PROPOSAL:
BANKING ON THE MARGINS
Finding Solutions for the Payday Loan Problem

Pay Day Loan Companies offer loans at rates from 600% to 900% APR to Canadians that can least afford it.

THE PROBLEM:
The role of finance is to provide the capital that helps our society flourish. The role of a modern bank is to accomplish that while also serving as good citizens of that society. And Canadian banks have an admirable record of providing that capital in a way that has been profitable both for their own shareholders and for those who access their capital to buy houses, start businesses, and provide for the daily needs of Canadians. Canadian banks have a global reputation for being not only sound financial managers, but good corporate citizens.

But there are other actors in the Canadian financial sector who have not been as successful in providing capital in ways that align with the value of good corporate citizenship.

Today in Canada, 2.5 billion dollars in loans are provided each year by financial institutions – payday lenders – that work against the commitments of Canada’s top-tier financial institutions. Instead of finance contributing to growth and development, payday loans prevent upward economic mobility and growth.

They create dependency. At loan rates ranging from 600% to over 900% APR, the vast majority of their clients—with incomes under fifty thousand dollars per year—are Canadians that can least afford these rates.

They act as a dead weight on individuals. Loans do not build consumer credit and their short terms require individuals to dedicate increasing amounts of their weekly earnings to making payments.

They act as a dead weight on families. Money that users must put towards their loan payments would otherwise be spent on items that lead to upward mobility: better food, housing, education, child-care and support, or real assets.

They are a dead weight on society. Loan dependency has been shown to increase social costs, including health costs and mental services, food programs, unemployment and other costs which must be borne by the state.

They are the only option for many. Top-tier financial institutions have increasingly allocated capital towards higher net-worth customers. The result is that the two million Canadians who make use of the payday loan industry have nowhere else to turn to meet their credit needs.
THE COMPLICATIONS:

Some believe the solution to this problem begins and ends with government regulation. We do not think this is a sufficient response. Significant government intervention will only serve to push the industry underground, creating further problems for consumers. Others point to demand and note that the status quo meets a market need. And, after all, markets only care about efficient allocation of resources, right?

Wrong. Cardus believes there is room to compete in ways that enhance upward mobility and economic growth. We are committed to finding ways to link financial architecture with social architecture. We believe that top-tier financial institutions should see this issue not simply as a matter of corporate social responsibility, but as part of a commitment to developing a vital and growing economy.

The payday loan business model meets customer needs while diminishing their wealth. It is neither sustainable nor, strictly speaking, market friendly. We believe banks are committed to finance as a tool for the maintenance and growth of the capital of all members of society, from those on the edges of poverty to those with high net worth.

WHAT IS NEEDED ARE NEW AND INNOVATIVE ALTERNATIVES THAT PROVIDE PAYDAY LOAN USERS WITH ACCESS TO CREDIT AND OTHER FINANCIAL SERVICES THAT PROMOTE UPWARD MOBILITY AND ECONOMIC GROWTH.

Harvard’s Michael Porter notes that “companies must take the lead in bringing business and society back together” and that corporate social responsibility is only worthwhile if it “creates economic value in a way that also creates value for society by addressing its needs and challenges.” We believe that addressing the payday loan problem is a responsible project that aligns with the value chain of a modern bank.

A ROAD MAP FOR CHANGE

We want to promote innovation and competition in the accessible small-sum loan market and explore models that hold promise. Our goal is to create a “road map” that will help policy makers and others interested in this issue to address the payday loans problem and avoid poor policy decisions.

OUTPUTS

1. Establish an advisory council of experts from multiple sectors to gather knowledge and insight, on issue and to strategically distribute our findings among influential networks.

2. Publish a White Paper which will provide the research and data to inform public debate about payday loans, as well as provide an evidence based framework for market alternatives.

3. Host a roundtable discussion with leaders from the financial service industry, government, and community sector to embed opportunities for innovation and expand networks.

4. Execute a media campaign featuring stories and op-eds in major media outlets to highlight alternative models and opportunities for innovation.
OUTCOMES

1. Shift the debate from its current polarized state towards a productive and growth-oriented competition and innovation based approach to the payday loan problem.

2. Provide basis for sound evidence based economic policy.

3. Catalyze action and cooperation amongst mainstream financial institutions, government, and community organizations towards designing and developing innovative models for accessible small-sum credit in Canada.

4. Increase upward mobility for Canada’s poor and, through capital that is reallocated to productive resources, create economic growth.

ABOUT CARDUS

Cardus is a think tank dedicated to the renewal of North American social architecture. Headquartered in Hamilton, ON, Cardus has a track record of delivering original research, quality events, and thoughtful publications. Cardus’s Work and Economics Program recognizes that finance can enhance and strengthen civil society and the public good, but that finance and economic life also rely on sound social architecture. As noted by Mark Carney and Roger Martin at a recent Cardus lecture, capitalism relies on intangible virtues such as trust, without which banking, and markets will fail. As such we publish papers, and host events which explore the complex and complimentary relationship between virtues, social structures, sound finance, and a strong economy. Cardus is a registered charity.