

EDITORIAL

EDMONTON JOURNAL
OUR VIEWS

PAYDAY LOAN PROGRESS

The demise of some longtime business models often inspires wistful nostalgia — department stores, the milkman and movie-rental places. But few tears are being shed for another industry that appears to be on the decline — the payday lender that sells short-term loans at high cost mostly to lower-income borrowers.

Payday loan licences in Alberta have fallen by more than one-quarter, to 165 from 230, and industry officials predict even more payday loan stores will be shuttering their doors this year. The driving force behind the downturn isn't technological advancement or a change in consumer habits but the provincial government, which passed the Act to End Predatory Lending in 2016.

Before then, rules around payday loans in Alberta allowed for the second-highest interest rates in Canada, with lenders being allowed to charge up to \$23 for every \$100 borrowed, up to a maximum of \$1,500.

Now, the rate is \$15 per \$100 — touted to be the lowest in Canada — and borrowers are allowed to repay the loans in instalments over two months. Lenders are also no longer allowed to penalize customers for paying back loans early and must restrict the number of times a lender can make preauthorized withdrawals.

The restrictions were welcome because the short-term nature of the loans meant that interest could pile up quickly and a lack of financial resources to pay off the original loan could trap some borrowers in a vicious circle of mounting debt as they took on more loans to cover expenses.

But let's not confuse the decline of the payday loan industry because of stricter rules and squeezed margins with lessening of demand for their small, short-term loans. Often, payday loan customers who don't have access to credit and are between paycheques have no other quick and easy option to pay for an unexpected vehicle repair or the power bill, especially when banks are often scarce in poorer neighbourhoods.

There's a danger that desperate people will turn to online lenders who don't face the same oversight as payday lenders and may charge even higher rates. It's encouraging that some financial institutions are now offering socially responsible alternatives to payday loans.

ATB Financial and Cashco Financial have partnered to get "underbanked" Albertans bank accounts and the services that come with them.

Credit unions such as Servus have also started offering lower-interest alternatives to payday loans that offer to lend cash in as little as an hour with payback over a period of two months to two years. It will take time for these alternatives to fully serve the market, but their presence is a good start.