-Cashing or Payday Loan Companies



Source: Financial Consumer Agency of Canada (2005), p. 13.

CANADIAN PAYDAY LOAN INDUSTRY

It is believed that the payday loan industry first emerged in Canada in the early to mid-1990s in response to a demand for small-sum, short-term credit. As of 2004, there were an estimated 1,200 payday loan stores in Canada, although the industry is growing rapidly and there is no easy or official means of tallying the participants.(5) Moreover, no authoritative information is available on industry revenues or profits, with different sources citing figures ranging from $170 million to $1 billion in annual revenues.

Payday lenders typically follow one of three business models: the traditional model, the broker model or the insurance model. Those using the traditional model incur all of the operating costs, provide loans from their own capital (in most instances, equity capital), and collect all interest and other charges. Under the broker model, payday lenders incur all of the operating costs, but the loan capital is provided by a third-party financial institution. In this case, the company collects a "brokering fee," while the third-party lender collects the interest and assumes the risk of loan defaults. With the insurance model, companies again incur all of the operating costs and charge customers a fixed fee and insurance-type premium on each loan transaction. The premium, which is designed to cover the cost of providing the loan funds as well as the risk of loan default, is assumed by an insurance company that is often owned by the payday lender. One study suggests that companies may use the broker and insurance models to minimize their risk of being charged with exceeding the criminal interest rate under the *Criminal Code*.(6)

In addition to loans, payday loan companies may offer other services, including cheque cashing, advances on tax refunds, money transfers, foreign currency exchange, bill payment and/or money orders. Some companies offer debit cards that carry a balance of the amount of the loan and that can be used at any automated teller machine (ATM) in Canada. Most revenues, however, are typically generated from payday loan and cheque-cashing services.(7)

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(5) Canadian Payday Loan Association (CPLA), http://www.cpla-acps.ca/english/history_en.htm, accessed 29 November 2005.

(6) Ernst & Young, *The Cost of Providing Payday Loans in Canada*, prepared for the Canadian Payday Loan Association, October 2004, p. 5, available at: http://www.cpla-acps.ca/files/EYPaydayLoanReport.pdf.

(7) For example, in the 2004-2005 fiscal year, 80% of the revenues from Dollar Financial Group's Canadian operations were generated from cheque-cashing services (40%) and consumer lending (40%).

A. Key Industry Players

National Money Mart Company, a Victoria-based subsidiary of the U.S.-based Dollar Financial Group (DFG), is the Canadian industry leader with its Money Mart payday loan stores. National Money Mart Company estimates its market share to be 30% by number of stores and close to 50% by volume of business. As of November 2005, there were 344 Money Mart stores in Canada, 130 of which were operated by franchisees.(8) In the 2004-2005 fiscal year, revenues from DFG's Canadian operations were US$108.2 million or 37.1% of the company's total revenues. Between 2003-2004 and 2004-2005, the revenues from DFG's Canadian operations increased by US$23.4 million. The company attributes this growth to: a stronger Canadian currency; pricing adjustments made to the short-term consumer loan product in late 2003-2004; and higher loan amounts offered as a result of changes to the lending criteria in 2004-2005.(9)

Rentcash Inc., an Edmonton-based company that is publicly traded on the Toronto Stock Exchange (TSX: RCS), is National Money Mart Company's largest competitor in Canada. As of November 2005, Rentcash operated 298 payday loan stores across Canada, with the exceptions of Quebec and Nunavut: 197 under the Cash Stores banner and 101 under the Instaloan banner.(10) Rentcash also operates 86 Insta-rent stores, which are located primarily in The Brick and United Furniture Warehouse stores and serve as renters of furniture, appliances, electronics and computers.

In the 2004-2005 fiscal year, Rentcash reported revenues of C$77.3 million, an increase of C$55.1 million, or close to 250%, from the previous year. Moreover, in 2004-2005 the company posted its first profitable year, with net income of C$7.3 million, compared to a net loss of C$219,264 in 2003-2004.(11) In 2005, Rentcash was ranked as the top Investor 500 small-cap performer by *Canadian Business Magazine*, second in the Top Performers over $20 million by *Alberta Venture Magazine*, and seventh in the PROFIT HOT 50 ranking of emerging Canadian growth companies. The company attributes its increased earnings to: continued store expansion; growth in store sales; and the acquisition of established stores. As well, there has been strong growth in the company's brokerage division, which has offset losses in the rental-purchase division and increased corporate expenses.

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(8) DFG, http://www.dfg.com/markets.asp, accessed 30 November 2005.

(9) Dollar Financial Corporation, *Form 10-K*, filed 22 September 2005 for year ended 30 June 2005, available at: http://phx.corporate-ir.net/phoenix.zhtml?c=177357&p=irol-sec&secCat01.1_rs=11&secCat01.1_rc=10.

(10) Rentcash, http://www.rentcash.ca/companyprofile.aspx, accessed 30 November 2005.

(11) Rentcash, *Annual Report*, 2005, available at: http://www.rentcash.ca/Uploads/Objects/annual-lores.pdf.

Cash Money is a third key industry player that, unlike DFG and Rentcash, does not publish an annual report. According to the company's Web site, Cash Money Cheque Cashing Inc. is a Canadian-owned and -operated company that opened its first store in Toronto in 1992, and today operates over 70 payday loan stores in British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Nova Scotia.(12)

While most payday loan stores in Canada are operated by one of the three key industry players described above, there are also many smaller companies with single or multiple stores that offer payday loans to Canadians.

B. The Canadian Payday Loan Association

The Canadian Payday Loan Association (CPLA), formerly the Canadian Association of Community Financial Service Providers, was formed in early 2004 as a national industry association. The CPLA represents nearly 40 companies – including Money Mart, Rentcash and Cash Money – that together operate approximately 750 stores in Canada.(13)

Currently, the CPLA acts as a self-regulatory organization for member payday loan companies in Canada; membership is voluntary. On 22 June 2005, the CPLA issued a revised *Code of Best Business Practices*,(14) which obliges members to abide by certain standards and guidelines with respect to:

- rollovers;
- multiple loans;
- default and post-maturity interest charges;
- credit counselling;
- collateral;
- collection practices;
- loans to customers on the basis of social assistance payments;
- the terms and value of loans;
- record keeping;

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(12) Cash Money, http://www.cashmoney.ca/, accessed 30 November 2005.

(13) CPLA, 30 November 2005, http://www.cpla-acps.ca/english/association_en.htm. The CPLA membership includes only "bricks and mortar" payday loan companies; the organization does not represent Internet loan providers, pawnbrokers or title loan providers. A "bricks and mortar" member of the CPLA may also conduct business on the Internet, but must ensure that this component of its business also complies with all aspects of the CPLA's *Code of Best Business Practices*.

(14) CPLA, *Code of Best Business Practices*, available at: http://www.cpla-acps.ca/files/code_en.pdf.

- the customer's right to rescind;
- privacy protection;
- selling insurance;
- advertising;
- disclosure to customers;
- education and awareness;
- member non-compliance; and
- consumer complaints.

All existing members agreed to comply with the revised Code by 1 September 2005, and adherence to the Code will be a condition of future membership.

In December 2004, the CPLA began operating a toll-free line to receive and address consumer complaints that are not resolved at the store or company level. Between January and September 2005, the CPLA received 397 contacts: 243 inquiries (61%), 93 complaints about members (23%), 42 complaints about non-members (11%), and 15 non-payday-related issues (4%). The top ten types of complaints received are with respect to:(15)

- collection practices;
- customer service;
- excessive fees;
- requests for payment plans;
- bank account access;
- inadequate disclosure regarding borrowing costs;
- wage assignment;
- rollovers;
- lack of written documentation; and
- privacy.

The only recourse available to the CPLA in dealing with non-compliant members is revocation of their CPLA membership. Recently, the President of the CPLA acknowledged that: "The [CPLA] wants government to regulate the payday lending industry. Until regulation

(15) CPLA, *Three-Month Report on Consumer Inquiries/Complaints to the CPLA: Quarter 3 – July to September 2005* and *Six-Month Report on Consumer Inquiries/Complaints to the CPLA: January to June 2005*, available at: http://www.cpla-acps.ca/summaryreports/index.html.

is introduced, we are voluntarily improving our members' business practices by adopting a stronger Code of Best Business Practices to protect payday loan customers. It's a significant step that further widens the gap between [CPLA] members and non-members."(16)

CAUSES FOR CONCERN

The ongoing and expanding presence of payday loan companies suggests that some Canadians are willing to pay usurious rates of interest – in excess of that permitted under the *Criminal Code* – for their payday loans. This situation raises important questions about whether and how issues in the payday loan industry should be addressed, by whom, and with what consequences for the industry and its customers.

If one calculates the rate of interest charged on payday loan transactions using the definitions and methods specified in the *Criminal Code*, some payday loan companies appear to be charging criminal rates of interest. Table 1 illustrates this point by showing the details of a payday loan transaction that occurred in Canada in fall 2004.

Table 1

Sample Payday Loan Transaction

Value of the payday loan advanced on 27 September 2004	$400.00
Amount paid by the borrower on 14 October 2004	$451.28
Term of the loan	17 days
Breakdown of amount paid by borrower:	
Principal	$400.00
Interest	$8.64
Per item fee	$9.99
Cheque-cashing fees (7.99% of principal and interest)	$32.65
Effective annual rate of interest	1,242%

Note: Calculations were performed by Karp Actuarial Services Ltd. based on the terms of a payday loan contract between National Money Mart Company and a customer.

Source: Association of Community Organizations for Reform Now Canada, *Protecting Canadians' Interest: Reining in the Payday Lending Industry*, November 2004, Appendix 2, Transaction B, pp. 32-34; available at: http://www.acorn.org/fileadmin/International/Canada/Reports/Payday_Lending_Report.pdf.

(16) Canadian Payday Loan Association, "Payday Loan Industry Association Unveils Stronger Code of Best Business Practices to Protect Consumers," News Release, 22 June 2005.

While the interest amounts to a relatively small fraction of the total cost of the loan, the comprehensive definition of "interest" in the *Criminal Code* also includes the per item fee and the cheque-cashing fees, which together account for the bulk of the cost. Some payday lenders do not explicitly charge interest and instead use a flat-rate fee, which is considered as interest under the *Criminal Code*. The high effective annual rates of interest are also a direct function of the small-sum, short-term nature of payday loans. Table 2 shows how the effective annual rate of interest decreases as the value of the loan and/or the loan term increases, assuming a fixed fee of $10 per loan.

Table 2

Effective Annual Rates of Interest, Assuming a $10 Charge on Each Loan Regardless of the Loan Size or Term

	Loan Term		
Value of the Loan	**2 weeks**	**1 month**	**1 year**
$100	1,100%	219%	10%
$500	68%	27%	2%
$1,000	30%	13%	1%
$10,000	3%	1%	0.10%

Note: Boxes shaded in grey indicate loan arrangements that would result in a criminal rate of interest, as defined in the *Criminal Code*, being charged to the borrower.

Source: Calculations by the Library of Parliament, using methodology provided by Karp Actuarial Services Ltd.

Some assert that it is not possible to provide payday loan services at a lower cost to the consumer and still maintain a profitable business. An Ernst & Young report commissioned by the CPLA estimated the cost of providing payday loans to be $15.35 to $21.22 per $100 of loans, depending on the size of the business.(17) Operating costs and the cost of loans not recovered within 90 days (i.e., "bad debts") are the two largest cost components – representing 67% and 26% of total costs on average – while the cost of capital accounts for a

(17) Ernst & Young (2004), p. 31. These figures are the weighted average costs of providing payday loans; an unweighted or simple average methodology produces higher cost estimates. This result reflects the fact that the largest payday lenders, which have lower operating costs, represent a significant share of the total payday loan volume.

relatively small proportion of the total. The Ernst & Young report suggested that payday lenders, facing a cost structure with a high proportion of operating costs that do not vary with the size or term of the loan, cannot recover their costs by charging the 60% per annum interest rate permitted under the *Criminal Code*.

The continued willingness of consumers to pay these relatively high effective annual rates of interest, demonstrated by the growth of the payday loan industry, seems somewhat puzzling. The Consumer Measures Committee (CMC) Working Group on the Alternative Consumer Credit Market – a consortium of Industry Canada and provincial/territorial departments responsible for consumer affairs – provides one explanation: "purchasing decisions seem based on the actual dollar cost of the loan, or on the nominal interest rate for the term, rather than on the academic concept of an annual interest rate."(18) For example, in the transaction described in Table 1, the charges total $51.28 – a nominal interest rate for the term of 12.82%, but an effective annual rate of interest of 1,242%. Others hypothesize that consumers are satisfied with the service they receive for the cost they pay or, alternatively, that they do not have, or are not aware of, better credit alternatives.

During its consultations on the alternative consumer credit market in Canada, the CMC Working Group heard from industry, consumer advocacy and academic participants, some of whom are concerned that if payday lenders close – as a result of either full enforcement of existing laws or the introduction of a regulatory framework that makes it unprofitable to stay in business – some payday loan customers may turn to less desirable, underground credit options, including organized crime and loan-sharking.

While the issue of payday loan fees and charges tends to dominate discussions about the payday loan industry, consumer advocacy groups have also raised concerns regarding what they view as the "predatory" lending practices of some payday lenders, including granting of rollovers or back-to-back loans. A rollover is the extension of an existing loan for a fee or the advancement of a new loan to pay off the existing loan. Back-to-back loans are a related practice whereby the borrower pays off the original loan but immediately borrows again. The concern with both rollovers and back-to-back loans is that the penalty fees and/or the charges associated

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(18) The Consumer Measures Committee Working Group on the Alternative Consumer Credit Market, *Consultation Paper on Framework Options for Addressing Concerns with the Alternative Consumer Credit Market*, Autumn 2002, available at: http://cmcweb.ca/epic/internet/incmc-cmc.nsf/vwapj/CMC_credit_e.pdf/$FILE/CMC_credit_e.pdf.

with a new loan increase the borrower's short-term debt load and make the loan increasingly difficult to repay.[19] Borrowers may become dependent on payday loans and enter a cycle of debt, continually paying interest and other charges that quickly exceed the initial value of the loan in order to avoid defaulting.

Other lending practices of concern, the prevalence of which is largely unknown, include pre-signed asset transfer documentation, wage assignments, excessive late or NSF charges, and threats or other inappropriate collection practices.[20]

CURRENT REGULATION OF THE PAYDAY LOAN INDUSTRY

Shared federal-provincial jurisdiction over payday lenders has meant that they are essentially unregulated.[21] For example, the *Criminal Code* provision on usury (section 347) has not been used in a criminal context to curtail the activities of payday lenders, although several civil suits against payday lenders are currently under way.[22] The consent of a provincial Attorney General is required to prosecute an offence under section 347.[23] Provincial governments have yet to prosecute a payday lender; they may fear that the lack of a payday loan company alternative would result in consumers using illegal alternatives such as loan sharks. Beyond provisions in the *Criminal Code*, some provinces/territories have enacted statutes designed to regulate aspects of payday lending but, with the exception of Saskatchewan, they do not have comprehensive legislation.[24]

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(19) The Consumer Measures Committee Working Group on the Alternative Consumer Credit Market, *Stakeholder Consultation Document on a Proposed Consumer Protection Framework for the Alternative Consumer Credit Market*, December 2004, available at: http://cmcweb.ca/epic/internet/incmc-cmc.nsf/vwapj/accm.pdf/$FILE/accm.pdf.

(20) See the CPLA Web site, http://www.cpla-acps.ca/english/association_en.htm.

(21) Financial institutions are regulated either federally or provincially/territorially, depending on which level of government incorporated them. The federal government has jurisdiction over interest rates, but the day-to-day regulation and licensing of payday lenders most likely falls under provincial jurisdiction, as part of their power over property and civil rights; see Peter Hogg, *Constitutional Law of Canada*, Carswell, Toronto, (1997). Territorial governments have the power to regulate payday lenders by virtue of powers delegated by the federal government.

(22) Should the payday loans industry not be regulated, the future of payday lenders may ultimately be determined not by governments but by a number of class action suits currently proceeding through Canadian courts. These lawsuits claim that consumers were charged in excess of the *Criminal Code* rate, and seek to recover hundreds of millions of dollars' worth of interest. Should these civil lawsuits succeed, they could potentially bankrupt the payday loans industry.

(23) In the territories the Attorney General of Canada is responsible for prosecuting *Criminal Code* offences.

(24) Payday lenders are generally subject to provincial/territorial consumer protection laws, and are obliged to follow "truth in lending" legislation enacted by each province/territory.

PROPOSALS FOR A CANADIAN REGULATORY REGIME

Federal and provincial/territorial governments are attempting to develop a regulatory regime to oversee payday lenders. The CMC Working Group on the Alternative Consumer Credit Market was established to explore ways of providing standard levels of consumer protection across Canada. The CMC Working Group believes that "viable consumer protection may be achieved through one or a combination of complementary mechanisms that include federal law, provincial/territorial law, and an industry code of best practices."[(25)]

In December 2004, the CMC published a consultation document that contained a proposed consumer protection framework and a number of possible measures for discussion.[(26)] The CMC sought feedback on the following measures:

- Allow a maximum interest rate structure specific to payday and other short-term loans.[(27)]
- Define alternative consumer credit market loans as small, short-term loans where the initial principal does not exceed $1,500 and the term does not exceed 62 days.
- Restrict default and penalty charges, such as NSF charges, to the charges imposed by financial institutions.
- Prohibit misrepresentations of the reasons for fees charged for small short-term loans, such as a charge for a credit check when no credit check is performed.
- Fully apply the disclosure rules on the cost of consumer credit ("truth in lending" laws) to small short-term lending.
- Require that contracts for loans include a plain-language warning of their high cost as well as contact information for making a complaint.
- Prohibit "rollovers" and require that where the borrower cannot repay a loan on its repayment date, the lender accept repayment by installment within the borrower's ability to pay.

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(25) The Consumer Measures Committee Working Group on the Alternative Consumer Credit Market (2004), p. 1.

(26) *Ibid.*

(27) This option would exempt payday lenders from the *Criminal Code* provisions, but would institute an alternative maximum interest rate that reflects the cost structure of the industry. A similar regime can be found in the federal *Tax Rebate Discounting Act*, R.S. 1985, c. T-3. A tax rebate discounting business calculates personal income taxes, and will advance cash for a rebate that is being processed by the Canada Revenue Agency. In effect, they provide a loan to their customers awaiting a tax return. Under the *Tax Rebate Discounting Act*, the fee for this service is a maximum of 15% on the first $300, and 5% above that amount. This fee applies as a flat rate on the transaction, and is not calculated as an annualized rate of interest.

- Prohibit the practice of "discounting" loans.[28]
- Prohibit the use of wage assignments with respect to loans.
- Prohibit title loans (auto pawns).[29]
- Apply harmonized debt collection practices to small short-term loans.
- Require that contracts for loans include contact information for credit counselling services, and require that such credit counselling information be prominently posted within outlets offering loans.
- Require small short-term lenders to provide borrowers with copies of contract documentation, receipts for payments and statements of account for installment payments.
- Provide borrowers with the right to rescind a loan by the close of the business day immediately following the day on which the loan was entered into, subject to any longer rescission rights that exist in law.
- Prohibit the reporting of all information, including default information, related to small short-term loans in the credit reporting system.
- Prohibit lenders offering loans from co-locating within casinos.

While the measures proposed by the CMC represent a strategy for the regulation and licensing of payday lenders, others suggest that the *Criminal Code* provisions on usury should be strictly enforced even if that reduces the profitability of the industry or results in its abolition.[30] The payday loan industry, as noted earlier, has introduced self-regulation as a means of addressing some of the concerns with payday loans.

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(28) Discounting means advancing less money than the amount of principal recorded in the contract with the consumer, leaving no evidence of the true cost of the loan.

(29) Auto pawns are loans that are secured by a piece of the borrower's property, such as a vehicle. The lender keeps the keys to the vehicle, and transfer documents. Upon default, the lender seizes the vehicle for payment of the debt.

(30) See, for example, Bill S-19, An Act to amend the Criminal Code, 1st Session, 38th Parliament, introduced in the Senate by the Honourable Madeleine Plamondon on 4 November 2004. This bill called for the 60% interest rate ceiling under section 347 of the *Criminal Code* to be reduced to 35% above the Bank of Canada's overnight lending rate. It also called for the definition of "interest" in paragraph 347(2) of the *Criminal Code* to be amended to include insurance charges, thus eliminating what some see as a deficiency in the current legislation that is being used by some payday loan companies operating under the insurance model.

Finally, a number of other stakeholders have made recommendations that they believe would decrease the need for payday loan companies, including:(31)

- Government-led education programs designed to promote financial literacy.
- Promotion of competition from traditional banks and other financial institutions in order to better control costs in the alternative consumer credit market.
- Reforms to make the process of bank closure in low-income and rural neighborhoods more onerous.
- Government aid for the establishment of community banking operations in low-income Canadian neighborhoods.

CONCLUSION

The payday loan industry presents an interesting situation for policy makers, where both the public interest and the best course of action are somewhat unclear. Some members of the payday loan industry appear to be charging usurious rates of interest, in violation of section 347 of the *Criminal Code*. Criminal prosecution, however, could eliminate the payday loan industry and – in the absence of increased servicing by traditional lenders – leave some consumers without access to the credit or convenience they desire. Proposals for a Canadian regulatory regime for the industry may provide a compromise solution on which all stakeholders can agree.

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(31) A number of government organizations, academics and public interest groups have studied the alternative consumer credit market in Canada, and have made policy recommendations. See, for example, Sue Lott and Michael Grant, "Fringe Lending and Alternative Banking: the Consumer Experience," Public Interest Advocacy Centre, November 2002; John Lawford, "Pragmatic Solutions to Payday Lending: Regulating Fringe Lending and Alternative Banking," Public Interest Advocacy Centre, November 2003; Jerry Buckland and Martin Thibault, "The Rise of Fringe Financial Services in Winnipeg's North End: Client Experiences, Firm Legitimacy and Community-Based Alternatives," August 2003; Iain Ramsay, "Access to Credit in the Alternative Consumer Credit Market," paper prepared for the Office of Consumer Affairs, Industry Canada and the Ministry of the Attorney General, British Columbia, February 2000.