

## Request for Feedback on Payday Loan Establishments

Daily Bread Food Bank welcomes the opportunity to provide feedback on the proposed changes to payday loan establishment regulations and policies.

Founded in 1983, Daily Bread Food Bank has grown to supply food to over 180 food programs across Toronto. The 125 member agencies in our network operate food banks and meal programs across the city, spanning from Etobicoke to Scarborough. At no time in the history of the organization have we distributed more food than now; we are projecting that we will distribute over 15.5 million pounds of food this year, 41% more than 2019.

Before COVID-19, there were approximately 15,000 visits to food banks in Toronto each week. By June of this year, this number had grown to 20,000. Now, seven months into the pandemic, we are serving about 25,000 individuals per week. We have seen a 200% increase in the rate of new clients to food banks, and three quarters of new clients reported that they began accessing food banks as a direct result of the pandemic. For food bank clients who were employed prior to COVID-19, three quarters reported job loss.

It is from this significant service history and knowledge of the challenges faced by low-income residents in Toronto, that we provide our input on the proposed changes to payday lender establishment regulations.

Our 2019 *Who's Hungry* research found that **of food bank respondents who had used payday lenders, 53% were unable to pay back the loan without returning for an additional loan.** With high rates of unemployment and rising cost of living resulting from the pandemic, it is likely that these numbers will continue to grow.

Unlike higher-income households that have access to credit cards, lines of credit, and other financial tools to help purchase items and even generate a return on investment (e.g., through a mortgage that builds equity in a home), low-income households often lack access these tools to help bridge bill payments and other unexpected financial situations that arise. Without better alternatives available, payday lenders become one of the only options to access loans. However, payday loan establishments are predatory lenders whose high interest rates can push households that are already struggling financially into the depths of poverty. Payday lender advertisements promise fast cash with no hassle, without transparency about the true cost of the loan, which can incur 500-600% interest.<sup>1</sup>

We submit the following feedback to City staff on the proposed changes shared on September 24, 2020:

1. The City staff report on August 28, 2019 includes a recommendation that the City “consider” alternative lower-cost financial services as part of the Poverty Reduction Strategy. Given the growing economic crisis caused by COVID-19 which has disproportionately impacted low-wage earners, it is paramount that this recommendation be strengthened and enacted. Unless there is a replacement to predatory payday lenders, low-income households will have no alternative to access urgent financial assistance and loans in times of crisis.

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<sup>1</sup> Government of Canada. 2020. Payday Loans. Retrieved from: <https://www.canada.ca/en/financial-consumer-agency/services/loans/payday-loans.html#:~:text=a%20payday%20loan%20costs%20%2417%20per%20%24100%20that,8%25%20annual%20interest%20on%20the%20amount%20you%20borrow>



We recommend that the Poverty Reduction Office put forward an immediate proposal to City Council to develop alternate lending options for low-income households to eliminate the need to rely on payday lenders.

Two options to consider are the development a program where the City of Toronto can provide backing on loans for low-income households to make banks more willing to offer loans to this population. Another alternative is to secure the necessary funding to expand the Rent Bank program to cover expenses outside of rent, or create a parallel program for low- to no-interest loans for low-income households.

Without a lower-cost alternative, any restrictions placed on payday lender advertising or locations are unlikely to be successful in reducing the debt load of low-income households.

2. With respect to advertising, we support further restricting the placement of advertisements and we recommend that payday lenders be mandated to post explicit information about the true interest rates charged on the loan in plain language as well as contacts for debt counselling, as is the case in Kingston and Hamilton.
3. With respect to the locations of payday lenders and the role of the local City Councillor in approving relocations, we recommend that applications for relocation be approved by the Economic and Social Development Committee. This committee is better suited to understand the economic and social impacts of the proposal and will lead to a more consistent municipal approach than decisions made by individual City Councillors.

We further support limiting the availability of payday lenders and establishing minimum proximity regulations. We recommend that in neighbourhoods where payday lenders exist, that the City engage in public awareness campaigns about the true costs of payday lenders and the alternate options available.

In conclusion, payday loan establishments are predatory lenders that exacerbate poverty. It is essential that alternative financial tools be put in place so that these establishments are unable to sustain their businesses. Low-income households require access to financial lending products, and the City of Toronto has a critical role to play in ensuring access to these products as part of the Poverty Reduction Strategy.

Thank you again for the opportunity to provide input.

**For more information, please contact:**

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