

Creating Change: Momentum's Contribution to High-Cost Credit Reform in Alberta

Executive Summary

Momentum is a change-making organization located in Calgary, Alberta that works with people living on low incomes and partners in the community to create a thriving local economy for all.

In 2012, Momentum made a strategic decision to increase its investment in systems level change initiatives to address the root causes of poverty. One of these investments was the creation of a public policy program with dedicated policy staff.

As part of Momentum's systems change planning process that was grounded in both participant and community experience, the issue of payday loans and other forms of high-cost credit (e.g., pawn, installment, rent-to-own, title and car loans) emerged as a priority issue for Momentum to address the financial barriers for people living on low incomes to exit poverty and build sustainable livelihoods.

To evaluate its work for high-cost credit reform in Calgary and Alberta in the period of 2012 to 2019, an outcome harvest was conducted. This evaluation reflects the collective efforts of multiple partners, identifies outcomes achieved as well as Momentum's contribution to these outcomes.

Key Outcomes

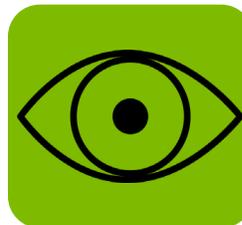
The outcomes of the high-cost credit systems change efforts are shown in Figure 1. Overall, the process of change and outcomes were achieved in three main areas:

- **Build Government Commitment:** Momentum's first change strategy was to identify the negative impact of high-cost credit as a systemic barrier to poverty reduction and raise the issue with government. The outcome of this strategy was building government commitment to improve regulations related to payday lending and other high-cost financial products.
- **Contribute to Government Policy Reform:** Momentum's second strategy was to research and inform specific policy reform recommendations related to each level of government. By laying out the specific policy actions and, where possible, leveraging opportunities to link the recommendations to discussions already on government agendas, Momentum was able to make a significant contribution to several policy reforms related to payday lending and other forms of high-cost credit. These changes resulted in significant savings for Albertans on payday loan fees.



Problem

Lack of access to affordable short-term credit. Many people living on low incomes are trapped in a cycle of debt due to the use of payday loans and other forms of high-cost credit.



Vision

Individuals living on low incomes have access to safe and affordable short-term credit.



Objective

Improving the current supply of short-term credit through better policy, regulations and alternatives.

- **Develop More Affordable Alternatives:** Momentum's third strategy was to convene and work with stakeholders to develop alternatives to payday loans. By involving mainstream financial institutions, community organizations, and philanthropists, the outcome was the launch of multiple small-dollar short-term loans with banks and credit unions as more affordable alternatives to payday loans, though the uptake has been low.

Conclusion

This evaluation highlights the impact of Momentum and community partners' efforts to reduce the negative effects of high-cost credit on Albertans. Specifically, Momentum's work has significantly contributed to the legislation and regulation change to limit and improve high-cost financial products, as well as community efforts to advance the provision of safer and more affordable short-term credit alternatives. Though additional work is required for people living on low incomes to have access to safe and affordable short-term credit, the outcomes reflected to date in this report may provide useful insight to inform Momentum's future work on this issue, and other similar efforts across Canada.

Figure 1: Systems Change Summary

<p style="text-align: center;">Problems Addressed</p> <ul style="list-style-type: none"> • Annualized interest of payday loans and other forms of high-cost credit of 600% or more* • Individuals living on low incomes trapped in cycle of debt caused by payday lending • High-cost credit lenders clustering in lower income neighbourhoods • Limited access to short-term credit offered by mainstream financial institutions for people living on low incomes 	<p style="text-align: center;">Vision</p> <p>Individuals living on low incomes have access to safe and affordable short-term credit.</p>
<p style="text-align: center;">Partners</p> <ul style="list-style-type: none"> • Community members with lived experience as payday lending customers • Community partners (Aspire Calgary, Rise of the Cash Store Committee, International Avenue BRZ, Vibrant Communities Calgary/Enough for All, Sunrise Community Link, United Way of Calgary, University of Calgary, Mount Royal University, Prosper Canada, religious organizations) • City of Calgary, Government of Alberta, Government of Canada • Payday Lending and Financial Inclusion Task Force • Philanthropists • Private sector (First Calgary Financial, Chinook Financial, ATB Financial, Servus Credit Union) 	<p style="text-align: center;">Momentum Contributions</p> <ul style="list-style-type: none"> • Identify issue of the negative impact of payday loans as a systemic barrier to poverty reduction, as experienced by participants in Momentum’s programs, including through media stories • Research and publish reports on the prevalence and negative impact of payday lending and other high-cost credit products on people living on low incomes, including policy alternatives • Raise Issue with municipal, provincial, and federal legislators and civil servants to better regulate high-cost credit financial products • Contribute concrete reform recommendations to payday lending and other high-cost credit legislation and regulations • Convene and collaborate with a wide range of stakeholders to advance this agenda, and develop safe and affordable alternatives to high-cost credit
<p style="text-align: center;">Change Strategy</p>	
<p>Outcome Area 1: Build government commitment to improve regulations related to high-cost credit financial products</p> <ul style="list-style-type: none"> • Have the issues of payday lending and financial empowerment named in Calgary’s poverty reduction strategy Enough for All • Provide evidence-based research to demonstrate the high annualized interest rates, the low-income demography of high-cost credit borrowers, and the clustering of high-cost credit lenders in lower-income neighbourhoods • Outline specific policy alternatives related to all three levels of government to address the issue 	
<p>Outcome Area 2: Contribute to government policy reform on high-cost credit financial products</p> <ul style="list-style-type: none"> • Inform City of Calgary’s Land-Use and Business Licensing Bylaws amendments related payday lending businesses • Contribute to Government of Alberta legislative and regulatory changes: <i>Act to End Predatory Lending</i> and <i>A Better Deal for Consumers and Business Act</i> • Provide recommendations to enhance Government of Canada’s Financial Consumer Protection Framework 	
<p>Outcome Area 3: Develop more affordable alternatives with financial institutions</p> <ul style="list-style-type: none"> • Convene cross-sector partners (mainstream financial institutions, non-profits, philanthropists) to develop and offer lower-cost short-term loans as safe and more affordable alternatives to high-cost credit 	
<p style="text-align: center;">Impact</p>	
<ul style="list-style-type: none"> • Decreased number payday loan stores in Alberta. On International Avenue in Calgary, the number of licensed payday loan stores decreased from 21 to 16 between 2014 to 2019 • Payday lending fees in Alberta decreased from one of the highest in Canada at \$23 per \$100 borrowed to \$15 per \$100, the lowest in the country (at the time) • \$10M saved per year in fees by individuals taking out payday loans in Alberta • Regulation of payday lending and other high-cost credit (pawn, installment, rent-to-own, title and car loans, cheque cashing) better protects borrowers using these products 	

* In Alberta in 2014, payday lenders commonly charged \$23 in interest per \$100 borrowed, for a two-week loan. A \$300 two-week payday loan at this borrowing rate would cost \$69, or \$1794 when annualized over the course of a year, a staggering 600% Annual Percentage Rate. Many loans cost even more than this example.

Preface by Mark Cabaj

In 2016, Karen Pittman, CEO of the Forum on Youth Investment in the United States, shared the following quote at the Tamarack Institute conference in Vancouver, which aimed to explore different ways to make progress on complex issues, such as poverty:

Programmatic interventions help people beat the odds. Systemic interventions seek to change their odds for the better.

This report, **Creating Change: Momentum's Contribution to High-Cost Credit Reform in Alberta**, captures how Momentum and a mix of other organizations have changed the odds for lower income Calgarians (and Albertans) who need access to safe and affordable short-term credit, yet are often forced to turn to high-cost loans from payday lending institutions.

In order to evaluate the eight-year effort, the organization's evaluation team had to find an alternative to more traditional assessment approaches, which were developed for discrete programmatic interventions run by one or a few organizations. This typically involves walking through a number 'default' practices, such as laying out a plan in a linear logic model, which shows how earlier outcomes lead to a desired impact, tracking progress using a few simple metrics over a specified amount of time, and trying to prove that the program – not some other set of factors – are responsible for hoped for whatever changes are observed or measured.

The traditional approach would not work for a simple reason: the strategy to reform policies related to high-cost credit was a complex process of systems change, rather than simple, programmatic intervention. It involved multiple actors, working on multiple (often connected) activities, generating multiple outcomes, all over nearly a decade. Though everyone was clear that the goal was to improve access to affordable credit, they had to continually develop and adapt their strategy over time, responding to an ever-shifting landscape. They simply could not plan it all up front, like some impossibly elaborate chess

game. And while traditional evaluation was useful in assessing specific elements of the overall effort (e.g. the piloting of Cash Crunch loans), traditional evaluation was simply not able to handle the complexity of all these moving pieces.

Outcome Harvesting is designed to handle that complexity. The methodology was developed over a decade by one of the most well-known evaluators in international development circles: Ricardo Wilson-Grau. The core features of the Outcome Harvesting approach include:

- An understanding that in order to generate deep and durable impact (e.g. safe and affordable credit for lower income households), a variety of system actors must change their behaviours (e.g. payday lenders, mainstream financial institutions, municipal, provincial, and federal levels of government).
- A recognition that impact occurs over time, through cumulative behaviour changes by key system actors (e.g. increased media attention, changes in by-laws, innovations in lending programs, etc.).
- An acknowledgement that there are usually multiple factors that contribute to changes in system (e.g. a change in government), rather than pretending that one organization or program is fully responsible such changes.
- A substantiation process to validate the assessment of different outcomes, including who contributed to them and how, and why they are important, with other stakeholders who might offer alternative explanations for what happened and why.

The Outcome Harvesting methodology has been embraced by organizations working on complex social challenges world-wide. It is now routinely employed, for example, by the World Bank to evaluate public sector reform initiatives and the United States Agency for International Development for its many development projects. It is increasingly used by philanthropic organizations and social sector agencies across Canada.

Continued...

The evaluation team at Momentum did a fine job of employing the Outcome Harvesting methodology in this assessment. They were diligent in keeping records of key moments in the change process since its beginning. They operated with a partnership mentality, acknowledging the role and contribution of multiple actors in the change process. They closely followed the step by step guidance provided in the recent book *Outcome Harvesting: Principles, Steps, and Evaluation Applications*, and they looked to other Outcome Harvesting case studies around the world for examples. They were thorough in every respect, and it shows. This is the organization's first Outcome Harvest and it is a good one.

Social innovators trying to create economies that work for everyone need examples of strategies that lead to real change so that they know it's possible. The evaluators that support them need examples of robust, complexity-aware methodologies that capture – rather than distort – what it takes to make that kind of change so that they don't default to less helpful traditional evaluation practices. They both have the examples they seek in the **Creating Change: Momentum's Contribution to High-Cost Credit Reform in Alberta** report.

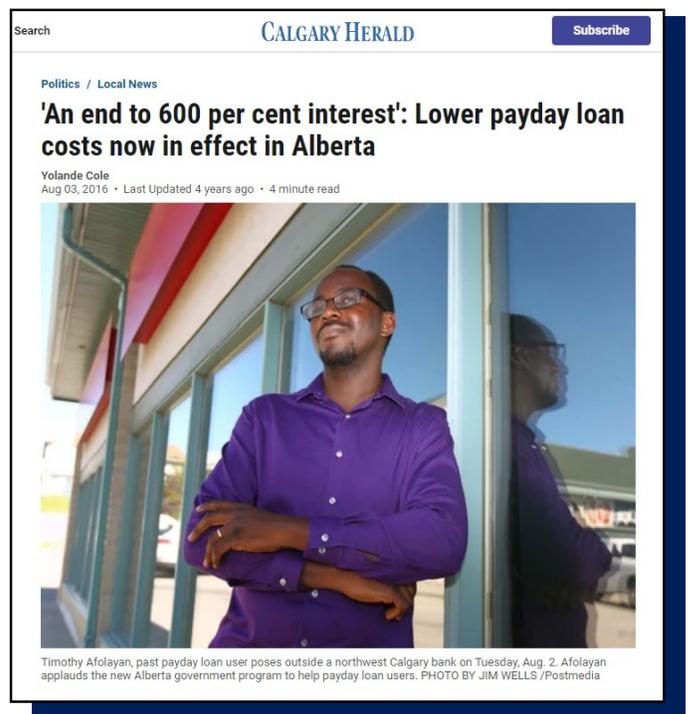
Mark Cabaj



President, Here to There Consulting Inc.
Former Vice President, Tamarack Institute for Engagement
Former Executive Director, Canadian Community Economic Development Network

Background

For many years Momentum had heard from its program participants about problems with payday loan debt and the obstacles to saving this debt creates. For instance, it took one Momentum participant ten months and \$2,500 to repay a payday loan of \$600 to cover his mother's medical expenses.¹ With added fees, hidden fees, and high-interest rates, payday loans and other high-cost financial products can easily send individuals living on low-incomes into a cycle of debt that is difficult to escape, exacerbating the barriers to exiting poverty. Residents and community partners tired of the concentration of payday lenders on International Avenue in Calgary, a lower-income community close to Momentum's office, formed the Rise of the Cash Store Committee. The group worked to raise the issue of the negative impact of payday lending in their neighbourhood. Grounded in both participant and community experience, the issue of payday loans and other forms of high-cost credit (e.g., pawn, installment, rent-to-own, title and car loans) emerged as a systems issue for Momentum to address.



Search CALGARY HERALD Subscribe

Politics / Local News

'An end to 600 per cent interest': Lower payday loan costs now in effect in Alberta

Yolande Cole
Aug 03, 2016 • Last Updated 4 years ago • 4 minute read



Timothy Afolayan, past payday loan user poses outside a northwest Calgary bank on Tuesday, Aug. 2. Afolayan applauds the new Alberta government program to help payday loan users. PHOTO BY JIM WELLS /Postmedia

Credit: <https://calgaryherald.com/news/local-news/an-end-to-600-per-cent-interest-rates-lower-payday-loan-costs-now-in-effect-in-alberta>

The Issue

Payday lenders provide individuals access to small-dollar, short-term credit, usually without any assessment of loan purpose, existing debt, or ability to pay, as well as no examination of income or track record in repaying loans. Similar to payday loans, other high-cost credit products such as rent-to-own financing, high-cost instalment loans, and pawn shops supply individuals without regular access to credit with fast, convenient access to cash or assets, but at a higher price than bank loans or credit cards.

Beyond the negative impact on individuals, the community-level effects of the clustering of high-cost credit businesses include financial hardship and crime, increase risk of poverty in vulnerable communities, and disinvestment.² Both payday lending and other high-cost credit businesses tend to be geographically concentrated in lower income neighbourhoods.^{3,4} In Calgary, 69 out of the 82 payday lending businesses in 2014 were located in neighbourhoods with above-average rates of poverty.⁵

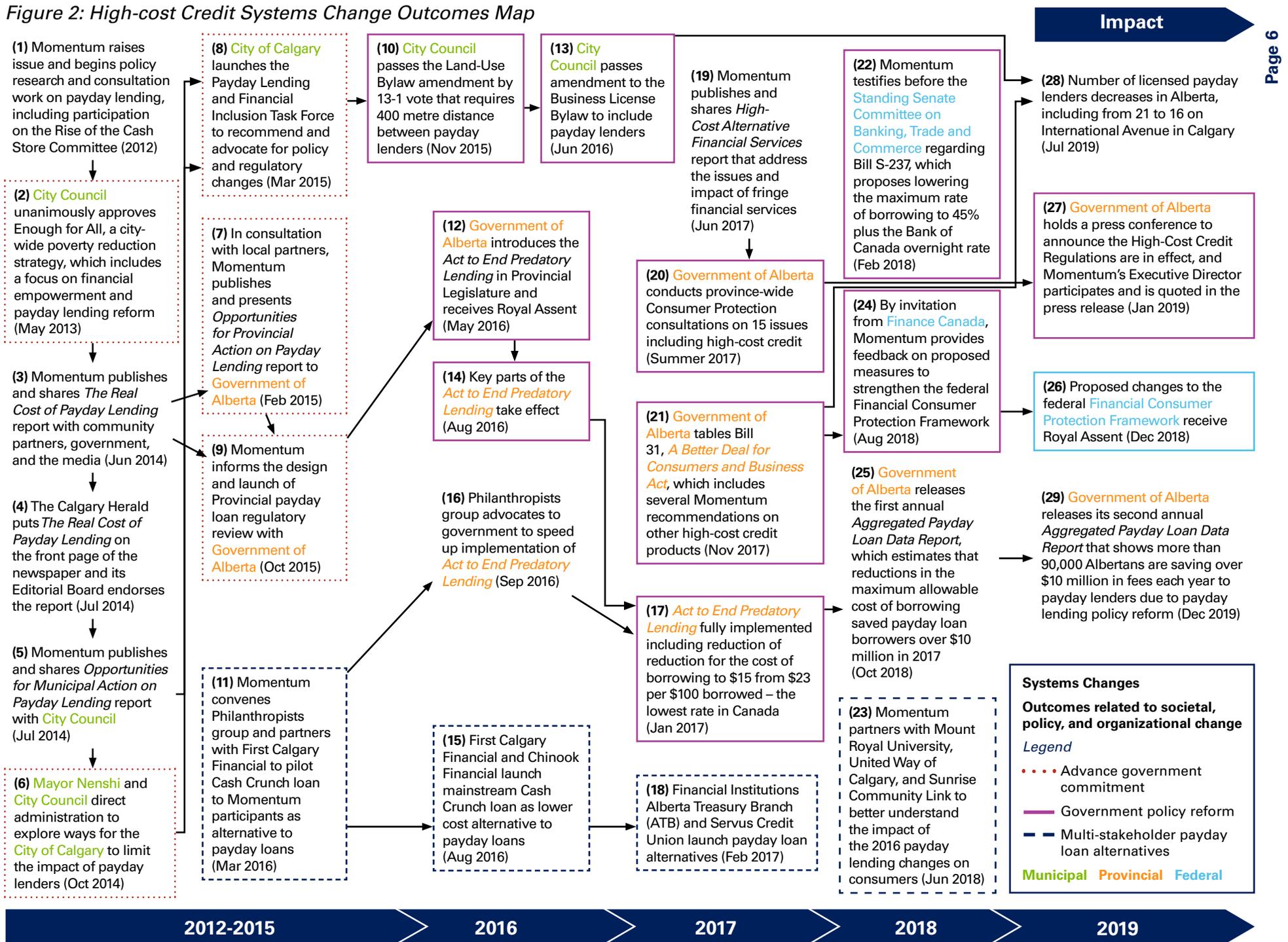
Research by the Financial Consumer Agency of Canada shows most customers are unaware of the high cost and risks of these loans.⁶ A payday loan could cost a borrower of 600% or more in interest when annualized, an amount that well exceeds the maximum annual interest rate of 60% outlined in the Criminal Code of Canada. Individuals often seek out such loans or products because they experience barriers to mainstream banking and don't qualify for more traditional options, yet they need to cover one-time or everyday expenses. Data collected by the Canadian Payday Loans Association, the industry association representing lenders, reveals that payday loan customers are predominately those who are employed, usually full-time, and live near or below the poverty line.⁷ As a systemic barrier to poverty reduction, policy reform was identified as necessary from all three levels of the government to better regulate the high-cost credit industry. In addition to policy reform, the issue of safe and affordable access to credit for individuals living on low incomes also was identified to enhance financial inclusion.

Change Strategies

Momentum used a multi-pronged approach to payday loan and high-cost credit systems change, with the understanding that the problem is both one of supply and demand and that the solution required collaboration across all sectors. As seen in Figure 1 above, the process of change and outcomes were achieved in three main areas. Below, Figure 2 shows the outcomes achieved in high-cost credit systems change between 2012 and 2019, the period of this evaluation.

- **Build government commitment to improve regulations related to high-cost credit financial products**
Momentum's first change strategy was to identify the negative impact of high-cost credit as a systemic barrier to poverty reduction and raise the issue with government. The outcome of this strategy was building government commitment to improve regulations related to payday lending and other high-cost financial products.
- **Contribute to government policy reform on high-cost credit financial products**
Momentum's second strategy was to research and inform specific policy reform recommendations related to each level of government. By laying out the specific policy changes, and where possible leveraging opportunities to link the recommendations to discussions already on government agendas, Momentum was able to make a significant contribution to several policy reforms related to payday lending and other forms of high-cost credit.
- **Develop more affordable alternatives with financial institutions**
Momentum's third strategy was to convene and work with stakeholders to develop alternatives to payday loans. By involving mainstream financial institutions, community organizations, and philanthropists, the outcome was the launch of multiple small-dollar short-term loans with banks and credit unions as more affordable alternatives to payday loans, though the uptake has been low.

Figure 2: High-cost Credit Systems Change Outcomes Map



Outcome Area 1: Build government commitment to improve regulations to limit payday lending and other high-cost credit

Recognizing payday lending and high-cost credit as a systems issue that needed action from all three levels of government, Momentum's first change strategy was to increase government awareness and understanding of the issues. This included providing evidence-based research to demonstrate where, when, and why people access high-cost financial products, identifying policy reform options, and having those with lived experience to share their stories through the media and other venues.



Credit: <https://calgaryherald.com/news/local-news/tougher-action-sought-on-predatory-payday-lenders>

Municipal Government

When the City of Calgary and United Way of Calgary and Area launched a process to develop a poverty reduction strategy for Calgary in 2012, Momentum's Executive Director was named to the Stewardship Group that led its creation. Together with community partners, the

resulting poverty reduction strategy *Enough for All (E4A)*, included goals to advance financial empowerment and limit payday lending. In May 2013, the Enough for All strategy was unanimously approved by City Council.

In 2014, Momentum published the *Real Cost of Payday Lending*, the first of its reports to raise awareness and understanding of the issue of payday loans. The publication was distributed to and generated interest from elected officials, civil servants, and community partners. It also generated media attention, making it to the front page of the Calgary Herald as well as being endorsed by its Editorial Board.^{8,9} Also contributing to the media attention was that a Momentum participant who had paid \$2,500 over ten months to repay a payday loan of \$600 to cover his mother's medical expenses was willing to share his story publicly.

Subsequently, Momentum published *Opportunities for Municipal Action on Payday Lending* and shared the report with City Council. Through conducting primary research, Momentum's public policy team was able to create a map of where payday lending businesses were located in Calgary. The map showed a concentration of payday lending stores located on International Avenue (17th Avenue SE), in the Greater Forest Lawn community close to the Momentum office. The report advanced the argument that payday lenders target individuals living on low incomes and cluster in lower-income neighbourhoods. In October 2014, the Mayor and City Council directed City staff to explore ways to limit the negative impact of payday lenders on communities and individuals, showing the City's political will to regulate the payday lending issue municipally. The City of Calgary created the Payday Lending and Financial Inclusion Task Force, which had the purpose of protecting the financially vulnerable from payday lending practices. The actions of the City of Calgary highlighted the importance of this issue with other municipal governments, and with provincial governments in Alberta and beyond.

Provincial Government

In Canada, provincial governments are the primary regulatory authority for payday lending, due to federal transfer of responsibility for payday and other high-cost lending to the provinces. As such, the Government of Alberta was the main focus for Momentum's policy advocacy efforts. Developed in consultation with community partners, Momentum published and presented the *Opportunities for Provincial Action on Payday Lending* report to Service Alberta in 2015, outlining potential reform options specific to provincial legislation and regulation to better protect consumers. Getting on the government agenda at this time was done to coincide with a policy window of opportunity, as a review of provincial regulations needed to be completed in 2016.

In between the publication of the *Opportunities for Provincial Action on Payday Lending* and the regulatory review deadline in 2016, Momentum's Public Policy Manager ran and won in the provincial election and became Alberta's Finance Minister. The Minister's understanding, commitment, and position on the issue of high-cost credit was an additional contribution to building commitment to better regulate payday lending. In the 2016 Throne Speech, the Government of Alberta noted its intention to introduce an *Act to End Predatory Lending* in Alberta, specifically payday lending.

Similar to payday loans, other high-cost credit products, such as rent-to-own financing, high-cost instalment loans, pawn loans, cheque cashing, title loans, and sub-prime auto loans, target the individuals who can least afford the high interest rates and fees: those living on low incomes. Building on the success of the payday lending policy reform, Momentum published a series of policy reports in 2017 starting with *High-Cost Alternative Financial Services: Issues and Impact*. These reports were shared with elected officials and civil servants, community partners, and the media. Momentum's public policy team conducted primary research through interviewing borrowers and conducting community consultations, consulted academics, experts and policymakers, and analyzed loan contracts shared by Momentum participants, including working with an actuary to calculate the full cost of several high-cost credit products.

Even though this research showed that some high-cost lenders were charging interest rates in excess of the maximum established in the Criminal Code, Momentum was not able to attract the media attention it did with the payday lending report. However, Momentum was successful in getting regulation of high-cost lenders on the agenda of the Government of Alberta in 2017 when the government announced new consumer protection efforts.

Outcome Area 2: Government policy reform on payday lending and other high-cost credit

Building on the success of identifying the issues and building government commitment, Momentum was able to contribute to several significant policy reforms related to payday lending and other forms of high-cost credit. Specifically, the City of Calgary Land-Use and Business Licensing Bylaws, Government of Alberta's *Act to End Predatory Lending and A Better Deal for Consumers and Business Act*, and Government of Canada's Financial Consumer Protection Framework.

Municipal Government

In 2015-16, Calgary City Council passed amendments to the Land-Use Bylaw and Business Licensing Bylaw to limit and track payday lenders. Specifically, the Land-Use Bylaw amendment included Momentum's recommendation to set a minimum distance between payday lending businesses of 400 metres. The purpose of the Bylaw was to limit the clustering of payday lenders, particularly in lower-income neighbourhoods such as on International Avenue. The Business Licensing Bylaw amendments also included Momentum's recommendations, including requiring payday lenders operating in Calgary to obtain a business license, pay an annual license fee, and display large signage in their businesses with information on money management resources. In communicating this decision, City Council acknowledged the leadership of the Financial Inclusion Task Force and Momentum.

Provincial Government

In May 2016, a significant provincial policy change took place when the Government of Alberta's *Act to End Predatory Lending* received Royal Assent. The Act not only improved payday lending regulations in Alberta, it also called on banks and credit unions to develop and offer fair and accessible alternatives to payday loans, work that Momentum had already started in Calgary. When the key parts of the Act came into effect, the maximum lending rate reduced from \$23 to \$15 per \$100 borrowed, making Alberta go from one of the highest rates in the country to the lowest rate in Canada. The changes also included the option to repay loans in instalments and the inclusion of all fees in the cost of borrowing. In announcing the new regulations, Momentum attended the press conference and was quoted in the press release. Momentum also participated in consultation regarding the implementation of the Act and its regulations. Much of the legislation reflects recommendations made by Momentum in policy recommendations and official submissions to government.

Payday lending fees in Alberta decreased from one of the highest provinces in Canada to the lowest.

As part of its high-cost credit advocacy efforts, Momentum's public policy team promoted and participated in the Government of Alberta's Consumer Protection Consultations in Summer 2017. In November 2017, the Government of Alberta tabled Bill 31, *A Better Deal for Consumers and Business Act*, which included several Momentum policy recommendations related to high-cost credit. The changes included introducing a definition for high-cost credit of 32% interest rate and above, establishing disclosure and advertising requirements, requiring the use of standard contract forms and terms, and establishing licensing requirements for high-interest lenders. In 2018, Momentum worked with the Government of Alberta to develop the new high-cost credit regulations. At the press conference in January 2019, the Government of Alberta announced the

high-cost credit regulations were taking effect. The changes meant borrowers are better protected against high-cost credit, and that consumer protection applies to all forms of high-cost credit. Again, recognizing Momentum's contribution to this body of work, Momentum participated at the press conference and was quoted in the press release.

Federal Government

Momentum's main engagement with the federal government on high-cost credit started in 2017. Momentum was connected to Senator Pierrette Ringuette in late 2017 to support and add to her call for a lower rate of usury for Canada. Specifically, Momentum testified before the Standing Senate Committee on Banking, Trade and Commerce regarding Bill S-237, which proposed lowering the maximum rate of borrowing in Canada's Criminal Code from 60% to 45% plus the Bank of Canada overnight rate. The Bill made it to the Third reading in the Senate but did not pass prior to the 2019 federal election being called.

In 2018, Momentum contributed to the Government of Canada's Financial Consumer Protection Framework. By invitation from Finance Canada, Momentum provided feedback on proposed measures to strengthen the federal Financial Consumer Protection Framework, and participated in a Financial Consumer Agency of Canada Consumer Group session in Ottawa. Momentum also advocated to the Employment and Social Development Canada Minister's office for the inclusion of Financial Empowerment approaches, including consumer protection measures, as part of the development of the Canadian Poverty Reduction Strategy.

At the federal level, proposed changes to the Financial Consumer Protection Framework received Royal Assent in December 2018. The changes included enhanced information disclosure requirements and new requirements for banks to report on measures to provide products and services to vulnerable Canadians. In other words, banks must make it easier for vulnerable consumers to compare the financial products being offered to them.

Outcome Area 3: Develop more affordable alternatives with financial institutions

With the vision of individuals living on low incomes to having access to safe and affordable short-term credit, policy reform was only part of the solution. As important as it was to improve the supply side through better regulation, Momentum worked to build cross-sector partnerships to provide better alternatives. In addition to working with all three levels of the government, these partnerships included working with mainstream financial institutions, non-profits, philanthropists, universities, and other financial inclusion experts across Canada.

In 2016-17, the province of Alberta introduced comprehensive payday lending legislation and regulations.



Payday lenders are required to:

- Reduce the interest rate from \$23 to \$15 for each \$100 borrowed
- Offer the option of paying back loans through installments over 3 pay periods

Payday lenders are prohibited from:

- Offering a new payday loan for borrowers with an outstanding loan
- Soliciting borrowers by phone or email
- Charging fees to cash a payday loan cheque

Government of Alberta is required to:

- Promote the development, implementation and use of short-term lending alternatives to payday loans with financial institutions
- Establish the content of financial literacy information, including contact information to an organization that provides financial literacy programs, to be prominently displayed by payday lenders
- Submit an annual report to the legislature on data collected from payday loan providers.

Payday Lending and Financial Inclusion Task Force

Established by the City of Calgary, the Payday Lending and Financial Inclusion Task Force had the mandate to develop recommendations to protect financially vulnerable individuals from payday lending practices, and to influence financial institutions to offer short-term small-dollar loans.¹⁰ As a member of the Task Force, Momentum worked with other partners on the Task Force, such as First Calgary Financial, to explore safe and affordable alternatives to payday loans.

Mainstream Financial Institutions

The first partnership with a mainstream financial institution to develop an alternative loan product was the Cash Crunch loan. In March 2016, Momentum convened a group of business sector philanthropists and First Calgary Financial to launch the Cash Crunch loans pilot, a first of its kind in Alberta. As the first affordable alternative to payday lending, it competed with payday lenders in terms of ease of qualifying for a loan but charged 12% interest, permitted installment payments, and connected borrowers to a mainstream financial institution to improve their credit score and to build assets. The pilot was unique in that in its first phase it was offered only to Momentum participants, with one of the philanthropists contributing the lending capital. Momentum participated in the planning and implementation of the two phases of the pilot and referred its participants. Following the pilot, First Calgary Financial and Chinook Financial launched their mainstream version of the Cash Crunch loan in August 2016. The following year, Alberta Treasury Branch (ATB) and Servus Credit Union launched their own alternative products to compete with payday loans. Unfortunately, the number and scale of these products are limited to date and First Calgary Financial has stopped offering Cash Crunch loans.

Business Sector Philanthropists

Having had a long relationship of trust and working together as donors to Momentum, a group of philanthropists from Calgary's business sector offered their advice, connections, research, and advocacy through an Advisory Committee convened by Momentum. In addition to supporting the First Calgary Financial Cash Crunch loan pilot and recruiting additional financial institutions, this group took it upon themselves to advocate to government to speed up the implementation of the *Act to End Predatory Lending*, in particular the introduction of installment loans. They launched a month-long social media campaign to draw attention to 'Unexpected Expenses' that often result in the use of payday loans. Using Service Alberta statistics on payday loans, they estimated that by introducing installment loans before the Christmas holiday season, which would introduce a lower-cost alternative to payday loans, at least \$33 million in fees would be saved by Albertans.¹¹ Though the full implementation of the Act took effect after the holiday season, the collective effort by this group of philanthropists was a significant demonstration of multi-stakeholder collaboration between the business and non-profit sectors to take action on poverty reduction.

Impact

The overall impact of the high-cost credit systems change effort is significant. To understand the impact of the municipal and provincial policy changes on local payday lending clustering, Momentum collaborated with the International Avenue Business Revitalization Zone (BRZ) and conducted a postal code analysis. The results showed the number of licensed payday lenders on International Avenue decreased from 21 to 16 between 2014 and 2019. Though not directly examined in this evaluation, research suggests that the number of payday lenders is associated with community-level impacts. A decrease number of payday lenders in a community may lead to more opportunities for business investments in the community¹² and lower neighbourhood crime rates.¹³

Perhaps the most significant impact is as a result of the *Act to End Predatory Lending*. Since the

Act was implemented, the number of payday lending businesses in Alberta has decreased, from about 220 stores to 165 stores between 2016 and 2018.^{14,15} Alberta also went from being one of the highest rate provinces in Canada for payday loans to the lowest. The changes also included the option to repay loans in multiple payments and to include all fees in the cost of borrowing. The Government of Alberta changes also contributed to other provinces such as British Columbia, Ontario, New Brunswick and Saskatchewan introducing stronger payday lending regulations and lower borrowing costs in 2017 and 2018.

In 2018, the Government of Alberta released the first *Annual Aggregated Payday Loan Data Report*.¹⁶ An accompanying press release estimated that the reductions in the maximum allowable cost of borrowing saved payday loan borrowers over \$10 million in 2017.¹⁷ The following year, the second *Annual Aggregated Payday Loan Data Report* revealed that, compared to 2017, the number of individual borrowers had decreased, as well as the total number of loans and the total number of licensed payday lenders.¹⁸

Albertans save over \$10 million in fees each year due to changes to payday lending.

To understand the impact of the 2016 payday lending changes on consumers, a research project was conducted collaboratively between Mount Royal University professor Dr. Mohammed El Hazzouri and colleagues, Momentum, the United Way of Calgary and Area, and Sunrise Community Link Resource Centre. The most significant positive impact of the payday lending changes, according to the low-income consumers who participated in the study, was the introduction of being able to pay back their loan in multiple payments. For the most part, participants were not aware of the more affordable alternative financial products offered by credit unions. In addition, the research suggests the legislative changes did not drive consumers to online or more unsafe borrowing.¹⁹

Next Steps

As much as has been achieved in the efforts to advance high-cost credit systems change, Momentum's vision of individuals living on low incomes having access to safe and affordable short-term credit has not been fully realized. There is more work on this issue to be done. For example, mainstream financial institutions have yet to make themselves easily accessible to individuals living on low incomes, and offer more affordable short-term credit alternatives at scale. Additional research needs to be done to better understand high-cost credit consumer behaviour and protection, and how the high-cost credit industry is changing. For example, the industry was able to quickly shift from offering payday loans to making installment or line of credit loans more readily available. While the interest payments on these loans are lower, the dollar value is often significantly higher than a payday loan. Dr. El Hazzouri's research identified this trend toward installment loans by the industry and the potential inability of people living on low incomes to pay them back.

From the safe and affordable supply perspective, more work is required to further strengthen regulation and protect consumers, particularly those living on low incomes. The enforcement of regulations needs to take place, including equipping law enforcement with the knowledge, tools, and resources to enforce rules effectively. In addition to enforcement, a number of Momentum's policy recommendations have not yet been adopted by the provincial and federal governments.^{20, 21}

Provincial

The Government of Alberta should introduce rules that require high-cost lenders to assess a borrower's ability to repay the loan, which includes considering a borrower's income level, debt load, and monthly expenses, and capping the amount of a loan based on this information. Currently, the provincial government is not reporting annually on their efforts to promote the development, implementation and use of short-

term lending alternatives to payday loans with financial institutions as required by the legislation. Other recommendations for the province include:

- Restrict use of high-cost credit products for fixed income and social assistance recipients
- Create a Financial Literacy Fund, funded by the high-cost credit industry
- Create a Financial Empowerment Fund funded by the provincial government to expand opportunities for Albertans to reduce their debt and build savings
- Promote the Complaint Mechanism to raise borrowers' awareness about how to make a complaint
- Prohibit the solicitation of additional loans and refinancing options with borrowers
- Introduce price caps for rent-to-own contracts
- Require reinstatement rights in rent-to-own and title loan contracts.

Federal

The Government of Canada should review and strengthen federal usury law, in consultation with Canadians, related to the maximum interest rate under the Criminal Code to ensure sufficient protection to consumers. Government of Canada should also mandate federally regulated financial institutions to provide low-cost credit options to consumers, particularly those on living on low incomes. Other federal policy considerations are:

- Reconsider the 2007 decisions to exempt payday lenders from adhering to the Criminal Code's maximum interest rate, and the transfer of regulatory responsibility for payday and other high-cost lending to the provinces
- Update the Criminal Code (Section 347) maximum interest rate, clarify how it is calculated and enforced and to which consumer credit products it applies
- Improve access to low-cost credit products through the Bank Act
- Update legislative and regulatory frameworks to keep up to date with the growth in online payday and other high-cost credit lending

- Host an inter-jurisdictional consultation on a pan-Canadian Consumer Protection Strategy to improve the effectiveness of the legislative and regulatory frameworks, and initiatives related to consumer protection
- Advocate for and participate in the creation of a pan-Canadian consumer protection strategy.

Conclusion

Between 2012 and 2019, due to the confluence of factors outlined in this report, significant change took place related to payday lending and other high-cost credit in Calgary, Alberta, and beyond. Momentum's contributions to this systems change included the following key roles:

- **Identify issue** of the negative impact of payday loans as a systemic barrier to poverty reduction, as experienced by participants in Momentum's programs, including through media stories
- **Research and publish reports** on the prevalence and negative impact of payday lending and other high-cost credit products on people living on low incomes, including policy alternatives
- **Raise Issue** with municipal, provincial, and federal legislators and civil servants to better regulate high-cost credit financial products
- **Contribute concrete reform recommendations** to payday lending and other high-cost credit legislation and regulations

- **Convene and collaborate** with a wide range of stakeholders to advance this agenda, and develop safe and affordable alternatives to high-cost credit.

Ultimately, Momentum's vision of individuals living on low incomes having access to safe and affordable short-term credit will need additional systems change to be fully achieved. Momentum is well positioned to lead additional efforts in pursuit of this vision based on the feedback from the substantiators of this Outcome Harvest. Joan Farkas, Chair of the City of Calgary's Payday Lending and Financial Inclusion Task Force noted:

"...Momentum played a key role in policy changes made to the legislation related to payday lending at the municipal and provincial level. The staff of Momentum drove this work and were able to mobilize community around the issue. Most importantly, they were also able to capitalize on relationships to get the issue onto the [government's] policy agenda. They were indeed instrumental in promoting community consultations on the issue that ultimately led to significant policy changes."

Many people living on low incomes continue to be trapped in a cycle of debt due to the use of payday loans and other forms of high-cost credit. Momentum should continue its system change efforts on these issues to address the root causes of poverty.

For more information contact:

Lucy Wang, Research & Evaluation Coordinator, Momentum
 Email: lucyw@momentum.org
 Phone: 403-272-9323
 Website: www.momentum.org

Outcome Harvest contributors: Lucy Wang (lead), Lisa Caton, Mark Cabaj, Courtney Mo, Kelly Dowdell, Jeff Loomis, and Roger Gibbins.

Outcome Harvest substantiators: Mike Brown, Joe Ceci, Dr. Mohammed El Hazzouri, Joan Farkas, Darrell Howard, Jamie Leong-Huxley, Erin Melnychuk, Carlen Scheyk.

Endnotes

- ¹ Calgary Herald. (August 3, 2016). 'An end to 600 per cent interest': Lower payday loan costs now in effect in Alberta. <https://calgaryherald.com/news/local-news/an-end-to-600-per-cent-interest-rates-lower-payday-loan-costs-now-in-effect-in-alberta>
- ² Human Impact Partners. (March 2016). Drowning in debt: A health impact assessment of how payday loan reforms improve the health of Minnesota's most vulnerable. <https://humanimpact.org/hiprojects/paydaylendinghia/>
- ³ Momentum. (June 2014). The Real Cost of Payday Lending. <https://files.momentum.org/wp-content/uploads/2018/02/Real-Cost-Payday-Lending.pdf>
- ⁴ Momentum. (June 2017). High-Cost Alternative Financial Services: Issues and Impact. https://files.momentum.org/wp-content/uploads/2018/02/Part-1-High-Cost-Alternative-Financial-Services_1.pdf
- ⁵ Momentum. (July 2014). Opportunities for Municipal Action on Payday Lending. <https://files.momentum.org/wp-content/uploads/2018/02/Municipal-Micro-Lending.pdf>
- ⁶ Financial Consumer Agency of Canada. (October 2016). Payday Loans: Market Trends. Government of Canada.
- ⁷ Environics Research Group. (2013). Payday Loan Users Study - Alberta. Canadian Payday Loans Association.
- ⁸ Calgary Herald. (July 14, 2014). Tougher action sought on 'predatory' payday lenders. <https://calgaryherald.com/news/local-news/tougher-action-sought-on-predatory-payday-lenders>
- ⁹ Calgary Herald Editorials (July 16, 2014). Alberta should revamp payday loan laws to ease burden on poor. <https://calgaryherald.com/opinion/editorials/alberta-should-revamp-payday-loan-laws-to-ease-burden-on-poor>
- ¹⁰ City of Calgary. (June 2015). Payday Lending and Financial Inclusion Task Force. Terms of Reference. <https://pub-calgary.escribemeetings.com/filestream.ashx?DocumentId=9527>
- ¹¹ Bird R., Gray, J., Huntingford D., and Zumwalt, B. (September 28, 2016). Letter to Minister of Status of Women and Minister of Service Alberta.
- ¹² Human Impact Partners. (March 2016). Drowning in debt: A health impact assessment of how payday loan reforms improve the health of Minnesota's most vulnerable. <https://humanimpact.org/hiprojects/paydaylendinghia/>
- ¹³ Wo, J. C. (2016). Community context of crime: A longitudinal examination of the effects of local institutions on neighborhood crime. *Crime & Delinquency*, 62 (10), 1286-1312.
- ¹⁴ CBC News. (May 14, 2017). Alberta Payday loan regulations has lenders starting to feel pinch. <https://www.cbc.ca/news/canada/calgary/alberta-payday-lenders-suffering-bill-15-1.4114628>
- ¹⁵ Edmonton Journal. (January 15, 2018). Stricter rules force closure of Alberta payday lending stores, says industry boss. <https://edmontonjournal.com/news/politics/stricter-rules-force-closure-of-alberta-payday-lending-stores-says-industry-boss>
- ¹⁶ Government of Alberta. (August 2018). 2017 Aggregated Payday Loan Data Report. <https://open.alberta.ca/publications/aggregated-payday-loan-data-report>
- ¹⁷ Government of Alberta. (October 2018). Alberta makes progress on payday loan protection. <https://open.alberta.ca/dataset/6fa2a0e2-9e84-44bf-9066-dc83b3c93046/resource/25310161-7d9c-454c-aa03-3777160bc81e/download/2017-payday-lending-report.pdf>
- ¹⁸ Government of Alberta. (December 2019). 2018 Payday Loan Aggregate Data Table. <https://open.alberta.ca/dataset/e5fc9f42-42b6-476b-9cef-11c036bd7c6e/resource/a11bfc46-2158-4253-8992-97fb4ea96950/download/2018-payday-loan-aggregate-data-table.pdf>
- ¹⁹ El Hazzouri, M., El-Bialy, R., Main, K., & Fossen R. (2019). For better or for worse? Access to low income borrowers to credit following regulatory changes for payday loans. Unpublished manuscript. Bissett School of Business, Mount Royal University: Calgary, Canada.
- ²⁰ Momentum. (February 2015). Opportunities for Provincial Action on Payday Lending. <https://files.momentum.org/wp-content/uploads/2018/02/Provincial-Payday-Lending-Strategy.pdf>
- ²¹ Momentum. (September 2017). High-cost Alternative Financial Services: Policy Options. https://files.momentum.org/wp-content/uploads/2018/02/Part-3-High-Cost-Alternative-Financial-Services-Policy-Options_0.pdf