Researcher tackles payday loan industry

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People using payday loan companies find themselves "debt trapped and going further into poverty," a researcher told a community meeting in Kitchener last week.

"People hate the debt trap they find themselves in because they are being charged higher interest rates than banks, but they (payday loan companies) were the only option they had," Sarah Marsh of the Centre for Community Based Research in Kitchener told about 30 people attending a meeting to examine the burgeoning payday loan industry in Waterloo Region.

"By using payday loan companies they are losing money," she said. "They are going further into poverty."

Marsh told the group she is in the midst of surveying people who use payday loan services to find out why they use it and what they like and what they do not like about them.

The purpose of the study is to identify a made-in Waterloo Region alternative to payday loan companies, and Marsh said last Thursday's meeting was the first step in this process.

So far, 11 borrowers have been interviewed and 37 users of payday loan companies have completed surveys, she said.

Most of the surveyed people frequent payday loan companies twice a month mainly to pay bills. Most work full time and between the ages of 40 and 55.

Two of the respondents said addictions played a role in their decision to seek high-interest, short term loans, Marsh said.

One survey participant wrote that he sought a loan because he was unemployed and broke, his children needed medication and there were no groceries in the house, she said.

Annual interest rates can be as high as 766 per cent on a $300 loan, said Marsh, adding that borrowers just get deeper into debt because they have to keep borrowing money to pay interest costs.

She said some participants said they could not get a bank loan because of poor credit ratings.

Marsh said people liked the convenience of payday loan companies and found the people friendly, but they did not like the high interest rates.

Before April 2007, the federal Criminal Code limited annual interest rates to 60 per cent, but that limit was rarely imposed on short term loans, she said.

After April 2007, the federal government allowed provinces to set and police interest rates.

In 2009, Ontario laws capped interest rates at $21 for every $100 borrowed and banned "rollover" loans. Rollover loans occur when a consumer already has one payday loan, and before that loan is paid off in full, the consumer receives another loan from the same lender.

Kitchener has recently seen some growth in the number of payday loan companies, though the exact number is not known, Marsh said.