"Not Ready for Prime Time: Canadians In the Sub-Prime, and High-interest Lending"

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Executive Summary

The high-interest consumer lending market in Canada has evolved from fringe providers of marginal consumer financial services, into a consolidated industry with an established presence across the country today. They are the lenders of choice for consumers who have not established a credit history or have deficiencies in their credit rating that make them unattractive to mainline prime lenders. The reasons for such deficiencies may include previous default or late payment of debts, or failure to document income to substantiate a loan. Their credit standing makes them a higher risk proposition for lenders and in the result financial services indexed at prime rates of interest delivered by traditional banks are out of reach. If these borrowers wish to participate in the housing ownership market or even get money to meet day-to-day needs they must resort to a subprime mortgage lender or a payday loan service. These businesses will extract substantially higher rates of interest for such loans, exacerbating any existing financial problems of the borrowers.

This study has examined a number of factors that would appear to have contributed to the growth of the subprime, high-interest lending market. One such factor is the underlying economic conditions of Canadian society. Over the last twenty-five years, income levels have stagnated or decreased in constant dollars for lower and middle income Canadians. In real estate markets, where prices have been surging, there is little chance for the participation of Canadians from these income levels in the housing market financed by traditional lenders. As well, the increasing retreat of traditional banks from the retail and consumer banking through branch closures has further driven increased recourse to high cost lenders.

The end result for the Canadian economy has been the relentless growth of the subprime market with users that must pay substantially, and in the case of payday lending (where annual average percentage rate (APR) ranges from 400% to 1,000%), excessively more than what they would otherwise pay with traditional, federally incorporated bank products. Lower income Canadians overwhelmingly populate the subprime market of borrowers. This means that the population segment least able to finance credit, must finance at levels which are likely unsustainable for their financial stability. From a policy standpoint, this must generate concerns as to the efficiency of the consumer credit market in Canada, and its potential negative impact in the country's consumer market productivity and competitiveness.

This report contains the results of several focus groups sessions carried out in Edmonton, Toronto and Vancouver with users of subprime, high-interest lending in the particular areas of payday loans and subprime mortgages. The focus groups were conducted to inquire into the experiences of consumers who use these services and gather their insights with respect to why and how they had recourse to these services. The focus group participants referred to several factors that had contributed to them falling through the cracks of the credit system and having to use subprime providers. A key driver was the existence of problems with the use of credit as a young adult when their financial skills and judgment were not well developed. In particular, debt problems associated with student loan debt were frequently mentioned as a contributing factor in the worsening of personal finances when the education cycle was finished. Ironically, for many subprime borrowers, the effort to improve educational status had catastrophic results on credit standing and shut them out of traditional lending markets.

The opportunity to earn supernormal profits from subprime lending endeavours has driven the growth explosion of such practices.[1] The demand for the services has driven up the cost of borrowing to the point where it is reasonable to question whether the borrowing costs have outstripped a reasonable assessment of risk, notwithstanding the higher risk of default by these borrowers. There may also be an incentive for banks to associate with, or provide funds to payday and subprime lenders to maximize returns without the need for incur in the operational expense of continuing retail banking.

The picture that this study paints of the users of subprime credit, derived from the focus group results, and the reasons and implications for the same

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[1] According to the Manitoba Public Utilities Board, prior to the Commission's rate-fixing order in April, 2008, the average payday industry "all-in" charge of, say, $25 per $100 loan, including interest and deducting for bad debts, would generate approximately $18 million of revenue from a projected $300,000 or less as projected cost funds that would be employed to make the loans. *See*: Order 39/08, Manitoba Public Utilities Board, *Maximum Charges For Payday Loans*, April 4, 2008, online: Province of Manitoba http://www.pub.gov.mb.ca/pdf/misc/39-08.pdf at 39.

is a cautionary tale. In the result, the growing substitution of consumer basic banking services provided by federally incorporated banks as well as credit unions, with high-cost and payday-type financial services has implications beyond the hardship inflicted upon borrowers. The centrality of the housing sector and the concurrent effect upon that sector and the US economy as a whole is a wakeup call for a cleanup of industry practice.

The study also examines the growing practice of securitization of risk associated with subprime instruments. It concurs with the analysis of the Bank of Canada that such practices merely transfer the risk rather than abating the same of the underlying loans.

The study makes the following recommendations for policymakers, federal and provincial authorities to take steps to prevent predatory lending practices from producing financial misery for users of sub-prime lending and to reduce the risk of an economic meltdown caused by problems originating with the subprime sector.

1. Access to credit should not trump the need to require fair conditions for credit. This means mandatory limits on terms such as interest, penalties etc. which should be set by hearings before an independent adjudicator.

2. Emphasis on financial education and financial capability promotion is important but it is not enough to counterbalance contractual inequality or terms that promote borrower financial instability.

3. Overall economic efficiency would be greatly enhanced through the inclusion of fundamental principles of contract law and remedies into Canadian consumer protection legislation.

4. The focus group results flagged a problem of the debt burden of student loans. For focus group participants, this debt burden had become a major contributor to their financial setbacks as young adults. The results indicate a need for further study of the student loan system to ensure that the program both encourages the pursuit of appropriate higher education as well as enhances the student ability to repay.

5. There should be increased disclosure requirements for consumer loans as to their price and fee structure, as well other key terms that have a material effect on the amount to be repaid.

6. If the payday loan operators are to become mainstream providers for consumers' banking services, as evidence seems to suggest, they must be required to operate, even provincially, under the policy considerations analogous to those that motivate Parliament to set at 60% the criminal interest threshold for banking services across Canada.

Introduction

Consumer spending is thought to be a key indicator of the economy's performance. A market with a significant population of overstretched and financially battered consumers is likely to undermine confidence, and impair levels of consumer spending. This, in turn, taxes the capability of the economy to grow efficiently and deliver benefits to all income levels. And while income levels of Canadians at the lower end of the income distribution have stalled for the last 25 years[2], the marketplace has seen the arrival of financial products and new forms of high-cost lending practices targeting those who have an irregular source of income or those who simply have a hard time making ends meet from one paycheque to the next. A shared characteristic of these new forms of lending is their high servicing cost for borrowers, and the pressure created by these instruments on the disposable income of borrowers frequently causing household financial instability.

This study is an effort, in part, to understand the experience of consumers who resort to non-prime, high-cost financial services. For the purpose of this study, the term subprime lending is used to refer to any lending that has elevated lending risk; that is, credit offered to borrowers who may be considered as having a higher probability of default.[3] In order to gain an understanding of the subprime consumer, a series of focus groups were held in Toronto, Edmonton and Vancouver where users' experiences with subprime lending and high-cost lending products were explored. We found that a significant number of participants in the focus groups who held

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[2] Earnings of full-time full year earners rose for those at the top of the earnings distribution, stagnated for those in the middle and declined for those at the bottom. Median earnings of Canadians employed on a full-time basis for a full year changed little during the past quarter century, edging up from $41,348 in 1980 to $41,401 in 2005 (in 2005 constant dollars). *Earnings and Income of Canadians 2006*, online: Census 2006 <www.edo.ca/datamodules/news/download/6_183>.

[3] Bank of Canada, *Financial System Review, December 2005*, Ottawa, online: Bank of Canada <http://www.bankofcanada.ca/en/fsr/2005/fsr_1205.pdf> at 17.

mortgages with subprime lenders, had also used payday loans and cheque cashing outlets. The first part of this report is an overview of relevant subprime and high-interest supply-side market, while the second part contains the focus groups findings, providing first-hand details about the experience of the users with these products.

In the case of users of payday loans in our focus groups, we found that these consumers were generally knowledgeable of the specific terms in the agreements they signed, at least on a superficial level. A significant numbers of the users selected had relatively clear ideas about the products.

Not surprisingly, the focus group participants, who use these services, do it out of necessity, and as a last resort. Frequently, the use takes place because they have nowhere else to go for credit. In the narratives of these borrowers, the word "need" comes up more often than the word "convenience": they need the money to cover their daily life necessities, and their ability to access it through a payday loan or cheque-cashing outlet is what they call convenient. The results may provide a valuable insight into the financial reality of the demographic at the middle and lower ends of the income spectrum who live 'from pay cheque to pay cheque". If the lack of access to money for daily needs is a systemic driver of high cost borrowing, any policy fixes must be aware of this need. The lack of access could create a crisis for many, who cannot wait through the holding periods that banking institutions apply to cheque deposits, and are frustrated by limited availability of bank branches or substantial barriers to cashing cheques at the bank teller.

In Canada, the explosive growth of high-interest and sub-prime consumer lending, especially in areas of the country with higher levels of low-income households, is worrisome in the context of the latest census statistics. These show that median income has not grown in a quarter of a century, and that poorer Canadians have seen their incomes shrink by 20% over the same period.[4]

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[4] Statistics Canada, *Earnings and Incomes of Canadians During the Last Quarter Century, 2006 Census*, 2006 Census Year, Ottawa, May 2008, online: Statistics Canada <http://www12.statcan.ca/english/census06/analysis/income/pdf/97-563-XIE2006001.pdf >.

There are several policy choices that could be made as a response to the growing problem of consumer debt. These include measures addressing the lack of transparency and control across the board of the high-interest, high yield/risk category of products. Other options include increased vigilance by relevant regulatory bodies over practices that are predatory in nature, and the promotion of increased financial education and protection of financial capability. However, building financial capability can only go so far in helping consumers and the marketplace. Mandatory disclosure and transparency in the transaction can give consumers important to more appropriately and efficiently make financial decisions. This is particularly the case with respect to specific financial products with a level of sophistication beyond just the workings of a credit card, a loan or a line of credit.

Financial literacy alone, although an important social goal, cannot be seen as the silver bullet in the sub-prime lending crisis. While boosting the state of consumer knowledge is a welcome development, it may not fully address the excessive industry practices that may be tolerated by users because of needs that come about from their overstretched household finances. The greatest policy problem posed by aggressive and unchecked high-cost and subprime lending practices s not that the public in general does not have a good understanding of these products, but the fact that the cost of credit is so taxing on the disposable income of consumers and their households. It forces consumers to abjure savings, and creates conditions for a slide to poverty income levels for many consumers. This comes at a time when such increased savings may be required for impending generational needs.

PART I: The subprime and high-interest lending

What is subprime lending?

In economic theory, interest rates reflect the cost of financial resources, including expected return. This cost, and in particular, the return demanded, is determined by the degree of risk involved for lenders in successfully recouping both the principal advanced to the borrower, and the additional amount owed in the form of interest in the form of the cost of the use of money. In other words, the interest rate reflects the risk of default involved in the transaction. The fundamental principle is that higher risk debt invariably results in a higher interest rate for all kinds of loans such as mortgages, car loans and credit cards.[5]

As discussed earlier, the term “subprime” is used in Canada, and in this report, to refer to any lending that has elevated lending risk; that is, lending offered to borrowers who may be considered as having a higher probability of default. These may include the self-employed, those with a blemished credit history, or those without an established credit history.[6] Although the development of this financial sector has been of some interest in the Canadian market, the surge in subprime delinquencies and foreclosures in the United States has shaken the financial markets, causing substantial write-downs and losses across the banking industry. As well, this crisis has produced historical scores of both losses for investors and foreclosed homeowners. While the recent market turmoil has focused public attention on the sector, the fast growth and development of the subprime sector has been of keen interest to banking authorities in the United States, and particularly for federal agencies for over a decade.[7]

While the recent negative publicity has dealt primarily with the subprime mortgage market, subprime financial products are not limited to mortgages. Strictly speaking, any other form of credit where the borrower creditworthiness is rated as less than ‘prime’ belongs into the realm of subprime. This form of lending includes all the credit issued to borrowers with insufficiently or undocumented income.[8] It also covers secured or unsecured consumer credit in general or credit backed by insufficient collateral. However, the subprime residential mortgage market crisis has made most of the headlines news due to the substantial increase of this

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[5] Joseph E Stiglitz and A. Weiss, *Credit Rationing in Markets with Incomplete Information*, *American Economic Review* 71 (1981), 393-409.
[6] Bank of Canada, *Financial System Review, December 2005*, Ottawa, online: Bank of Canada <http://www.bankofcanada.ca/en/fsr/2005/fsr_1205.pdf> at 17.
[7] The “Agencies” are commonly known to they the Board of Governors of the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision.
[8] Board of Governors of the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and the Office of Thrift Supervision. *Interagency Guidance on Subprime Lending, March 1, 1999*, online: Board of Governors of the Federal Reserve <http://www.federalreserve.gov/boarddocs/srletters/1999/sr9906a1.pdf>.

market since the late nineties and the use of subprime mortgage instruments during the most recent real estate boom from 2002 to 2006.

Subprime mortgages

While no single, commonly accepted or adopted definition exists for the term "subprime mortgage loan",[9] for our purposes, "subprime", "non-conforming" or "below prime" mortgages are loans whose purpose is the purchase of a home or residence and that do not conform to the industry-established lending criteria for regular or "prime" mortgages. They fall under such a classification due to a lower probability of full repayment. The assessment of whether or not a mortgage would be classified as subprime is generally made based on the borrower's credit record and rating score, debt service-to-income (DTI) ratio and/or mortgage loan-to-value (LTV) ratio.

Borrowers with low credit scores,[10] DTIs above 55 percent and/or LTVs over 85 percent are likely to be considered subprime,[11] but there are three main characteristics built into these loans that are commonly recognized among lenders and sophisticated investors:

○ Loans to borrowers with low credit rating scores and/or poor mortgage payment histories;
○ "Alt-A" mortgage loans (defined below) made to borrowers whose credit scores might qualify them for prime interest rates, but who cannot or choose not to fully document the necessary asset and/or income information to obtain such rates; and
○ High loan-to-value (LTV) ratio mortgages advanced to borrowers with relatively good credit ratings.[12]

[9] United States Bankruptcy Court for the District Delaware, *In re: New Century TRS Holdings, Inc.*, Final Report of Michael J. Missal Bankruptcy Court Examiner, February 29, 2008, Case No. 07-10416 (KJC).
[10] In Canada, a low Beacon credit score is considered to be below 600. The average Canadian Beacon credit score is calculated at 720.
[11] John Kiff and Paul Mills, *Money For Nothing and Checks For Free: Recent Developments in Subprime U.S. Markets*. International Monetary Fund, Washington, D.C., United States: Selected Issues, IMF Country Report No. 07/265, July 2007, online: <http://www.imf.org/external/pubs/ft/scr/2007/cr07265.pdf> at 37.
[12] *Ibid*.

In 1997, the banking federal authorities in the U.S. defined subprime lending as extending consumer credit to individuals with incomplete or somewhat tarnished credit records who often are unable to obtain traditional financing.[13] Later, in 1999, it referred to subprime lending as:

> "…extending credit to borrowers who exhibit characteristics indicating a significantly higher risk of default than traditional bank lending customers, or "prime". Risk of default may be measured by traditional credit risk measures (credit/repayment history, debt to income levels, etc.) or by alternative measures such as credit scores. Subprime borrowers represent a broad spectrum of debtors ranging from those who have exhibited repayment problems due to an adverse event, such as job loss or medical emergency, to those who persistently mismanage their finances and debt obligations. Subprime lending does not include loans to borrowers who have had minor, temporary credit difficulties but are now current". [14]

During the nineties, subprime mortgage origination numbers grew dramatically. While in 1994, in the United States, subprime mortgage instruments originating in that year had a value of $35 billion, by 1997 the number reached $125 billion. From only 14.5 per cent of mortgages registered in 1997 belonging in this category,[15] by 2006, some 40 to 45 percent of all mortgages in the U.S. were in 'non-prime' territory (that is, subprime and 'near-prime',also known as 'Alt-A'),[16] worth about $620 billion.[17]

[13] 1997 Release, 6 Fed. Banking L. Rep. (CCH) 63-782 at 73,274.
[14] Board of Governors of the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and the Office of Thrift Supervision. *Interagency Guidance on Subprime Lending, March 1, 1999*, online: Board of Governors of the Federal Reserve <http://www.federalreserve.gov/boarddocs/srletters/1999/sr9906a1.pdf>.
[15] United States Bankruptcy Court For the District of Delaware, *In Re: New Century TRS Holdings Inc.*, Final Report of Michael J. Missal, Bankruptcy Court Examiner, February 28, 2008, online: K&L Gates LLP <http://www.klgates.com/FCWSite/Final_Report_New_Century.pdf>.
[16] Canada Mortgage and Housing Corporation CMHC, Canadian Housing Observer 2007. By "near prime" the CMHC refers to Alt-A mortgages explained below.
[17] *Supra* note 9.

Although credit-scoring models vary within the financial services industry, and results provided by common models are inconsistently applied, non-conforming or subprime borrowers generally score below thresholds established for traditional bank credit.[18] However, as the number s of subprime loans increased after 2001, a large number of them were approved to borrowers with credit scores good enough to qualify for prime mortgages and better terms.[19]

Types of non-conforming, subprime mortgage loans

Alt-A or 'near prime' mortgages

A subset category of quality in mortgages commonly known as 'Alt-A' are in a somewhat grey area that makes them difficult to define for the purpose of this study, given that the limits of the category are vague.[20] These mortgages are increasingly popular in Canada and banks as well as the Canada Mortgage Housing Corporation (CMHC) refer to them as 'near prime'. 'Alt-A' or 'near-prime' mortgage borrowers do fulfill all the requirements to be considered as prime in terms of good credit history, DTI ratio and LTV ratio, but they have difficulty in fully documenting the origin of the income that will substantiate the debt.[21]

While the kinds of loans that have been at the centre of the subprime meltdown in the US have been "No-doc" (no documentation) loans and "stated income" loans, Alt-A or partially documented loans have also been affected by the subprime crisis. Many borrowers in this category did see significant property value decreases while their payments were subject to rate resets, generating delinquencies in the Alt-A sector. Additionally, large mortgage and financial companies engaged in Alt-A mortgage origination or investments have been affected by severe subprime write-downs and resultant losses causing them to drastically reduce their business and

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[18] *Ibid*.
[19] Ruth Simon, Subprime *Debacle Traps Even The Credit-Worthy*, Wall Street Journal, December 3, 2007, online: Wall Street Journal <http://www.realestatejournal.com/buysell/mortgages/20071204-simon.html>.
[20] Nomura Fixed Income Research, *A Journey to the Alt-A Zone*, Nomura Securities International Inc., New York., 3 June 2003 at 2.
[21] *Ibid*.

operational costs volumes. The crisis has brought some close to bankruptcy or turned others into takeover targets.[22] The business volume of Alt-A mortgage services and originators has, as a result, been shrinking in Canada not only due to credit tightening in the domestic market, but mainly as a result of collateral damage from the financial turmoil and the tightening of the credit market in the US.

By 2008, some of the leading non-conforming Canadian lenders in Canada had substantially curtailed their lending volumes due to the drying out of fresh sources of funding.[23] However, given the availability of insurance for zero-down payment/40-years amortization provided by the CMHC (and other newly–arrived private competitor insurers) mortgages issued and packaged by non-conforming lenders continue to be not only widely available in Canada but growing faster than those originating in prime markets, since such insurance does, in practice, underwrite the risk that lenders assume when advancing funds for borrowers who do not meet traditional prime standards.[24]

It should be noted that according to the Department of Finance, Canada maintains a strong and secure housing and mortgage markets as a result of a

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[22] In July 18, 2007, Wall Street's investment bank Bear Stearns told investors in two troubled hedge funds it manages that one fund was worthless and the other had only about nine cents remaining for every dollar invested following bad bets on the US subprime mortgage market. Both funds had an estimated value of $1,5 billion. A few months later, another Wall Street bank, JP Morgan, with the help of the Federal Reserve, would end up buying Bear Stearns for a small fraction of its value in March 2008. *See*: Matthew Goldstein, *JP Morgan Buys Bear Stearns on the Cheap*, Business Week, 16 March 2008, online: Business Week <http://www.businessweek.com/bwdaily/dnflash/content/mar2008/db20080316_356646.htm>.

[23] Xceed Mortgage Corporation is a prominent Canadian non-conforming, Alt-A and subprime mortgage originator drastically reducing operations starting 2008; others such as Gmac Residential Funding have also reduced their subprime lending volumes. *See*: Press Release, *Xceed Announces Further Cost-Reduction Measures*, March 23, 2008, online: Xceed Mortgage Corporation <http://investors.xceedmortgage.com/newsrelease.asp?news=2131020837&ticker=T.XMC&lang=EN>.

[24] According to Xceed Mortgage Corporation, borrowers with better credit histories can obtain a high-ratio mortgage (mortgages with loan-to-value in excess of 75% and up to 95%) if CMHC and other insurers insure the mortgage for a fee. Applicants with a good credit score who are otherwise declined by a prime lender may nevertheless qualify for mortgage insurance, and that is the applicant that the lender targets. *See*: Xceed Investors' website, *Business Model*, online: Xceed Mortgage Corporation <http://investors.xceedmortgage.com/custommessage.asp?ticker=t.xmc&title=null&message=fourth>.

more conservative approach to lending taken by domestic lenders as compared to their counterparts south of the border. In July 2007 the department issued a press release indicating that subprime loan origination in the country has comprised less than 5% all mortgages in recent years.[25]

Private lenders' mortgages

In the mortgage lending industry, a private lender is known as any person or company, different from a chartered bank or institutional lender, that is in the business of making funds available to borrowers. Private lenders generally focus only on borrowers who can advance a 25% down payment, and where such lenders can take a first lien on the totality of the property's market value. Therefore, it can be described as almost 100% secured lending. In case of default, a private lender would be entitled to foreclose on the property and the 25% down payment generally forfeited to make up for any mortgage obligations including arrears, fees and legal costs.

On the other hand, private lenders often resemble payday lenders within the mortgage industry, since they provide fast and secured lending to cash-strapped borrowers. Their borrowers are generally those who have been refused by prime and near-prime lenders. Once again, this fact increases the risk level of the transaction for the lender and commands the request for higher returns on the mortgage. In the result, interest rates for private mortgages are significantly above prime.[26] Some examples of the kind of scenarios under which a private lender may have an incentive to advance funding under a mortgage are:

○ Purchase or refinancing a commercial property where repayment ability (e.g., financial statements) or a track record of income cannot be fully documented.
○ When a consumer faces foreclosure, a private lender may find it attractive to refinance the existing mortgage at a profit particularly if

[25] Department of Finance, Canada, *Residential Mortgage Insurance Backgrounder*, Ottawa, July 9, 2008, online: Department of Finance <http://www.fin.gc.ca/news08/data/08-051_1e.html>.
[26] PIAC surveyed several private lenders' interest rates in December, 2007, and found them to be above 8 percent and as high as 12 percent, at a time when fixed interest rates for prime borrowers was at an average level of 5 percent.

there is reasonable equity.
○ When the residential home borrower doesn't have proof of income and/or has a poor credit rating.
○ When a consumer wants to tap into her existing equity to consolidate debt and her credit rating precludes access to institutional prime lenders...
○ When the property the borrower is interested in, is in a rural area.

Private lenders may be CHMC approved lenders or services too, depending on whether or not they have products eligible for CHMC mortgage insurance. However, it is practice for private lenders not to require insurance when a borrower can make a 25% down payment, with little consideration given to borrowers' credit or employment and income status. Only bankrupt borrowers seem to be declined outright in this situation. This is why consumers with damaged credit are usually advised to acquire a secured credit card as soon as possible, to help them restore their credit by regular payment. Eventually, depending on how flexible the private mortgage terms are, the improved credit may enable a switch to a mortgage with a better rate either with the same or a prime lender.

The growing need of basic banking services for mid-and-lower-income markets

Branch closures as part of cost-cutting, rationalization strategies have been a significant phenomenon for almost two decades in Canada, starting with the closure of rural branches since the nineties and,[27] more recently, with closure of urban and neighbourhood branches. Although the widespread use of electronic banking provides a substitute for in-person service at brick and mortar branches, there appears to be a strong geographical correlation between bank closures and the appearance of payday loan and cheque-cashing outlets.[28]

[27] Task Force on the Future of the Canadian Financial Services Sector, *Canadians' Expectations and Corporate Conduct*, Background paper No. 4, September 1998, online: Finance Canada <http://www.fin.gc.ca/taskforce/rpt/pdf/BG4_E.pdf>; See also: Angie Barrados and Camille Ainslie, *Banking in Rural Canada: Ensuring that Rural Consumers have Adequate Service*, Public Interest Advocacy Centre PIAC, September 2000.
[28] Susan MacDonnell, *Losing Ground: The Persistent Growth of Family Poverty In Canada's Largest City*, A Report of United Way of Greater Toronto, November 2007, online: United Way of Greater Toronto <http://www.uwgt.org/whoWeHelp/reports/pdf/LosingGround-fullReport.pdf>.

In the discussion of the importance of widespread availability of personal banking services, many have advanced the opinion that banks, and particularly, Canadian banks have a special role to play within the communities they serve due to special privileges they enjoy in the Canadian economy. A backgound paper for *Task Force on the Future of the Canadian Financial Services Sector* reported in 1998 that the privileges conferred on banks by Canadian authorities are tangible, and listed them as the following:[29]

- The wide-ownership requirements for Schedule I banks;[30]
- A restrictive foreign bank entry policy;
- The so-called "too big to fail" doctrine;
- Canada Deposit Insurance Corporation (CDIC) insurance coverage for federally regulated deposit-takers;
- Access to liquidity support from the Bank of Canada;
- Access to the payments system; and
- National regulation that enhances banks' ability to pursue international activities.

The banks, however, had a different opinion. In a submission to the consultation process initiated by the Task Force, the Canadian Bankers' Association contested the idea that they enjoy a privileged position in the Canadian economy, arguing against any extra accountability to society or to the economy:

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[29] *Task Force on the Future of the Canadian Financial Services Sector,Canadian's Expectations and Corporate Conduct, Background paper #4, September, 1998,* online: Ministry of Finance Canada <http://www.fin.gc.ca/taskforce/index_e.htm> at 14.

[30] Schedule I banks are domestic banks and are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation CDIC. To December 2007, Bank Act's Schedule I banks are Bank of Montreal (Quebec), The Bank of Nova Scotia (Nova Scotia), Bank West (Alberta), Bridgewater Bank (Alberta), Canadian Imperial Bank of Commerce (Ontario), Canadian Tire Bank (Ontario), Canadian Western Bank (Alberta), Citizens Bank of Canada (British Columbia), CS Alterna Bank (Ontario), DirectCash Bank (Alberta) Dundee Bank of Canada (Ontario), Equity Development Bank of Canada (British Columbia), First Nations Bank of Canada (Saskatchewan), General Bank of Canada (Alberta), Laurentian Bank of Canada (Quebec), Manulife Bank of Canada (Ontario), National Bank of Canada (Quebec), Pacific & Western Bank of Canada (Ontario), President's Choice Bank (Ontario), Royal Bank of Canada (Quebec), The Toronto-Dominion Bank, (Ontario). *See*: *Bank Act,* 1991, c. 46.

> "Canada's banks believe that their performance should be measured against standards that apply to all responsible business…. Ultimately, decisions about the regulation for the financial services sector should be founded on the principle that private sector financial institutions are businesses, not public utilities."[31]

The Final Report of the *Task Force on the Future of the Canadian Financial Services Sector* agreed with the CBA in its position that banks are not public utilities, yet pointed at the fact that they are not strictly private enterprises either. The report underlined that banks have traditionally been, and still are, fundamental to the economic and social well-being of communities, since they are very important repositories of people's money. Their role in facilitating transactions is critical to businesses and individuals across the country.[32]

While Canadian banks maintain that they discharge their corporate social responsibility (CSR) through charitable funding as major contributors to charities in Canada, it is also true that a substantial part of what Canadian banks report as charitable donations is channeled to fund credit counselling file-processing (with the exception of Quebec, where credit counseling agencies emerged -and continue to operate, mainly as community organizations and co-ops). Credit counseling agencies' main activity is to consolidate the debts consumers accumulate frequently with the banks themselves through credit card use and other consumer debt.[33] In the case of Credit Canada, the country's largest credit counselling agency, incorporated as a charitable organization, banks' and other lenders' executives populate the majority of seats in its boards of directors, giving creditors effective control over the agency.

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[31] Task Force on the Future of the Canadian Financial Services Sector, *Canadians' Expectations and Corporate Conduct*, Background paper No. 4, September 1998, online: Finance Canada <http://www.fin.gc.ca/taskforce/rpt/pdf/BG4_E.pdf>.

[32] Task Force on the Future of the Canadian Financial Services Sector, *Report of the Task Force*, September 1998, online: Finance Canada < http://www.fin.gc.ca/taskforce/rpt/pdf/Main_E.pdf >.

[33] In the case of Credit Canada, the country's largest credit counselling agency, incorporated as acharitable organization, Bank and other lenders' executives populate the majority of seats in its boards of directors, giving creditors the effective control over the agency. *See*: Esteban Uribe and Amanda Tait, *Credit Counselling: A Way Forward*, Public Interest Advocacy Centre PIAC,March 2007.

The reputational risk of high-interest and predatory lending

While there may be a potential incentive for banks to exploit the market that they themselves have left underserved, or without service due to branch closures, by increasing interest rates they charge to their less affluent clients, the risk of reputational damage to the bank might be too steep to justify the effort.[34] While it might be unlikely that the banks would engage in such high interest lending, it is to be remembered that there are still limits to usury punishable under sec. 347 of the *Criminal Code* of Canada. The *Criminal Code* sets the limit for effective annual rate of interest at 60% on the credit advanced under any lending agreement or arrangement and it is binding on federally regulated banks.[35] According to section 347(2), all payday lenders do charge criminal interest rates today, but Parliament has, since 2007, exempted from the application of the Criminal Code to payday loan outlets operating in provinces who requested 'designated' status after having implemented consumer protection measures for payday users.

In October 6, 2006, the Federal Government through its Minister of Justice and Attorney General, Vic Toews, introduced Bill C-26, *An Act to amend the Criminal Code (criminal interest rate)*, in the House of Commons. The Act made it possible for payday loan enterprises to avoid criminal prosecution and in the result acquire legitimacy. Bill C-26, in force since May 2007, has as main feature the amendment of section 347 through section 347.1(2), which delegates powers to the provinces to create a licensing and regulatory framework to exert oversight over the fledging payday loan industry. Section 347.1(2) therefore exempts a person a person who makes a payday loan from criminal prosecution if:

- The loan is for $1,500 or less and the term of the agreement lasts for 62 days or less;
- The person is licensed by the province to enter into the agreement; and

[34] In a survey sponsored by Ace Group, Cisco Systems, Deutsche Bank, IBM and KPMG and conducted by The Economist Business Intelligence Unit, 269 senior executives responsible for managing risk, report reputation risk as being the most significant threat to business out of a list of 13 categories of risk. See: *Reputation, Risk of Risks*, Economist Intelligence Unit, and December 2005, online: Ace Group <http://www.acelimited.com/NR/rdonlyres/2B964DD5-F93E-47C3-BA44-999A0BAEAD40/0/RISK_REPORTATION_REPORT.pdf>.
[35] R.S., 1985, c. C-46, s. 347(2).

- The province has been designated by the Governor in Council (Cabinet) under new Section 347.1(3).

With a payday loan industry provincially licensed and regulated, there is a good reason to believe that chartered banks will be less risk averse dealing with these lenders. Provincial licensing may provide traditional mainstream lenders with an incentive to come forward as liquidity suppliers for payday loans in the form of third party lenders and have the reasonable expectation of obtaining increased revenues from higher-cost lending.[36] All of these benefits may accrue to the banks, without incurring the operational expense of keeping branches open to serve retail personal banking.

With the exception of Quebec, where authorities have made the administrative decision not to grant permits to high-interest (mostly payday-type) lenders based on provincial law,[37] the number of payday loan outlets has exploded over the last years across Canada.[38] Simultaneously, a significant number of branch closures are reported by banks to the Financial Consumer Agency of Canada (FCAC), and posted on the agency's website. Among the Canadian cities with significant numbers of bank closures are between 2002 and 2007 are Toronto, with 51, Edmonton with 23 and Calgary with 12.[39] However, as concerning as a bank closure can be for a

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[36] High-interest, non-prime lending companies have recently been purchased by Canadian banks. In 2006 TD Bank Financial Group acquired VCF Inc., one of the largest non-prime car loans financial institutions, which provides financing for customers at 4.000 dealerships across the country. Scotiabank also purchased Travelers Leasing Corp., a company specialized in the non-prime car loan segment.

[37] Section 2332 of the The Civil Code of Quebec allows courts to nullify loan contracts where borrowers are found to suffer 'lesion'. The civil law concept of 'lesion' is similar to the common law concept of 'unconscionability' and Quebec courts are likely to find lesion when the term of the loan is excessively onerous. Interest rates charged on loans above 30 percent have been considered by Quebec courts as lessive, *See: Gosselin c. Carruthers*, 2006 QCCA 1489; *Consumer Protection Act*, R.S.Q. c. P-40.1 s.321.

[38] As of 2004, there were an estimated 1,200 payday loan stores in Canada, although the industry has grown rapidly and until all provinces pass licensing legislation, there will be no official means of having an accurate number of payday outlets. See: *Payday Loans in Canada: Determining the Public Interest*, Economics Division, Library of Parliament, 26 January 2006, online: Parliament of Canada <http://www.parl.gc.ca/information/library/PRBpubs/prb0581-e.html>.

[39] It must be noted that branches may be opened too, but these are not reported to the FCAC. Looking at locations where banks open and close branches is an area where research should be done in order to obtain a clearer picture on whether or not banks are retreating from certain

particular community, the real issue is the location of such closures and a number of bank closures alone cannot be used to assume that most of those closures are taking place in middle-to-lower income neighbourhoods and communities. On the other hand, if the number of payday loans outlets are a barometer of the deterioration of the financial situation, and a lack of affluence among some sectors of these urban communities, closures in cities like Calgary may seem surprising or, at least, counterintuitive. During the same time-period, Alberta's economy has experienced the fastest growth in Canada, and continues to experience historical levels of economic expansion.[40]

One possible explanation is that the benefits of Alberta's economic success may not be spread across or 'trickling down' through all income levels. In a context of generalized price increases for citizens at the lower end of the income scale, the 'good' times may come to mean 'not so good' times, since their incomes may not increase at the same speed and rate than the cost of rent, shelter, services, transportation and food prices, pressured upwards by the demand generated by higher income households.[41]

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particular communities. *See*: Financial Consumer Agency of Canada FCAC, Bank Closures, online: Financial Consumer Agency of Canada <http://www.fcac-acfc.gc.ca/eng/consumers/ITools/branchclosures/branchclosures_e.asp>.

[40] The average annual growth of Alberta since from 2002 to 2005 has been measured at a 12.7%, comparing favourably with the growth rate of China, which has grew at a 14.8% annually during the same time-period. See: Philip Cross and Geoff Bowlby, *The Alberta Economic Juggernaut, The Boom on the Rose*, Statistics Canada, September 2006, online: Statistics Canada <http://www.statcan.ca/english/ads/11-010-XPB/pdf/sep06.pdf>.

[41] Despite the economic boom of recent years, homelessness in Alberta, homelessness levels (an important indicator of economic welfare) have increased substantially, particularly in Calgary and Edmonton. A 2006 report by the City of Calgary found that the number of homeless persons in the city had increased by 32 percent from 2004 to 2006. The number of homeless families also grew near four-fold in the 2002-2006 period from 42 to 145. While the survey did not reported employment levels among homeless, *See*: The City of Calgary Community & Neighborhood Services, *Results of the 2006 Count of Homeless Persons in Calgary*, May 10, 2006, online: City of Calgary <http://www.calgary.ca/docgallery/bu/cns/homelessness/2006_calgary_homeless_count.pdf>; The 2008 version of the count showed that near 60% of homeless counted were employed (on a full-time or part-time basis), retired with a pension or casually employed. See: *Biennial Count of Homeless Persons in Calgary*, May 14, 2008, online: City of Calgary <http://www.calgary.ca/docgallery/bu/cns/homelessness/2008_count_full_report.pdf>.

Overview of the mortgage lending market in Canada

The mortgage lending industry in Canada includes banks, insurance companies, trust and mortgage loan companies, credit unions, finance companies, pension funds, NHA (*National Housing Act*) mortgage-backed securities companies and special purpose corporations (securitization companies). Among all the above lenders, the market share of NHA mortgage-backed securities companies and special purpose corporations (known as SPCs or securitization entities)[42] in the mortgage market grew by 28 percent and 26 percent respectively in 2005 and 2006;[43] twice the average of market growth of all mortgage lending combined. By 2007, NHA mortgage-backed securities and SPCs held 21 percent of all residential mortgage credit in Canada, while in 2003 they only held 12 percent.[44]

Subprime mortgage growth market in Canada

Subprime lenders in Canada also cater to the demographic that falls outside the 'prime' pool of borrowers, but Canadian lenders have been deemed not to be as aggressive in the terms of their products as it has been the feature in the American market.[45] This is occurring notwithstanding the fact that many of these lenders are companies that operate both in the US and in Canada.[46]

According to estimates by the Canadian Real Estate Association (CREA), approximately 5% of all mortgages that originate in Canada are considered subprime.[47] However, in a submission to the Ministry of Finance in 2005, the Canadian Institute of Mortgage Brokers and Lenders (CIMBL) stated that subprime or non-conforming mortgage instruments were between 5 to

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[42] Canada Housing and Mortgage Corporation (CMCH), *Canadian Housing Observer* 2007.
[43] *Ibid*.
[44] Statistics Canada, *Residential Mortgage Credit*, CANSIM (database), March 14, 2008, online: Statistics Canada <http://www40.statcan.ca/cgibin/getcans/sorth.cgi?lan=eng&dtype=fina&filename=fin21.htm&sortact=2&sortf=6>.
[45] Products like no-income, stated income have not been offered as widely in Canada as in the US, but there are many "flexibility" products targeting borrowers who have difficulty documenting sources of income.
[46] U.S. based subprime money suppliers in Canada include Home Capital Group Inc., Equitable Group Inc., Gmac, Exceed and Wells Fargo.
[47] CIBC World Markets, *Consumer Watch Canada*, March 16, 2007 at 5.

10 percent of the market.[48] These estimates that were subsequently confirmed in 2006 by the Canadian Imperial Bank of Commerce (CIBC).[49]

There is a consensus however, among financial analysts and shared by even the Bank of Canada, that the number of subprime loans in Canada is not likely to reach the levels seen in the US, where 22 percent of all mortgages are considered to be in this category.[50] Nevertheless, the sector is expected to grow at a rate of 20 percent over the next 5 years.[51] So far, the mortgage funding coming from subprime credit providers has grown in Canada at a breathtaking pace, from 2004 to 2006, nearly doubling from 5 to 10 percent of the total mortgage funding.[52] CIBC estimates that between the second quarter of 2005 and the second quarter of 2006, no less that 85,000 subprime mortgages were issued in Canada.[53] It remains to be seen however, whether such growth rates in this market will continue, given the drying up of fresh financing sources for this kind of lending over the last year.

As of August 2007, there was $787 billion in outstanding residential mortgage credit in Canada, representing one-third of all the credit issued in Canada to households and businesses.[54] Of all the existing mortgages, 72% are fixed-rate mortgages, 21% are adjustable-rate mortgages (ARMs) and 7% are "combination" mortgages, with a mix of adjustable and fixed rates for applied to the payments throughout the mortgage's history.[55] Accordingly, the outstanding amount of the variable rate mortgage market in Canada is $236 billion. Based on the total amount of residential mortgages in the country, the outstanding amount of subprime or non-conforming mortgages in Canada may be around the 100 billion mark.

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[48] Department of Finance Canada, *Canadian Institute of Mortgage Brokers and Lenders Submission in Response to Finance Canada's 2006 Review of Financial Legislation*, Ottawa, June 3, 2005, online: <http://www.fin.gc.ca/consultresp/06Rev_8e.html>.
[49] Canadian Imperial Bank of Commerce CIBC, World Markets, Consumer Watch Canada, *SubPrime as Prime Target: The Surging Non-Conforming Mortgage Market in Canada*, October 10, 2006, online: CIBC <http://research.cibcwm.com/economic_public/download/cwcda-102006.pdf >.
[50] *Ibid*.
[51] *Ibid*.
[52] *Ibid*.
[53] *Ibid*.
[54] Will Dunning, *Annual State of the Residential Mortgage Market in Canada*, and Canadian Association of Accredited Mortgage Professionals CAAMP, November 2007, online <http://www.caamp.org/download_docs/Survey-Report_CAAMP-Fall-2007.pdf> at 8.
[55] *Ibid*.

The major subprime mortgage lenders in Canada are Equitable Trust, Home Trust, Xceed Mortgage, Bridgewater Financial, Wells Fargo Financial Corp., and GMAC Residential Funding. As noted, the number of subprime mortgages registered does not surpass the 5 to 7% of the total in Canada[56]. For our purpose, these numbers refer to mortgage approvals where the borrowers possess less than prime credit ratings. If CMHC creditworthiness requirements are to be considered an industry-setting benchmark, a Canadian mortgage borrower may be considered in the subprime territory if her credit rating score is less than 680 points. Alternatively, a subprime lending situation may arise if stable income cannot be documented.[57] Along with credit rating or FICO scores, income verification is an important criterion to determine creditworthiness used by mortgage insurers. However, with the rise in self-employment, it has become increasingly difficult for entrepreneurs and commission-based remunerated individuals to obtain third-party income certification.

In the view of the Bank of Canada[58] (whose role as the central bank and ultimate provider of Canadian-dollar liquidity to the financial system, is to promote economic and financial welfare),[59] the development of the subprime market "has increased the efficiency of the financial system by allowing households across a broader range of creditworthiness to obtain mortgage financing and thus become homeowners".[60] However, as early as 2005, when the subprime lending market was experiencing intensive entry, the bank also pointed to the greater risks carried by this finance sector, such as increased risk of default, the increased labour-intensity required to properly administer these mortgages, and the fact that in an environment of weak economic conditions and/or rising interest rates, subprime borrowers stand to be among the most negatively affected, as prime borrowers generally

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[56] Benjamin Tal, *Mortgage Risk - Canada vs. US*, Consumer Watch Canada CIBC World Markets, 16 March 2007.
[57] Canada Mortgage and Housing Corporation CMHC, *Loan Insurance, homeowner products*, *Quick reference*, online: CMHC <http://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/hopr/hopr_001.cfm>.
[58] *Bank of Canada Act*, R.S., c. B-2.
[59] Fred Daniel, Walter Engert and Dinah McLean, *The Bank of Canada as Lender of Last Resort*, Department of Monetary and Financial Analysis, Bank of Canada Review, Winter 2004-2005, online: Bank of Canada <http://www.bank-banque-canada.ca/en/review/winter04-05/daniel.pdf>.
[60] Financial System Review, Bank of Canada, Ottawa, December 2005, online: <http://www.bankofcanada.ca/en/fsr/2005/fsr_1205.pdf> at 24.

enjoy greater and sounder financial resources capable of weathering financial uncertainty.[61]

Fixed versus adjustable mortgage rates

Some subprime mortgages in Canada feature characteristics that are similar to those offered to those who qualify for prime mortgages. These characteristics are known as flexibility features. Such features include 'zero' down payment, an amortization period of up to 40 years, and introductory teaser rates. Although the vast majority of mortgages issued in Canada have a fixed rate, variable rate mortgages are appealing to borrowers during times of low prime interest rates, who take advantage of a lower payment available, but run the risk of having a rate increase if the prime rate goes up.

Many borrowers with limited disposable income are offered variable rate mortgages because they can better afford lower payments during low-interest times. Subprime or non-conforming mortgages are defined by creditworthiness and risk and not by whether the loan interest rate is variable or fixed. However, the comparatively smaller payments of variable rates mortgages in times of low prime interest rates are often presented as "affordability" features, but they also mean that costs borne by borrowers can be significantly higher when the prime rate increases. This is indeed the greater risk for lower income consumers with variable rate mortgages, since in a scenario where the prime rate increases, these borrowers face the risk of not being able to afford the increased payments caused by the mortgage adjustment. Even if they can switch to a fixed rate at the end of the mortgage term which is normally of between 2 to 5 years, they will still face higher interest, since fixed rate mortgages fluctuate between 1.25 to 2% above the prime rate set by the Bank of Canada.

Given the previous years of low inflation environment, as well as the low prime interest rate for overnight lending charged by the Bank of Canada to financial institutions, (used to set variable mortgage rates), ARMs have been increasingly popular since 2004. In 2005 alone, 36 percent of all mortgage borrowers chose adjustable rates.[62]

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[61] *Ibid*, at 18.
[62] Canada Housing and Mortgage Corporation CMCH, *Canadian Housing Observer 2007* at 48.

Consumer protection legislation applicable to subprime and high-interest borrowers in Canada

Mortgages

Canadian federal legislation mandates some transparency in lending from federally incorporated deposit-taking institutions. The *Bank Act,* for instance, [63] requires banks to fully disclose information related to mortgage loans and the borrowing costs involved.[64] Chartered banks are regulated at the federal level by Office of the Superintendent of Financial Institutions (OSFI), but according to the stated purpose of the agency as spelled out in the Office of the Superintendent of Financial Institutions Act,[65] its work is limited to oversight of over financial institutions only to the extent that it can "contribute to public confidence in the Canadian financial system". The Bank *Act* is designed to deter bank behaviour that may erode public confidence in banks, not to address conduct that may have a detrimental effect upon the balanced functioning of the economy.

Credit unions and caisses populaires are provincially incorporated and are therefore almost exclusively regulated at the provincial level; their legislative and regulatory framework, however, generally parallels that of federally regulated banks. Life insurance companies, with the exception of Quebec (where the province assumes provincial supervision) are also subject to regulation at the federal level (by OSFI), and the *Insurance Companies Act* sets requirements similar to those faced by banks in terms of residential mortgage activities (maximum loan-to-value for conventional mortgages, mortgage insurance, full disclosure of borrowing costs).[66] The vast majority of trusts and mortgage loan companies are federally regulated by OSFI, and the *Trust and Loan Companies Act* includes disclosure requirements.[67]

[63] 1991, c. 46 *Bank Act*.
[64] 1991, c. 46 s. 452 (1).
[65] 1985, c. 18 (3rd Supp.)
[66] 1991, c. 47, *Insurance Companies Act.*
[67] 1991, c. 45, *Trust and Loan Companies Act*.

Mortgage broker activities are regulated by provincial *Mortgage Brokers Acts*, which also include the obligation of disclosure to borrowers.[68]

The establishment in 2001 of the Financial Consumer Agency of Canada (FCAC) - an independent federal regulatory agency - can be viewed as an additional step towards facilitating consumer awareness on financial transactions, since the FCAC's mission is to supervise and promote compliance with federal laws that protect consumers.

Payday loans

These lenders must also comply with disclosure and consumer protection requirements that have been added to increase protection and deal specifically with disclosure of cost of lending in consumer loans. One such example is the *Consumer Protection Amendment Act (Cost of Credit Disclosure and Miscellaneous Amendments)* introduced by the Manitoba legislature in 2005.[69] As mentioned, since 2007, provinces that have adopted appropriate consumer protection measures for payday loan users can seek designation from the federal government to exempt payday lenders operating in such province from compliance with section 347 of the *Criminal Code.*

This *Code* provision deems interest rates higher than 60 percent as criminal interest rate. Several provinces have since passed legislation creating payday regulatory and licensing frameworks and establishing truth in lending and disclosure requirements. Manitoba for example, amended its *Consumer Protection Act* to introduce *The Payday Regulation*,[70] establishing licensing of lenders and the delegation of payday licensees rate-setting to the Manitoba Public Utilities Commission.[71] Ontario has followed Manitoba in creating a licensing scheme to payday lenders and introduced *Bill 54 (An Act Respecting Payday Loans).*[72]

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[68] Bank for International Settlements, Committee on the Global Financial System, *Housing Finance in the Global Financial Market*, January 2006, online: Bank for International Settlements <http://www.bis.org/publ/cgfs26.htm>.
[69] S.M. 2005, c. 16 *Consumer Protection Amendment Act (Cost of Credit Disclosure and Miscellaneous Amendments).*
[70] C.C.S.M. c. C200 *Consumer Protection Act (Payday Loans Regulation).*
[71] S.M. 2006, c. 31, s.147(1) amending C.C.S.M. c. C200 *Consumer Protection Act (Payday Loans Regulation).*
[72] Bill 54, *Payday Loans Act*, 2008.

A main difference however between the legislation passed in both provinces, is that Manitoba provides for rate-setting by the provincial Public Utilities Board through an open public process, while Ontario's bill stipulates that the rate be set by cabinet, as an executive decision. In its submission to the Standing Committee on General Government, PIAC has expressed its concern to the effect that rate setting, one of the most relevant elements of the proposed legislation would not be delegated to an independent decision-making body, such as the Financial Services Commission of Ontario, whose purposes, as described in the *Financial Services Commission of Ontario Act, 1997*, are:[73]

> (a) to provide regulatory services that protect the public interest and enhance public confidence in the regulated sectors;
> (b) to make recommendations to the Minister on matters affecting the regulated sectors; and
> (c) to provide the resources necessary for the proper functioning of the Tribunal.

In PIAC's view, as expressed in its submission to the Ontario legislature, payday loan rate-setting would be greatly improved in terms of transparency and fairness by an open independent decision-making process that allows the informed participation of parties representing consumer's interests, and particularly of financially vulnerable consumers, who make up the bulk of the payday user base.

Recent developments in the mortgage industry in Canada

Mortgage insurance for high ratio mortgages

The mortgage underwriting business sector in Canada experienced important developments in the 2006-2007 period due to new entrants that brought competitive pressure among mortgage insurance companies. Created as a Crown corporation in 1946 to promote the construction of affordable housing to war veterans, the Canada Housing and Mortgage Corporation

[73] S.O. 1997, Chapter 28.

(CHMC) was, for decades, the only mortgage insurer in Canada. Its purpose is "to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing at low cost, and generally to contribute to the well-being of the housing sector in the national economy";[74] and it is mandated by the National Housing Act (NHA) to:[75]

> 8. (1) … provide insurance against risks relating to housing loans.
> (2) For lenders, the purpose of insuring housing loans is to indemnify lenders in the event of default by borrowers. The obligations of borrowers or other persons are not released or discharged by that insurance or indemnification.[76]

In 1995, Genworth Financial, headquartered in Richmond, VA, entered this market as sole competitor to the CHMC to eventually capture a 30% market share.[77] Between 2006 and 2007, two other private mortgage insurance companies also entered the market.

The Canada Housing and Mortgage Corporation (CHMC) introduced mortgage insurance for borrowers who, while having good credit scores, are not able to document all of their income sources. These borrowers can be said to belong in the Alt-A mortgage category, although many financial analysts consider Alt-A mortgagors as being qualifying for regular prime, yet too risky to be in that group, and therefore still subprime.[78]

According to the CHMC, this insurance is a "flexibility' product targeted to self-employed individuals and small business owners. Interestingly many troubled subprime lenders south of the border have expressed their interest in a similar consumer; one who may have a hard time documenting the entirety of his or her income but nevertheless makes enough money to

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[74] *Canada Mortgage and Housing Corporation Act* (R.S., 1985, c. C-7.
[75] *National Housing Act,* R.S., 1985, c. N-11, s. 3
[76] *National Housing Act,* R.S., 1985, c. N-11, s. 8
[77] Genworth Financial is a Fortune 500 global company with more than $110 billion in assets, employing more than 7,000 people and more than 15 million customers. It is included in the Standard & Poor's 500 index of leading U.S. companies.
[78] Nomura Fixed Income Research, *A Journey to the Alt-A Zone*, Nomura Securities International Inc., New York., 3 June 2003 at 2.

service a mortgage.[79] Prior to this extension of insurance for mortgages targeting this demographic in Canada, the CMHC had increased the maximum mortgage amortization period from 25 to 35 years and started offering insurance for mortgages upon which only interest payments are advanced by borrowers.[80]

Following the CMHC announcements in 2006, Bank of Canada's Governor, David Dodge (who retired on January 31, 2008) complained to the CMHC about these new product releases. Dodge drew particular attention to the rationale offered by the CMHC for such products: "to allow more Canadians to buy homes and to do so sooner".[81] In a letter directed to CMHC's CEO Karen Kinsley in June, 2006, Mr. Dodge's contended that the Corporation's actions were "likely to drive up house prices and make homes less affordable, not more".[82]

While back in 2005 the central bank had welcome the 'increased access to home ownership' facilitated by subprime lenders, its position changed when the first news of increasing subprime delinquencies in the US appeared, and the risks they posed to the stability of the U.S. domestic market and its implications for global financial markets were being discovered. Dodge was thus highly critical of the corporation's moves in view of the recent developments, and particularly for the rationale behind the new products. His reaction was based on the reasonable apprehension that CMHC's new policies could facilitate an excessive entry of capital into the mortgage market, bidding up house prices that were already overheated. This, of course, increased the risk of inflationary pressure in the economy as a whole,

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[79] However, in the United States an proportion as high as 61% of loans labeled as subprime went to people with credit scores high enough to qualify for conventional loans with far better terms. *See*: Rick Brooks and Ruth Simon, *Subprime Debacle Traps Even Very Creditworthy*, Wall Street Journal, 3 December 2007, online: Wall Street Journal <http://online.wsj.com/public/article/SB119662974358911035.html>.

[80] Canada Mortgage and Housing Corporation CMHC, *Loan Insurance, homeowner products, Quick reference*, online: CMHC <http://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/hopr/hopr_001.cfm>.

[81] Canada Mortgage and Housing Corporation CMHC, *CMHC Enhances Flexibility and Reduces Monthly Mortgage Costs*, Press Release, Ottawa, 28 June 2006, online: CMHC <http://www.cmhc-schl.gc.ca/en/corp/nero/nere/2006/2006-06-28-1400.cfm>.

[82] Dean Beeby (Canadian Press), Report on Business, *"Dodge Letter Reveals Rift with CMHC"*, October 30, 2006, online: <http://www.theglobeandmail.com/servlet/story/LAC.20061030.RCMHC30/TPStory/Business>.

threatening with systemic stability, a direct concern of the Bank of Canada[83] Another reason Dodge had to be worried was the possibility that the beneficiaries of these new products were borrowers who needed increased flexibility in mortgage terms, due to their impaired credit or their lack of qualifying income. However, it was later reported that the Bank of Canada was eventually reassured by the fact that CMHC's interest-only mortgage product included no changes to mortgage qualification criteria, and as such would be of less concern in terms of the balanced functioning of the financial system.[84]

40-year, zero-down payment mortgages

To accommodate to the growth of self-employment and variable income trend, the CMHC and several private mortgage insurers in Canada introduced changes in standards for income-verification and associated scrutiny. In effect, two "flexibility features " were introduced in exchange for a higher risk valuation, the features being insurance to cover 40-year amortization and zero-down payment mortgages.

The merits of 40-year amortization periods are not without detractors. While it is true that such periods allow easier and faster access for borrowers to purchase homes, from a strictly economic standpoint, the financial advantages of these mortgages accrue overwhelmingly to the lender. Although increasing the length of mortgage terms may have the effect of increasing funding availability, it also substantially increases the overall lending cost for the consumer. Only after ten years of consistently paying her mortgage payments, a 40-year mortgage borrower will start to reduce the principal owed at all. The dream of owning a home may have come true, but it is at an onerous cost to borrowers.

In fact, the risk is still primarily the borrower's even in the scenario of substantial decreases in home prices and payment delinquencies such has been recently occurring in the U.S. While mortgages (lenders) with a secured claim in such mortgages may experience write-downs in their investment value, their funds are secured by mortgage insurance. On the

[83] *Ibid*.
[84] *Ibid*.

other hand, borrowers stand to suffer the greater proportionate loss that will include their savings invested in the home, their expected increase in equity and, eventually, the total loss of their shelter by way of foreclosure.

The advantages of increasing access to mortgage financing through the relaxation of risk management standards, and the increase of government guarantees to induce private sector entry into mortgage insurance has also attracted the attention of the International Monetary Fund (IMF). In a recent paper reviewing the country's economic performance, alerted against the potential economic dangers of providing artificial incentives and the promotion of risk-taking.[85]

In view of recent developments in the mortgage and credit markets, the CMHC has suspended the availability of 40-year mortgage insurance line of products, although it has not indicated whether or not the measure will temporary. Currently, mortgage insurance availability from the CMHC is set back to 35-year term mortgages.

Financial Innovation and risk-spreading

Securitization

Firms and companies, in general, can tap into the value specific classes of assets and the future income from such assets to raise capital through a process called securitization.[86] Securitization started to be used widely in the United States since the late eighties and to this date, it remains to be a controversial financing tool. This is due to its very nature of being a mechanism that allows for the allocation of risk beyond the traditional bilateral relationship lender-borrower to third parties who are often unaware of the real nature of the underlying risks. In the event of market disruption, consumers are almost invariably left to foot the bill of the losses. While many economists and legal analysts deem securitization to be a "zero sums"

[85] International Monetary Fund, *Canada: Selected Issues*, IMF Country Report No. 08/70, February 2008, online: International Monetary Fund <http://www.imf.org/external/pubs/ft/scr/2008/cr0870.pdf>.

[86] Steven L. Schwarcz, The *Alchemy of Asset Securitization*, 1 (1994) Stanford Journal of Law, Business and Finance, 133-154.

game, there are those who are convinced of its potential for wealth creation.[87]

The assets selected generally represent rights to payments at future dates that are usually referred to as receivables. The company uses the potential cash flows from these assets to raise current funding. While some of the assets to be securitized may entail a risk of default in the future payments, grouping them in a greater pool of assets helps diversify the risk. This follows the assumption that statistically, a large pool of receivables due from many, for which payment is reasonably predictable, is generally preferable to a pool of a smaller number of receivables due from a few obligors.[88] The originating firm creates a corporation or a trust, and normally called 'special purpose vehicle' (SPV) and transfers title to the assets to the newly created SPV. The transfer guarantees that should the originator goes illiquid, the SPV is not affected by its bankruptcy. Securitization is thus a means to obtain funds at a lower cost and lower risk for the firm than issuing securities through listing in a stock exchange, or negotiating credit facilities from financial institutions.

Besides providing financing at a lower cost, through securitization firms obtain another important benefit: the securitized assets, as they are sold to the SVP, are not part of the company's balance sheet, eliminating the risks and liabilities that commonly would attach to such assets were them on the company's sheet.

Mortgage securitization

Securitization has become one of the main sources of capital for residential mortgages in developed financial markets around the world, and is growing at a fast pace in Canada, introducing a substantial transformation to the area of firm financing. Under a traditional mortgage-lending scenario, a lender directly assumes the risk of both default and prepayment by the borrower. Under a securitized scenario, a special purpose vehicle (SPV) is created to raise capital through the issue of mortgage-based securities (MBS) that are sold to investors that assume the risk of borrower's default and/or prepayment of such securities.

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[87] George J. Benson, The *Future of Asset Securitization: the Benefits and Costs of Breaking Up the Bank*, The Global Asset Backed Securities Market 3, (Charles Stone et.al eds., 1993).
[88] *Ibid*.

In this process, a firm (a bank, trust, finance company, etc) in the business of lending money sells and/or transfers these loans (mortgages) to a separate self-created 'special purpose company or vehicle' (SPV) in return for a cash payment.[89] This company then issues bonds or notes to investors and uses the proceeds from the issuance of the bonds to purchase the mortgage loans from the originator. The ongoing cash flow from the borrower's payments to their mortgage loans (interest and principal payments, prepayment penalties, late charges, etc) is used to redeem the securities (or bonds) and pay interest to investors. Additional loans are made as investors continue to buy the securities the originator or servicer (the bank, trust, finance company etc.) makes its profit from processing fees and commissions. In a market downturn, when mortgage origination slows down, the originator's revenue shrinks, as well as the funds available to continue to pay obligations to existing investors either through default or smaller volumes of receivables.

The U.S. subprime market is an example of a highly competitive housing finance environment that experienced increasing risk-taking enabled, in part, by securitization vehicles whose operations were not carefully managed. In 2006, the Bank for International Settlements questioned whether giving new borrower's access to housing credit had provided additional short-term demand pressure boosting house prices. The Bank pondered to what extent such short-term support was leading to a cycle in which more lending was leading to higher property prices, reducing potential delinquencies on default and giving rise to even more lending of questionable prudence.[90] Sub-prime lending, particularly in the United States, had grown rapidly in that period such that an increasing number of borrowers were offered interest-only or variable rate loans. The federal policy of keeping interest rates low contributed to create the confidence level among consumers that a variable mortgage (which is normally pegged to prime rate) was more advantageous than fixed rates given the size of the initial monthly payments.

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[89] A residential mortgage backed security (RMBS) is based on residential mortgages, while a commercial mortgage-backed security (CMBS) is based on commercial mortgages. The securities can also be backed by any other asset, such as car loans, consumer and credit card loans. An example of this product in Canada is the asset-backed commercial paper ABCP.

[90] Bank for International Settlements BIS, *Housing Finance in the Global Financial Market*, and January 2006, online: <http://www.bis.org/publ/cgfs26.pdf>.

The rapid growth of securitized mortgages, combined with the introduction of new and complex loan types offered to consumers, whose risk may not be assessed properly, raises many complicated issues and risks for financial markets. Principal among the concerns is that with securitized mortgages, neither the investors (who provide the liquidity) or the borrowers (who indirectly undertake the risk of losing their equity in a volatile or uncertain housing market) are able to assess accurately the real risks in this kind of borrowing or lending. Investors, in particular, are removed from the business of transacting the mortgages that are the basis for the business receivables. Most investors lack experience with this kind of new, riskier structured products in a securitized environment.

Securitization allows for the fragmentation of the standard mortgage supply chain, where a different entity takes over a single particular process related to the transaction: a mortgage broker exchanges information with real estate agents to procure prospective borrowers; a separate company originates the loan; another acquires the loan and mixes it with loans bought from other firms and creates a SPV that issues MBSs rated differently according to their degree of risk; another firm or servicer collects the payments and distributes them among investors depending on the risk of their investments and another service provider may take care of foreclosures if payments are not made.

Financial Innovation and high-cost borrowing

Markets operate as a place where the differing interests of industry and consumers with respect to a service or product are resolved through the price mechanism. For such price mechanism to create efficiencies that spread to all market participants, transparency in the information exchange is crucial. Regulatory safeguards to manage systemic economic risks in the financial market through increased transparency are often attacked by private financial interests arguing that such a policy choice will most likely stifle financial innovation by imposing additional costs to them. However, innovation in the supply side of the credit industry has consisted of progressively complex and highly sophisticated products that have been marketed without much regulatory scrutiny.[91]

[91] These include financial derivatives that encompass options, futures, and swaps. The main characteristic of these instruments is the diversification or allocation of risk among market actors.

But it can hardly be said that those affected by the hidden risks of all these products have chosen to bear them. Not all market actors see a benefit in disclosing adequate information to allow counter parties to make informed decisions on just how much risk to bear. Absent symmetrical information and knowledge between the producers and the consumers of these products, the conditions are created for consumers (mortgage borrowers or 'mortgagors' and retail, 'mom and pop' investors), to be saddled with risks they cannot fully appreciate due to the lack of transparency and accountability behind such products.[92] If there's a lesson to be learnt from the recent subprime meltdown in the U.S., it is that transparency and disclosure must be the central piece of financial operations. Absent transparency and, as consequence, market crises unfold crippling consumers' ability to make ends meet, it is not only consumers who suffer, but also the economy as a whole is adversely affected.

According to the Bank of Canada, the extraordinary growth of structured finance products in the last years does not mean that the overall risks have been reduced.[93] Such growth reflects the fact that the allocation of risk in the traditional lender-borrower transaction is transformed by a transfer of such risks to third parties, who, as described, acquire a stake in the transaction through the purchase of securities. The unbundling the credit risk from the underlying debt and transforming it into a tradable instrument sold in the money market has created a new source of capital that challenges the traditional scheme of funding provided by banks.[94] The consequence is that banks have increasingly moved from the model of funding loans and managing credit risks to a model where revenue is generated from service fees associated with cash flow management, securitization, structuring and distribution of debt. The provision of liquidity for enterprises in the credit market has, accordingly, has shifted from banks to non-traditional credit

[92] In Canada, a securitization product known as asset-backed commercial paper (ABCP), provides an example of how lack of transparency can result in financial turmoil. Uncertainty as to the extent to which ABCP paper were backed by subprime loans caused liquidity sources to dry up, resulting in losses for investors, many of them small retail investors, who did not have access to liquidity when willing to redeem their paper.

[93] The concept of structured finance is often used interchangeably with securitization.

[94] Bank of Canada, *Financial System Review*, June 2007, online: <http://www.bank-banque-canada.ca/en/fsr/2007/fsr_0607.pdf> at 19-21.

market participants, such as investment funds and, increasingly, to small investors who make investment decision and buy securities on their own.

Structured finance and asset securitization are indeed the result of financial innovations. But notwithstanding their ingenuity, these innovations have attracted a significant amount of criticism and have yet to disprove their characterization by some detractors as a ‘zero sum’ game.

Structured products, which are a main funding source for subprime lending, from mortgages to auto loans to consumer loans, have the disadvantage of being obscure and highly complex, difficult to price adequately and efficiently, illiquid opaque in regard to their credit characteristics.[95] They may trade on organized exchanges but are often created in unregistered form and trade in the over-the counter markets.[96] Their levels of risk are so spread out and diverse that they are not clearly understood even by seasoned or reasonably educated investors.[97]

The Bank of Canada has warned that structured financial products only transfer risks, but do not eliminate them. Ultimately, the risks have to be assumed somewhere, and as the U.S. subprime meltdown illustrates, they tend to be mainly borne by those market participants who are not fully aware of their risk exposure.[98] While the financial industry has been hard hit with losses amounting in the billions, consumers, be it in their condition as homeowners or as retail investors, have collaterally suffered some of the most devastating losses in the subprime meltdown, a crisis that many attribute to the lack of regulatory supervision of structured finance. For borrowers or home buyers who may not be in the financial position to contract a high-cost mortgage, but are nevertheless attracted to it under the guise of easy financing, in addition to the payment difficulties previously discussed, there is a central risk that they may be left holding a property with decreasing value after a market cycle, particularly when they wish to sell the same. For consumers who are investors at the retail level, and who buy

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[95] *Ibid*.
[96] *See*: Jennifer Bethel and Allen Ferrel, *Policy Issues Raised by Structured Products*, John M. Olin Center for Law, Economics and Business, Harvard Law School, October 2006, online: Social Science Research Network SSRN < http://papers.ssrn.com/sol3/papers.cfm?abstract_id=941720 >.
[97] *Ibid*.
[98] *Ibid*.

asset-backed securities, sold by a reputable bank without full knowledge of the underlying risks of such investment, they stand to lose their investment, often representing their lifetime savings. For the latter group, while it can be said that all investment carries with it the risk of failure, the circumstances of these investments appear to leave much to be desired in terms of transparency.

Rating agencies and securitization

Capital investors tend to be more financially sophisticated than the average consumer, and before bearing risk, will ordinarily require adequate disclosure of accounting and financial information. This is, of course, true with respect to investments in SPVs. However, such investors normally do not have either the money or the resources to fully investigate the financial condition of the companies or assets to appropriately weigh the investment.

Many investors therefore rely upon “rating agencies”.[99] To evaluate risk, rating agencies play a pivotal role in maintaining the credibility of the financial system, since their opinion on the risk of a given security is an important fact in determining its attractiveness to investors. In order to sell mortgage-based securities to investors, companies must offer a competitive rate of return, commensurate with the risk involved in the investment. While the costs associated to securitizing as a means to raise capital are low for firms, the actual costs associated to assessing the creditworthiness of SPVs, undercollaterallization and potential default involved in large and complex liquidity placements are very high for investors. This is the case for mortgage-based securities (MBS), asset backed securities (ABS), and collateralized debt obligation (CDOs; when the collateral is owned by the SPV pool is mixed). Rating agencies are, at least in theory, equipped with the knowledge and expertise necessary to assess investment risk in behalf of multiple investors. Their involvement potentially reduces the costs of investor due diligence thereby achieving efficiency gains and economies of scale and scope.[100]

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[99] *Supra* note 86 at 136.
[100] John C. Coffee and Adolf A. Berle, Columbia University Law School, *Turmoil in the U.S. Credit Markets: The Role of the Credit Rating Agencies*, Testimony before the United States Senate Committee on Banking, Housing and Urban Affairs, 22 April 2008.

However, these agencies have come under fire given the apparent conflict of interest associated with their revenue model, which relies heavily on the fees paid by the firms of securities themselves. In the U.S., subprime lenders were successful selling securities backed by loans and mortgages that were given investment grades by the same rating agencies that were paid by the firms creating the SPVs. This had the potential for conflict of interest and provision of misleading information to investors as to the soundness of the underlying loans resulting in the potential deterioration of the housing market. One of the important outcomes that has occurred in the context of the current market failure in the United States, has been the recent agreement between federal, state authorities and the main rating agencies to shift the ratings business towards a revenue system funded by the investing community.[101]

Consumer welfare and structural risks associated to subprime, high-interest lending

The subprime mortgage crisis in the U.S. is at the centre of the downturn of credit markets generally. This is due to the central place that the housing sector occupies in the economy, and the negative impact of rising mortgage payments from overstretched households on consumer spending. From the consumer standpoint, it is accepted that the most important purchase in a consumer's life is usually a residential home. Consumer homeownership is a crucial indicator of an economy's performance because it has a direct bearing on consumer spending, savings levels, and equity building and wealth creation. In other words, a balanced economy and a properly functioning market depend directly on consumers' economic welfare often underpinned by his or her home financing arrangements.

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[101] An investigation by New York State Attorney General Andrew M. Cuomo found structural problems in the way investment banks remunerated rating agencies. Rating agencies were not remunerated for initial ratings given to investment banks' mortgage-based securities, allowing banks to get free previews of MBS assessments from multiple credit rating agencies, to only hire the agency that provided the best rating. In addition, the Attorney General's investigation found that credit rating agencies were not privy to pertinent due diligence information that investment banks had about the mortgages comprising the loan pools they were selling. See: Office of the New York State Attorney General, press release: *Standard & Poor's, Moody's, and Fitch Agree to Change Fee Structures, Obtain Due Diligence Information for the First Time, and Create Due Diligence and Lender Standards for Residential Mortgage-Backed Securities*, June 5, 2008, online: <http://www.oag.state.ny.us/press/2008/june/june5a_08.html>.

As lenders seek to displace or at least reduce, through securitization, the risk that has traditionally been inherent to the business of mortgage lending in banking and finance, one of the results of these measures is that such risks are increasingly flowing to investor and borrower households, who are indeed ill-equipped to bear such risks. The IMF believes there are four main types of risks being transferred to households:[102]

1. Market risks (interest rates, equity, credit, and derivatives embedded in structured or securitized products)
2. Inflation risk (as governments and enterprises adjust or eliminate benefits indexation)
3. Investment planning and reinvestment risks (operational risk)
4. Longevity risk (as income from public or private annuity are reduced)

Although households, as the implicit shareholders of the public and private financial systems, have always borne financial risks as the ultimate consumers in the financial system, they are often excluded from traditional analysis and considerations. This is due to the fact that these risks and potential exposure:

1) have been intermediated in the past by governments and private financial and non-financial institutions and

2) have been borne by households through the roles of taxpayers, depositors, business owners, etc., and increasingly as securities holders, mortgages and equity.

However, in the opinion of the IMF, issues related to the household sector should now be an important aspect of financial system stability considerations. This is because the financial landscape is rapidly changing and households may not be well protected to absorb the increasing transfer of risks.[103]

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[102] International Monetary Fund IMF, *Global Financial Stability Report, Market Developments and Issues*, April 2005, online: International Monetary Fund < http://www.imf.org/External/Pubs/FT/GFSR/2005/01/index.htm>.
[103] *Ibid*.

PART II: Subprime, high-interest loan users: their experience

Over the last 10 years the 'fringe' lending market has evolved into a more established market. Far from being limited to pawnbrokers or small payday loans, subprime lenders compete head-to-head today with traditional banks and also offer lines of credit, retail store credit, car loans, equity loans and mortgages.

A PIAC study in 2002 provided an initial exploration into the use of alternative financial services (AFS), to determine the main drivers behind the increasing use among consumers in Canada.[104] That study was only concerned with cheque cashing and payday lending users including the factors that lead to the use of such services and user perceptions with regards to the potential stigma for such use.[105]

This study aims to obtain a more detailed knowledge of this market with a particular focus on subprime mortgages as a new development. Subprime financial services and products are currently becoming prevalent in the financial lives of millions of Canadians coincident with a retreat of established banks from face-to-face, personal banking.

Research Methodology

Focus Groups

Focus groups have proven to be useful qualitative research tools to assist in an inquiry into social phenomena that may have inadequate or problematic

[104] The study included cheque cashing services, payday loans, pawnbrokers, Rent-to-Own stores, tax rebate discounting, loan brokers and non-deposit finance companies, *See*: Sue Lott and Michael Grant, *Fringe Lending and "Alternative" Banking: The Consumer Experience*, Public Interest Advocacy Centre, Ottawa, 2002.
[105] *Ibid*.

outcomes, and/or may call for the devising of strategies for their solution. They provide a closer look into feelings, desires or experiences of the individuals being interviewed, and such qualitative information serves to clarify the elements and real-life manifestations of the issue addressed.[106]

For the purpose of obtaining a clearer picture of the typical Canadian subprime borrower, the questioning was focused on the experiences, opinions and expectations of the participants as users of high-interest borrowing and financing. The answers are indicative of the variety of characteristics applicable to the consumer of the subprime lending market in Canada.

The qualitative component of the research consisted of seven discussion groups conducted in Toronto (3 groups), Edmonton (2 groups) and Vancouver (2 groups). These cities were chosen based on the fact that the provinces of Ontario, Alberta and British Columbia are the most active markets for subprime lenders and their products, from payday loans to mortgages. During the 5-year period from 2002 to 2007, Alberta, British Columbia and Ontario's real estate markets experienced strong growth in the number of subprime mortgages sold to consumers.[107]

Sampling

Sub-prime and high-interest borrowers would appear to share common obstacles in their access to mainstream financial institutions for their liquidity and credit needs. In the case of mortgage borrowers, the principal barrier is an insufficient, blemished or a damaged credit rating.[108] In the case of consumers of high-interest unsecured consumer lending such as payday loans, obstacles to mainstream financial institutions take diverse forms. They will include the lack of an established credit history or a damaged credit rating but will also encompass factors associated with the institutional banks

[106] Krueger, R.A., and M.A. Casey, *Focus Groups: A Practical Guide for Applied Research*, 3rd Ed. Thousand Oaks, Sage Publications, and California, 2000.
[107] The number of subprime or non-conforming loans originated in Canada grew at a 25% yearly rate from 2001 to 2006; *See*: Benjamin Tal, *Mortgage Risk - Canada vs. US*, Consumer Watch Canada CIBC World Markets, 16 March 2008.
[108] Bank of Canada, *Financial System Review, December 2005*, Ottawa, online: Bank of Canada <http://www.bankofcanada.ca/en/fsr/2005/fsr_1205.pdf> at 17.

gradual retreat from middle and lower income neighbourhoods. Another driver for such loan seeking is a lack of extra resources to even weather the smallest contingency.[109]

For the selection of participants for the focus groups, a broad definition the term subprime was adopted. For the purposes of this study, subprime lending is considered as the lending to those individual borrowers whose personal credit rating is less than prime, where such loans are thought to bear a higher degree of risk related to default in the repayment of their loans and result in a higher interest rate being applied to the same.[110] One characteristic shared by nearly all of the participants in the focus groups was that they were considered as having an increased risk of potential default as a result of their past or present credit rating problems and/or their difficulties in accessing loans or credit lines offered by an institutional lender. Additionally, the groups only included individuals who were employed either on a full-time or part-time basis and that held subprime mortgages or used cheque-cashing and payday loan services.

An important caveat must be noted in relation to the challenges posed by the process of finding and screening of individual users of these kinds of products and willing to come forward and talk openly about their personal financial reality experiences. After a challenging process of recruiting the respondents, a total of 56 individuals were recruited with the expectation that 42 of them will in fact honour their commitment. However, of the 42 expected as minimum, 37 in total did arrive and participate in the group interviews. While the results provide valuable insights into the realities and daily financial lives of these users, the accelerated growth of high-interest and subprime finance and its sensible social and economic impact among citizens, warrants major additional research and therefore increased government agencies' funding.

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[109] In Ontario alone, 375 bank branches have been closed since 2002. In the same time period, 84 branches have been closed in British Columbia, 69 in Alberta, 31 in Manitoba, 23 in Saskatchewan and 140 in Quebec. While, bank closures alone do not lead to the conclusion that banks are in fact retreating form neighbourhoods and communities, this is an area deserving additional research to compare bank branch openings with closures based on geographic location. *See*: Financial Consumer Agency of Canada FCAC, Bank Bank Closures, online: Financial Consumer Agency of Canada <http://www.fcac-acfc.gc.ca/eng/consumers/ITools/branchclosures/branchclosures_e.asp>.

[110] Joseph E Stiglitz and A. Weiss, *Credit Rationing in Markets with Incomplete Information*, *American Economic Review* 71 (1981), 393-409.

The use of credit cards and store credit cards was not included as one of the selection criteria. While many of these cards carry interest rates well above what can be considered as 'prime' (in the case of store credit cards the interest rate is particularly high),[111] this kind of credit generally presupposes a) a established credit history, b) a continued reasonably good use of such credit,[112] and c) easy access to funds in the case of emergencies or unexpected events.

Key findings from the focus groups:

Participant's Financial Histories

As explained, the personal histories of all of the participants were different in many ways, depending on determinants such as their socioeconomic origin, the cultural values and, significantly, their level of education. There appears to be more than one life path to subprime borrowing. However, the focus groups findings did show the presence of certain characteristics that could be useful in the prediction of subprime borrowing behavior.

As we have noted, the circumstances under which high-cost credit users wind up experiencing financial stress –and therefore becoming increased-risk borrowers- are multiple and depend, to a great measure, on the personal reality of each individual. However, from the focus groups participants' narratives it surfaced that most of the financial problems that caused the recourse to the high cost borrowing appeared to have occurred early in their credit histories. These problems involved first time use of credit including student loans, credit cards, lines of credit, and even payday loans. Their experience with these products would appear to have had a material impact on their ability to access credit on favourable terms.

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[111] One example of these is the Best Buy's store credit card, whose liquidity is provided by Wells Fargo Canada, owner of the credit accounts, and whose annual interest rate is set at 28.8 percent.
[112] According with a Statistic's Canada 2005 Survey of Financial Security, credit card delinquency rates in Canada are low, presupposing most cardholders make their monthly payments on time; *See:* Statistics Canada, *Survey of Financial Security 2005*, online: Statistics Canada <http://www.statcan.ca/english/Dli/Data/Ftp/sfs/2005/sfs2005.htm>.

Student loans and financial disadvantage

Student debt turned up as a significantly common element incurred at the outset of the financial lives of high-interest and subprime borrowers. Student-debt burden and its service, was clearly identified as a key driver causing later recourse to subprime lenders because of experienced financial difficulties. The decision to pursue post-secondary education and to earn a university degree or college accreditation has general societal approval as a financial investment, and as a milestone for personal development. The widely-held view that college and university education is a "ticket" to a financially stable future, coupled with some degree of financial naiveté management, may be contributing factors to financial instability.

It would appear that for a significant number of focus group participants, the education financed by student loans has turned out to be an investment that didn't pay dividends in the short term. The student loan debt has become a major roadblock to financial capacity with ramifications for their personal lives.

> "*Then I graduated with a whack load of debt and trying to sort of get my place in the workforce but I was able to get a job, an entry-level position. I've just sort of been digging myself out and trying to move out from there.*" (Woman, Toronto).
>
> *"Just because, when you get out of school and then after six months you start seeing what student loans take from you and how little a dent it makes and the interest accrued."* (Man, Vancouver).

Often, the cost of servicing student debt has outpaced the income gains derived from a higher education. Things are even worse for those who have left their academic programs unfinished. Focus group participants who mentioned having a student loan, tended to believe that it had rather placed them at a financial disadvantage.[113]

[113] Appendix A, Environics Research Group, *Subprime Lending Consumers: a Qualitative Exploration*, pages 1-2.

These experiences with student loans and student lines of credit seem to echo some of the comments made in the 2003 report of the Senate of Canada on the review to proposed legislative changes to Canadian bankruptcy law:

> "…The Committee believes that investing in a post-secondary education is an increasingly risky undertaking, particularly in the changing environment in which we all live. Students may invest considerable time and financial resources in a chosen course of study, only to find that upon graduation they are unable to find secure, adequately remunerated employment and in their chosen field; some are not able to find employment at all, or find they underemployed. As well, some may leave their post-secondary studies prior to graduation. There is, quite simply, no guarantee that the investment made in post-secondary education will yield the expected return on that investment. That being said, our future prosperity as a nation requires a highly educated and highly skilled workforce, which necessitates investments in post-secondary education."[114]

Five years after that Senate report, the financial risks related to the debt burden for young Canadians who choose to undertake post-secondary and university studies seems not to have improved. One measure of the capacity of students to incur student loan debt is the default rate. The Canada Student Loans Program (CSLP), a branch of the Ministry of Human Resources and Social Development, considers a student loan to be in default if the borrower is in arrears for more than nine months on their monthly payments.[115]

Student loan default rates in the Canada amplify the Senate report's findings: almost half of the loans made to students from private post-secondary

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[114] Honourable Richard H. Kroft and Honourable David Tkachuk, Senate of Canada, *Debtors and Creditors Sharing the Burden: A Review of the Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act*, Report of the Standing Senate Committee on Banking, Trade and Commerce, online: Senate of Canada <http://www.parl.gc.ca/37/2/parlbus/commbus/senate/com-e/bank-e/rep-e/bankruptcy-e.pdf> at 55.

[115] Testimony of Senator Yoine Goldstein given to the Standing Senate Committee on Banking, Trade and Commerce in the discussions leading to Bill S-205, the Bill S-205, *An Act to amend the Bankruptcy and Insolvency Act (student loans)*, as sponsor of the bill, online: online: <http://www.parl.gc.ca/39/2/parlbus/commbus/senate/Com-e/bank-e/12ev-e.htm?Language=E&Parl=39&Ses=2&comm_id=3>.

institutions or 45 per cent, are in default. For college students, the default rates for college students are above one-quarter of all loans or 26 per cent; and for university students, the default rate is almost one-fifth, at 18 per cent.[116] The interest rates that Canadian students must pay for their student loans are currently a major concern both from the point of view of the competitiveness of the Canadian workforce in the context of the global economy but also in terms of societal development and well-being. On March 13, 2008, Senator Yoine Goldstein told the Senate:

> "A [Canadian] student with a loan of $25,000, for instance, would be paying, if he or she opts for the variable rate, $10,400 of interest over the standard term of the loan, or $14,200 of interest if he opts for the fixed rate of interest. Our student loan interest rates are the highest in the developed world."

High interest costs for their student loans and a general lack of awareness as to the consequences of contracting debt early in their lives as students, were recurrent themes among the study participants, whose financial circumstances have pushed them to the use of subprime and high-cost consumer financial services. In the long term, as high-cost financing for such struggling borrowers continues to expand, the economic and social consequences may be negative for more than the borrowers.

Are student loans becoming a financial trap?

The answers obtained from focus groups' participants and their negative experiences with the management and high cost of student loans illustrate their potential role in the early deterioration of the financial lives of those who pursue post-secondary education but do not manage to fulfill income expectations as a result of such education. The reality of student-debt experiences may be now be acquiring a visibility for prospective students, and having a deterrent effect for students in considering post-secondary studies as an option. This is particularly true of students from lower income backgrounds, and families with limited expectations for university.[117]

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[116] *Ibid*, Statement by Honourable Senator Yoine Goldstein, Meeting of March 13, 2008,

[117] For some commentators, the opportunities and benefits of a higher education are so great that a degree from a college or university it is still an excellent investment in the future. However, the problem is how to allow all qualified students the opportunity to gain these benefits in spite of the

According to the *Millennium Scholarship Foundation*, one in three high school seniors cite financial concerns, and not having enough money for education and training as a barrier to post-secondary education.[118] Financial barriers to higher education can be considered to be even higher if variables that disproportionably affect students from low-income or no-university educated households, such as low reading scores, low test performance and therefore low marks, are accounted for.[119] There are good reasons to believe that the current reality of high loan-to-service ratio student loans in Canada may be contributing to the financial pressures present in the households that resort to high-interest and subprime loans. From a public policy standpoint, this is a key finding. A significant enabler for post-secondary education may be deficient in delivering the required result.

Credit cards and lines of credit

Mismanagement of credit card debt and lines of credit was often cited by focus group participants as being a significant factor in compelling recourse to high cost borrowing. These problems frequently occurred in early adulthood when they fell behind on payments toward their credit obligations. In turn, this increased their indebtedness, caused havoc in their personal

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financial expense. The worry is that a postsecondary education may simply be unaffordable for students with the requisite ability, so the higher fees (and associated costs of books, computers, residence fees, etc.) will limit access. As well, students from low-income households may face psychological barriers to taking on heavy debt loads in order to meet these high costs. Some comparative studies show that while the postsecondary participation rates are very similar between the United States and Canada, university participation rates are considerably higher in the United States (29.4 versus 22.8% in 2000). Concurrently, while attendance at universities are still considerably lower in Canada, student aid (from all sources) covers only 48% of the bill in Canada compared to 60% in the United States, so that out-of-pocket expenses to be covered by the student (and family) are 25% higher in Canada than in the United States. *See*: Charles M. Beach, Robin W. Broadway and R. Marvin McInnis, *Higher Education In Canada,* John Deutsch Institute for the Study of Economic Policy, Queens University, 2005.

[118] Joseph Berger, Anne Motte and Andrew Parkin, *The Price of Knowledge, Access and Student Finance in Canada*, Canada Millennium Scholarship Foundation, 3rd Ed., 2007, online: <http://www.millenniumscholarships.ca/images/Publications/POK07_e.pdf> at 35-37.

[119] Marc Frenette, *Why Are Youth From Lower -Income Families Less Likely to Attend University? Evidence From Academic Abilities, Parental Influences and Financial Constraints*, Analytical Studies Research Branch Paper Series, Statistics Canada, February 2007, online: Statistics Canada <http://www.statcan.ca/english/research/11F0019MIE/11F0019MIE2007295.pdf>.

finances, and damaged their credit history. There was often an acknowledgement that youth, lack of financial experience and education were contributing factors to their early debt problems and the development of impaired credit.

> "*I think that banks and mortgages and credit card companies that are at the university campuses that are getting these kids in debt earlier and earlier, I think we'll see a lot more poverty.*" (Woman, Edmonton).
>
> "*So I would be working during the holidays, during the summer having part-time jobs, whatever and getting OSAP for my education. That was for my living and whatever. I didn't make that much money during the summer because there's only so much you can make in a couple of months and that generally would just last a few months anyway. So that's when I started getting credit cards and that sort of thing. That was my first degree and I racked up a lot of debt that way. I ended up living at home after that just for a little bit. Then I wanted to go back to school for another degree and moved out on my own because I couldn't live at home.*" (Woman, Toronto).

Instances of aggressive marketing of consumer credit in the form of credit cards and lines of credit were also noted. Some participants expressed their concern about the tendency of creditors to raise a credit limit that often is not requested. In their opinion, the increase is a tacit invitation to spend. When an inexperienced card user decides to accept this invitation to spend without calculating or having the disposable income required to pay back the debt in full, there can be calamitous results. Increased fees will be assessed on an ever-expanding amount that may subsume the total that the borrowers have for payment of any of the principal amount. The amount owed on the credit card or line of credit grows in tandem with the borrower's financial instability. And when financial stability or the ability to meet daily money requirements diminishes, there will often be an increased use of credit cards as an emergency resource to cover basic expenses, especially for those who have dependent children or family members. The cycle for financial ruin is thus perpetuated

Lack of financial capability through early financial education

The capability of individuals to be able to behave rationally when confronted with financial decisions, has not only related to their financial literacy, or how much they know about personal finance, economic issues and banking products in general, but also with whether or not they have developed the skills to efficiently manage their financial lives from the standpoint of their best economic interests.[120] The focus group participants showed different levels of basic knowledge of financial terms, as well as services and products available to them in the market. In particular, those holding mortgages both with banks and with sub-prime lenders were the most aware of market availability of different products. However, when asked about the factors they deemed as contributing to their financial difficulties present or past, they mentioned lack of experience and awareness in general as to how to better make financial decisions.

It is important to keep in mind that this lack of awareness was not in connection with their ability to perceive core differences between the cost of consumer credit products available (i.e.: differences between a payday loans *and* a bank line of credit) but mostly with regard to understanding and appreciating the likely negative consequences on their own financial situation of one choice or another.

> *"Being young, not having the maturity level to manage finances and stuff like that."* (Woman, Toronto).
>
> *"I wasn't thinking about it, right? When I should have been saving it, I was just blowing it and partying it away*."(Man, Edmonton).

[120] Financial literacy and financial capability are two closely related concepts that however, are not identical. Financial literacy is concerned with the objective knowledge on topics that are specific to money, economic or financial matters and a subjective measure of perceived self-confidence in making financial decisions. Financial capability goes somewhat further and includes financial skills, competence and financial responsibility. See: *Why Financial Capability Matters*, Synthesis Report on Canadians and Their Money: A National Symposium on Financial Capability Held on June 9-10, 2005 in Ottawa, Policy Research Initiative (PRI), Government of Canada, online: Financial Consumer Agency of Canada FCAC <http://www.fcac-acfc.gc.ca/eng/Publications/SurveyStudy/Misc/PDFs/SEDI-FCAC_FinCapability_e.pdf>.

Poor financial choices cause negative outcomes in the management of credit obligations and disposable income. These choices have a lasting effect upon credit histories. They then result in these same borrowers who have made imprudent earlier choices being shuffled into the category of customers who cannot access lower cost, mainstream or 'prime' credit. Thus the clientele most in need of reasonable credit terms to repair their financial situation and credit history are denied the same.

Focus group participants were generally aware of the fact that a user base of short-term high-cost financial services such as payday lenders and cheque-cashers is highly populated by low-income households.[121] The growing presence of high-interest lenders such as payday loans in mid-lower income neighbourhoods seems to coincide with progress of closure of branches of mainline banks in the same areas or localities.[122]

Family, health matters and financial distress

Financial difficulties for high-interest credit users do not always find their origin in an individual's mismanagement of his or her own finances. Many participants referred to common-law or married spouses' spending habits as contributing to the deterioration of their own financial stability. Participants referred to factors such as high-spending lifestyles, unwise spending choices and personal differences as to how spending should be prioritized as problematic.

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[121] Users' opinions coincide with the finding of an Ipsos-Reid poll conducted in 2005 indicating that those most likely to use cheque-cashing outlets and payday loan companies are those with lower household incomes and particularly, households with less than $30,000 yearly income. The poll inquired into consumers' experiences with financial services as well as their awareness of the FCAC. See: *Public Experience with Financial Services and Awareness of the FCAC*, (Ipsos Reid Corp.), Financial Consumer Agency of Canada, and March 24, 2005, online: FCAC <http://www.fcac-acfc.gc.ca/eng/Publications/SurveyStudy/Consumer/PDFs/PublicExpFinServAwareRpt_e.pdf>.

[122] Users' impressions do coincide with the explosive growth of short-term, high-interest fringe lending in Toronto, Canada's largest city, as audited and reported by United Way. See: Susan MacDonnell, *Losing Ground: The Persistent Growth of Family Poverty In Canada's Largest City*, A Report of United Way of Greater Toronto, November 2007, online: United Way of Greater Toronto <http://www.uwgt.org/whoWeHelp/reports/pdf/LosingGround-fullReport.pdf>.

> *"…I'm lucky that he even has a bank account. Like, he's that bad with money. He's just a chronic, chronic irresponsible guy."* (Woman, Vancouver)
>
> "*I'm more of a realistic, practical type of guy. You buy something if you need it. [And she is]…: "Let's buy this picture. It looks good over the fireplace wall." We don't have a chair to sit on yet, why are we buying?*"(Man, Toronto)

Different personal approaches to finances may eventually lead to family disputes or break down. When that occurs, as the debt has often been assumed jointly, there may be only one spouse that is capable or willing to honour the debt. The increased money demands caused by the break-up, coupled with the sole responsibility for the debt can cause default.

There are often other circumstances beyond the control of the borrower that can have an impact on the ability to service credit related debt. These include unemployment and health-related issues. The ongoing shift to a service-dominated economy has pushed many Canadians previously engaged in the manufacturing and industrial sector to unemployment. And although unemployment periods for many laid off workers may be temporary, the job positions created in the services sector will be less attractive than the lost manufacturing jobs in terms of remuneration and productivity.[123]

Payday and high-interest borrowing

As noted earlier the focus groups were composed of individuals who are employed either full-time or part-time and individuals who hold mortgages and reported having used cheque-cashing and payday loan services. Many of them conveyed a sense of dissatisfaction with having had to resort to payday

[123] The April 16, 2008 a TD Bank Special Report echoes the concerns of Andrew Jackson, Chief Economist at the Canadian Labour Congress as to the loss of many high-quality, high productivity and better remunerated jobs to lower quality new jobs. *See*: TD Bank Financial Group, *TD Economics Special Report*, April 16, 2008, online: TD Bank <http://www.td.com/economics/special/bc0408_labmkt.pdf > at 4; Andrew Jackson, *An Update on Canada's Two Economies – Implications for Workers and for Monetary Policy*, Canadian Labour Congress, April 8, 2008, online: Canadian Labour Congress <http://canadianlabour.ca/updir/twoeconomyEn.pdf >.

loans to be able to hold their heads above water. Either currently, or in the past they have felt ‘stuck’ in their financial lives for reasons that are not always related to lack of financial judgment:

> *“It’s a vicious circle, and that’s exactly what it is and that’s why I’m scared to even step, like go that way, you know what I mean? Because it’s, like, why do I have to go into debt just to have something I need, like shelter? I don’t get it.”* (Woman, Edmonton).

While both real estate market and job markets have experienced high rates of growth in some Canadian provinces, particularly in the west, these good times have also carried with them a measure of price inflation. The result in the housing markets has been to make the cost of acquiring and maintaining a house prohibitive for lower and even middle income Canadians.[124] At the same time, home ownership is an important measure of security for many Canadians, putting the goal of owning a house potentially at odds with financial stability where household income has not kept pace with rising house prices. Focus group participants suggested that that debt, and particularly high-interest debt, was the way that many chose to meet the home ownership goal, or meet day-to-day needs arising as a result of such home indebtedness.

<u>Barely making it: The high-interest and subprime clientele</u>

The narratives from the focus groups participants seem to suggest that their financial instability may have been increasing. It should be noted that participants came from diverse income-level groups. They were selected not on the basis of their income but on the basis of whether or not they used high-interest financial products. Without regard to their income level, they indicated to resort to higher-interest lenders in order to weather periods of personal financial turbulence. For those participants who may belong to the lower end of the income distribution, resorting to these services may be congruent with the observed slide in income according to census data for low and middle income Canadians.[125]

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[124] *Supra* note 124.

[125] Statistics Canada, *Earnings and Incomes of Canadians During the Last Quarter Century, 2006 Census*, 2006 Census Year, Ottawa, May 2008, online: Statistics Canada <http://www12.statcan.ca/english/census06/analysis/income/pdf/97-563-XIE2006001.pdf >.

In fact, there appears to be a clear correlation between the growth of subprime, payday and high-interest lending and the overall decreasing income levels for the middle and lower income Canadian demographic groups. According to Statistics Canada, median earnings for those at the bottom 20 per cent of the pay distribution decreased by 20.6 percent between 1980 and 2005, from $19,367 to $15,375. For those in the middle 20 percent of the income distribution there was virtually no income growth during the same time-period, from $41,348 in 1980 to $41,441 in 2005. In contrast with the middle and lower earners, Canadians at the top 20% saw a 16.5% increase in their median incomes from $74, 084 in 1980 to $86,253 in 2005.[126]

Median earnings in 2005 constant dollars of full-time, full-year earners by quintile, from 1980 to 2005

Quintile	Year				Change 1980-2005
	1980	1990	2000	2005	
Top 20 %	74,084	76,616	81,224	86,253	16.4%
Middle 20 %	41,348	40,778	40,433	41,401	0.1%
Bottom 20 %	19,367	16,345	15,861	15,375	20.6%

Source: Statistics Canada, censuses of population 1981, 1991, 2001 and 2006.

The vast majority of participants in the focus groups and users of high-interest lending services do have bank accounts of their own, and use bank services. This may be an indication that bank account availability may not be an issue per se but instead the availability of personal banking services that may or may not related to such bank account (i.e.: cheque cashing) and needed when the circumstance arises. But when faced with critical cash shortages for monthly and daily expenses such as rent, transportation, food and health problems, and absent an alternative cash cushion, they cannot wait for banks cheque-holding periods and have few options other than to resort to payday lenders or similar cheque cashers as a means to avoid default, not-sufficient –funds (NSF) charges and mitigate, in the short term overall penalty fees and costs.

[126] *Ibid*.

In the area of residential mortgages, Canadian subprime lenders focus on self-employed borrowers and borrowers whose employment requirements and credit history, while not necessarily damaged, may not pass muster with institutional lenders and chartered banks that lend at prime rates.

The view of traditional banks by high-cost borrowers

A number of factors may be having a direct effect on the accelerated growth in the number of Canadians who resort to fringe, subprime and high-cost borrowing. The census-derived income data showing reversals for the mid-lower income groups has had a longitudinal impact. Other developments such as bank branch closures in neighbourhoods and locations where most of the branch business comes from personal and retail banking may also be having an impact on the availability of personal banking and financial services. These focus groups participants, who can be considered as not having significantly improved their income levels over the last several years, have had to resort to high-cost borrowing to make ends meet. They expressed their own views on their experiences with traditional chartered banks:

> *"The bank actually puts a hold on people's money who don't have a lot of money in their account. So, I'm going to wait five to seven days to get my cheque."* (Single-income household, Toronto)
>
> "[*Banks*] *They won't cash their own cheques. It's like the day the rent is due and I have a cheque instead of the money in my account. So, it's like I have to cash it, I have no choice. I mean I'm forced to do it"*. (Single-income household. Toronto)
>
> *"If you ask for a bank loan, it's a lot of different than if you go into a Money Mart (laughter) and get it. Because they want you and they don't care anything about your past. Two references and you have money just like that. You go to the bank and there are all these embarrassing questions and everything; the people you work for and all that stuff. You have to make an appointment. When I needed $800, I needed to cash advance my paycheque because I get paid every two weeks and I just went*

into Money Mart. I went to a bank first and there was such a song and dance about it I thought, forget it. I went into the Money Mart; it was high interest but, you know what, I needed that money fast – it was a lifeline. They were nice to me; they were really nice to me." (Woman, Toronto)

In the western provinces, where due to economic expansion, cost of living has gone through pronounced increases, high-interest borrowing users expressed concerns that for many, the benefits of a growing economy were not being translated into a higher standard of living but only a higher cost of living.[127] In the opinion of some participants in Edmonton, for those at a lower income level, banks would not interested in offering them mortgages in many instances:

If you have poor credit and you're only making about $10 to about $14 an hour, there's not too many banks that are going to say "Okay, well here's some money for a house, here's some money for this, go ahead and you can pay us anytime you want." We'd love to take a mortgage from a bank, but it's just too hard. We just use them to put our money in, and the money goes out to pay the bills and that's about it. (Woman, Edmonton)

At the same time as the banks were not regarded as being likely available for short-term or emergency money needs, some participants expressed the view that they would prefer to deal, for banking purposes, with a 'real person' instead of with an automatic teller machine (ATM). This may partially explain why, in the particular case of payday loans outlets, clients look at the fact that they can interact with the outlet's personnel, as an advantage. This sentiment is also coupled with a general sense that payday loan personnel were far more accommodating and interested in providing them with a service.

I find that the people at the cheque-cashing places have generally been a lot nicer to me. And the banks have this weird idea that me giving them money is them doing me a big favour. I'm giving you money so you can invest it and make more

[127] *Supra* note 124.

money, but somehow that's doing me a favour. Whereas, the Money Mart, that's just a business transaction. That's just what it is, that's all it is. I've had a really bad attitude from a bank teller before. I go to cash a [*bank*] *cheque and they're, like, "We don't cash our own cheques." And then they just treat me like I'm idiot for thinking that that's weird, right? So, I mean, things that 20/25 years ago used to be a given at a bank is now like where are you getting these crazy ideas from.* (Single-income household, Toronto)

I don't really get treated better at my bank because the woman that I deal with there and she's, you know, when I have for whatever financial issues I have and so it's a much more personal relationship. Whereas, like you were saying, when you go into the Money Mart, I mean, it's a transaction and you know that you're there because you need to get the money and, yes, they're going to charge you for it, but it's a business transaction and it really doesn't feel like there's anything sort of personal about it. (Woman, Vancouver)

In an economic environment where many participants in the economy are experiencing sustained decreases, or stagnation in their personal income flow, banks can rationally expect consequent decreases in their personal banking business volumes, eroding the economic incentive for them to continue full service banking in low to moderate income neighbourhoods.

Consumer understanding of mortgage lending concepts

The mortgage market and the financial details involved behind the design of mortgage products can be highly complex for the unsophisticated user, and even for many seasoned investors.[128] Although it is well known that the relatively exotic mortgage products featuring obscure terms have been widely used in the U.S., they have not been, to date, very common in the Canadian market.[129] However, the non-conforming (subprime and Alt-A or near-prime) residential mortgage market in Canada has experienced an

[128] *Supra* note 96.
[129] Teasers, pre-payment, fees, ballooning, adjustable, no doc, etc

unprecedented growth in recent years and the complexity of loan design is expected to grow.[130]

One of the issues of interest in the focus group exercise was the users' understanding of subprime and high-interest lending products. Since many of the participants were selected on the basis that they had used mortgage products, they were questioned concerning their understanding of mortgage terms and their attitudes towards the products they were using.

Overall, participants demonstrated a good understanding of mortgage terms, such as the meaning of "fixed" and "variable" terms. In many cases, and thanks to referrals by real estate agents, they had either contacted or had been contacted by mortgage brokers. In general, they felt that mortgage brokers were helpful in explaining to them borrowing alternatives and different products' features as well as offering them products from different lenders, both prime and subprime.[131]

> *"Through the real estate agent, they recommended a few places. No, they actually interviewed you. You go and they take your information. It was a mortgage broker and they send it out to a few places, like a few different banks or trust companies, or whatever. Then they send back offers of whatever rate and, whatever, fixed or variable". (Woman, Toronto)*
>
> *"…we shopped around for a bit. My friend is a mortgage broker, but he usually deals with people with bad credit. My girlfriend and I both have good credit so we got a pretty good rate". (Man, Vancouver)*

However, the participants understanding of the newer and fast-growing area of subprime lending and in particular, subprime mortgages as a product was not as satisfactory.

Education in matters associated with personal and household finance and/or personal financial risk management has historically not been included as a

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130 Benjamin Tal, Subprime as Prime Target: *The Surging Non-conforming Mortgage Market in Canada*, Consumer Watch Canada CIBC World Markets, and 10 October 2006.

131 Appendix A, Environics Research Group*, Subprime Lending Consumers: a Qualitative Exploration*, page 51.

course or even a subject matter taught in Canadian schools. This is despite the fact that the complexity of products and choices for financial products has grown for consumers. It is increasingly difficult to keep up with work and family obligations, and simultaneously acquire specialized knowledge in a changing financial environment. According to a 2005 report by the IMF, if households are unable to manage these new challenges, governments may come under growing public pressure to intervene in support of the residential consumer sector in the form of re-regulation of certain products or services, or in order to reduce the volume of litigation.[132] Given recent developments affecting subprime lending and high-cost lending in North America, there is increasing likelihood of increased consumer safeguards to regulate the industry and to avoid a spillover of the sectors problems into the economy as a whole.

User understanding of the 'subprime' concept

Many participants who had a reasonably good understanding of mortgage terms also demonstrated some flaws in their understanding of the term subprime. Some of the participants seemed to think that subprime mortgages involved an interest rate 'below' prime.

> *"Maybe it's the amount, the lowest minimum amount you can pay".*
>
> *"Interest rate below prime rate. As a borrower, it would be to my advantage".*
>
> *"Sub-prime, well I guess it's below prime, sub meaning submarine".*

A small number of participants, however, were aware of the implications of the term subprime, and mentioned having heard it or read about it in the news media as a result of the intense coverage of the recent subprime crisis in the U.S.

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[132] International Monetary Fund IMF, *Global Financial Stability Report, Market Developments and Issues*, April 2005, online: International Monetary Fund <http://www.imf.org/External/Pubs/FT/GFSR/2005/01/index.htm>.

It's for people that don't have good credit. Well, it's a higher interest rate.

As stated earlier, the term subprime is related to the credit history of borrowers and/or their ability to successfully fulfill the income verification process that helps determine a client's creditworthiness.[133] When a borrower's creditworthiness is established thanks to a good credit rating, an unblemished credit history and certified income verification, they're eligible for access to 'prime' interest rates, which generally are the lowest available. Subprime borrowers, in the other hand, have to pay higher interest rates due to problems with their credit histories, lower credit scores or inability to document their income by an independent third party.

How do users find out about high-interest, subprime lending

A simple search on the internet on subprime and high interest lenders can yield dozens of different businesses specialized on lending money under the promise of making it 'easy' and 'quick' to get, albeit at a substantially higher interest rate. In the particular case of payday lenders, rates are, compared to chartered bank rates and even credit card rates, substantially higher,[134] to the point that such rates simply defy resort to the economic principle that interest reflects the cost involved in lending.[135]

However, referrals and word of mouth seem to be the most popular means for users to learn about high-interest and subprime lenders. In the case of subprime mortgages, nearly all of the participants who mentioned having used a subprime or a private mortgage lender, found out about such lender through a referral from a real estate agent or a mortgage broker.[136] In the case of pay day loans, the most common means for users to learn about their services was through friends and family members, even though a negative

[133] *Supra* note 10.
[134] Rates are disclosed in a large number of payday websites, displaying interest rates that go to a maximum of 1216.7% APR for a three-day loan and 782.1% for a one-week loan.
[135] It is hard to see how a rate beyond one thousand percent annual rate can be characterized as adjusted to the default risk when virtually all of this lending is secured by payroll notes.
[136] Appendix A, Environics Research Group, *Subprime Lending Consumers: a Qualitative Exploration*, page 51.

image of these services, and a feeling of being socially stigmatized for using payday loans was expressed by almost all of them.

> *"Well, I worked at a restaurant and everybody used it. Like, people would use it to go to casino. Like, seriously, everybody used Money Mart that I knew. In that age group, like in my 20s, it was just kind of an institution because some people I knew didn't even have banks, like a bank. They would cash their whole cheque and have cash all the time."* (Woman, Edmonton)

The results of the focus group finding that it is family or friends who serve as the chief source of referrals, if borne out in the subprime borrower population as a whlole, may be significant. This is because it could be an indication that: 1) even though the stigma attached to the use of payday loans persists among users, such stigma may be related to society at large, and not at the level of, or within smaller socio-economic or family groups, and 2) financial instability and living 'from paycheque to paycheque' may have become so widespread among middle and lower income households and individuals, that having to resort to high cost, pay day lenders has become an accepted avenue of necessity. In fact, the word 'need' was used more often that the word 'convenience' when participants were questioned about the reasons why they would resort borrowing money from a subprime lender such as a payday lender or a cheque-cashing outlet.Further study of these developments is called for.

Conclusions

With the current state of stagnation in the amount of income earned by middle and lower income Canadians over a twenty-five year period, it may not be unexpected that products and services in the subprime lending market, that are used primarily by that population demographic, could not successfully continue their explosive growth. However, the very nature of the business is such that it contains the basis for its own implosion. It demands high levels of interest from borrowing participants in return for lowering the bar to credit. The securitization of the business risk by subprime lenders in the mortgage sector specifically, the spreading of risk by the issuance of securities to investors afforded limited degrees of disclosure. The success of the entire sector appears to be largely determined by the ability of the most financially limited consumers accessing new credit by spending a larger part of their household income to do so. The current crisis south of the border has illustrated that not only are patterns of credit extension and subsequent purchasing unsustainable, but the pervasive entry of limited borrowers into the housing markets has the capacity to be a threat to the stability of the household sector and the financial system as immediate consequence.

PIAC research discloses that in the area of mortgage lending, while users are generally comfortable with the products they are chosen, the success of their choice in the context of their overall financial planning remains suspect. Such borrowers have been increasingly enticed by mortgage terms that attempt to fulfill the societally approved goal of home ownership, but are dependant on increasing real estate values to accrue a benefit to the borrower.

The practices of the subprime market may also be having unintended effects outside the industry. For example, the "flexibility feature" of 40-year mortgage (recently decreased to 35 years as preventive step against outcomes such as the recent turmoil in the US) insurance has been criticized for the risk that such policy may be contributing to real estate price inflation by artificially driving up demand. Should a market reversion ensue, it may wipe out sensitive-income borrowers' equity. Users' experiences on the consumer loan side of the subprime sector, and particularly payday loan outlets consulted in this report, point out that necessity and lack any other financial alternatives are the main drivers behind their use of these services.

The focus group results document with debt or use of credit at a young age as a major reason for the participants approaching high cost lenders in the first place. Most troubling, it would appear that the debt incurred into for student loans, incurred into mainly to secure a brighter financial future through advanced education, seems to be contributing significantly to financial problems experienced by young adults in the focus groups.

PIAC's work has flagged potential gaps in the financial education and capability of borrowers accessing sub-prime products, and particularly mortgages as well as an increasing complexity to the products and services offered. Based on the focus group results, there would be appear to be a need to increase the general level of consumer education and, at the same time, ensure that the regulatory frameworks for the subprime industry attempt to level the playing field between the contracting parties. While it is not the job of public policy to ensure financial stability for imprudent consumers, it is possible to create the conditions wherein the consumer is not bearing an inappropriate burden and is not being improperly advised.

It is reasonable to assume the identification of consumer characteristics that make them more susceptible to attempting to access subprime borrowing is at least a first step in determining an appropriate framework for regulating such borrowing and providing adequate consumer protection.

While many users refer to payday services as convenient, the actual content of their narratives indicate that their convenience flows from the fact that such services are the lenders of last resort. They are the last alternative when basic needs such as shelter and food cannot wait to be fulfilled.

This presents a situation of some vulnerability for the borrowers, and lenders have been quick to exploit the same by extracting interest rates upon repayment that far exceed that of the prime market. In the case of payday loans, it is arguable that the returns for the lender exceed by a good measure, any reasonable assessment of the default risk and other transaction costs.[137]

While lenders may contend for innovation and flexibility in this market, the results of current practices such as securitization seem to belie the effectiveness of the same. Innovation has largely engineered technically complex and operatively obscure products, such as structured finance frameworks, that appear to lack fundamental transparency and have accountability problems in the marketplace.

The counterpoint to the apparent need for more regulation and consumer protection in this industry has been the premise that consumers have the freedom to pursue their financial destiny within the limits of the law, and we

[137] *Supra* note 1.

cannot legislate prudent financial planning. If access to subprime lending is thwarted, borrowers will simply drive the business underground with possibly more invidious results.

However, it can be strongly argued that solving a problem caused by access to capital that has been frustrated by previous personal credit history difficulties shouldn't create conditions that can lead to more market failure and financial misery. There need not be a motive to benefit sub-prime borrowers to accede to the notion of stronger framework of consumer protection. As we have seen, the subprime industry has the capacity and financial clout in the housing industry to substantially affect the economy as a whole. Even users of prime credit have a stake in ensuring that access to non-prime credit takes place on reasonable terms and that the components of the industry, including financing and operations have requisite levels of transparency and disclosure.

Policy recommendations for subprime and high-interest consumer lending

● ***Access to credit should not trump the need to require fair conditions for credit. This means mandatory limits on terms such as interest, penalties etc., which should be set by hearings before an independent adjudicator.***

Access to credit is an imperative for modern stable markets, increases in productivity and enhancement of economic welfare. However, access to credit, as a matter of economic and regulatory policy, cannot be equated to mean access to credit at any cost. Abusive consumer lending at hundreds of per cent above prime serves no purpose other than to increase the misery for credit and income challenged Canadians especially when the majority of economically active Canadians must resort to this kind of credit because lack of financing alternatives.

In the United States, the Pentagon saw the problem years ago and asked Congress to pass a 36 percent cap to protect our military families, who were targeted by high cost lenders that undermined readiness and damaged military family finances.[138] While several Canadian provinces have taken regulatory steps to create licensing schemes of payday lenders, the pivotal point for provincial governments must be to cap the interest rate to be charged by these lenders that includes all of their surcharges and fees.

Manitoba has taken steps to mandate the Public Utilities Board to set the maximum payday-lending rate through an open hearings process that includes consumers' representatives. This model aims at a more transparent process for rate that should be followed by other provinces, as it could ensure that private lenders with strong presence in communities will not

[138] PR Newswire, Public Interest Services, *Senator Durbin Introduces Quick Fix for Predatory Consumer Lending*, July 23, 2008, online: Yahoo! News <http://news.yahoo.com/s/usnw/20080723/pl_usnw/senator_durbin_introduces_quick_fix_for_predatory_consumer_lending>.

exert excessive influence over rate-setting if the decision is to be taken as an executive decision alone.[139]

● ***Emphasis on financial education and financial capability promotion is important but it is not enough to counterbalance contractual inequality or terms that promote borrower financial instability.***

Many users of high-cost and abusive consumer lending are literate individuals who, by and large, have had long experience in handling their own finances. This study shows that there is a lack of disclosure and contractual obscurity in lenders' practices whose consequences are not just affecting the uneducated or unsophisticated.

● ***Overall economic efficiency would be greatly enhanced through the recognition of fundamental principles of contract law and remedies as the legal principles of Canadian consumer protection legislation.***

Financial legislation related to consumer financial products and services should recognize contract law principles such as fairness and the protection of weaker parties. A weaker party in the context of a contract is a party that is in an inferior bargaining position and is vulnerable to be taken advantage of by the stronger party.

There is an important lesson to be learned from the subprime meltdown in the United States to the effect that is that endemic problems and practices in the lending industry can transit from being difficulties associated with financially sensitive consumers to national economic crises when abuses are not corrected appropriately and on time.

[139] The Manitoba Public Utilities Commission, in a thorough decision and after a transparent process open to the public and all interested parties decided to set interest rate limits for payday lending in the province at 17 percent. The Commission considered extensive evidence submitted by interested parties, including the public, as to the costs involved in payday lending. However, according to the government of Manitoba, payday lenders are attempting to appeal the Commission's decision. *See*: Order 39/08, Manitoba Public Utilities Board, *Maximum Charges For Payday Loans*, April 4, 2008, online: Province of Manitoba <http://www.pub.gov.mb.ca/pdf/misc/39-08.pdf>; See also: Province of Manitoba, *Manitoba First Province to Receive Criminal Code Designation For Regulating Payday Loans*, News Release, July 8, 2008, online: Province of Manitoba <http://news.gov.mb.ca/news/index.html?archive=2008-07-01&item=3996>.

● ***The student loan system along with funding alternatives should be re-examined to both encourage the pursuit of appropriate higher education and the ability to repay the same notwithstanding early inability to repay.***

The debt burden of student loans has become a major contributor to financial setbacks for young adults causing recourse to subprime lenders.

For many young participants in our focus groups, access to education came at the price of compromising financial capability for years.Student debt may become a particularly heavy burden for those students who, due to whatever reason, cannot finish the academic programs they set out to undertake. In Canada, student loans are not eligible for discharge in consumer bankruptcy for a period of 10 years, which in practice eliminates the benefit of a 'fresh start', the fundamental principle behind insolvency law, for consumers during their most productive years.

● ***There should be increased disclosure requirements for consumer loans as to their price and fee structure, as well other key terms.***

While the focus group results indicated a level of knowledge about the higher cost of the products, the stakes are such that full disclosure is required. This means, in the particular case of high-interest consumer loans, consumers are entitled to clear disclosures as to the real price to pay for the loans, as well as to the potential cost they are to repay as a result of the agreements they sign.

● ***If payday loan operators and outlets are to become mainstream providers for consumers' banking, they must be required to operate, even provincially, under the policy considerations analogous to those that motivate Parliament to set at 60% the criminal interest threshold for banking services in Canada.***

The entrance of provincial regulation should not be an occasion to abandon the large number of financially stretched consumers to the hard elements of the market. Banks' retreat from the service of both urban and rural retail banking coincides with the spreading of payday outlets across the country. Association between banks and payday loan providers must be closely scrutinized since many payday users do use these outlets not because of a blemished credit record or having no credit record at all, but for lack of access to a bank. Using payday outlets, credit brokers may expand profitability margins while avoiding the costs related to retail banking. The end result unduly taxes a large demographic section of consumers who have no other resource for financial services.

High-interest and abusive lending imposes a dead weight loss on the economy by eliminating consumer surplus, and most importantly, it imposes a burdensome private tax on the consumer. The benefits for the economy at large of keeping that surplus in the hands of millions of Canadian consumers are significantly greater than the economic advantages of allowing a reduced number of lenders and their shareholders to retain that surplus.

ENVIRONICS RESEARCH GROUP

Sub-prime Lending Consumers: A Qualitative Exploration

Prepared for:
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Detailed Findings

This section of the report presents the detailed findings of the research conducted among users of sub-prime lending in Toronto, Edmonton and Vancouver. These findings are illustrated by evidentiary excerpts from the discussion groups.

<u>Personal Financial History and Context</u>

Personal Histories

The specific circumstances that have led each individual to a place in which they become part of the sub-prime lending market are unique, but when considered together, certain factors and patterns emerge. Not every person in the sub-prime lending market will show evidence of all these factors and patterns, and it can be assumed that not everyone whose life circumstance includes one or more of these factors will necessarily find themselves in the sub-prime lending market. However, many of the following factors and experiences appear again and again in the personal stories of the sub-prime borrowers who participated in this research.

Education plays several roles in the financial histories of many people in the sub-prime market. Many reported thinking that an education would be their "ticket" to financial security, only to find themselves with a degree or diploma, a considerable amount of debt, and not able to break into the professional, well-paid job market they had expected to enter with ease upon graduation.

> *I kind of saw university as my ticket out. Even though my parents weren't paying for it, they really pushed the idea. Out of Toronto, to move away, to party. I wasn't really thinking that much about what I actually was going to be doing. So, stupidly I took out a whole bunch of loans.* (Single-income household, Toronto)

For many participants who had attended a post-secondary educational institution, beginning their adult lives with a significant debt load set a pattern of always falling behind their financial aspirations. Even for those who do find good entry-level jobs following post-secondary education, the accumulated debt of student loans and other debt acquired as a student can be a factor in creating some degree of financial insecurity.

> *Then I graduated with a whack load of debt and trying to sort of get my place in the workforce but I was able to get a job, an entry-level position. I've just sort of been digging myself out and trying to move out from there.* (Woman, Toronto)

> *So, then you graduate and get a job and you have to pay bills, and that's where we are today. I don't remember what the payment-free period is anymore, but after six months or something like that you have to start paying everything.* (Man, Toronto)

> *I had student loans and those, like they say, it's cheap but if you don't pay it off, it gets a little pricey in the end.* (Woman, Edmonton)

> *Just because, when you get out of school and then after six months you start seeing what student loans take from you and how little a dent it makes and the interest accrued.* (Man, Vancouver)

Youth and a lack of awareness of financial issues is another important factor in the histories of some customers in the sub-prime market. Some participants spoke of spending their university or college years in a state of relative financial irresponsibility – not thinking about the consequences of their financial decisions and thus adding to the debt load from student loans. In particular, a number of these participants acquired credit cards during their student years and built up large balances. As well, some participants who entered the workforce immediately following secondary school graduation also indicated that they tended not to think beyond the present in terms of initiating savings plans and managing debt.

> *Being young, not having the maturity level to manage finances and stuff like that.* (Woman, Toronto)

> *I wasn't thinking about it, right? When I should have been saving it, I was just blowing it and partying it away.* (Man, Edmonton)

> *Then, as I got to my early 20s out of college, I became a travel agent so you're making a crap load of money; really into partying; moved out and lived on my own. All of a sudden there's rent, car payments, partying and I just racked up a whole lot of debt.* (Woman, Toronto)

> *I was out of university and nobody taught me money and how it can work for me. So my management of money wasn't the best. I had to learn on the fly*. (Man, Vancouver)

> *I didn't know how to manage money at all. I could get $1,000 spent in two days, and I mean on nothing useful.* (Man, Vancouver)

At the same time, many participants mentioned beginning their working experiences in low-paying jobs and becoming trapped in debt because they lived "paycheque to paycheque." Some, but not all, of these participants entered the workforce directly following graduation from secondary school, or dropping out of a post-secondary program. While not explicitly mentioned, it is possible that those lacking the skills or abilities to enter the workforce as skilled or professional workers tend to be limited to relatively low-paying jobs with little chance of rising to higher, and better-paid, positions.

> *Then, I started to work hard for little money. The cost of living in Toronto is ridiculous, living cheque to cheque. It was not easy not having job security.* (Single-income household, Toronto)

> *I was basically not around [the home] starting in my early teens. And then I lived from paycheque to paycheque, barely making it, barely able to scrape by.* (Single-income household, Toronto)

> *Then I got into another job, like an entry job at another company but it was just living paycheque to paycheque and eventually having to move back home to save up in my mid-20s, I guess, to pay off the debt because I wanted to get another car.* (Woman, Toronto)

Many mentioned the financial demands placed upon them by marriage and starting a family. This is particularly an issue in families where one spouse stays home to raise their children; the strain of supporting a family on one income is a recurrent issue.

> *I didn't listen to my mom and my aunt, and went ahead and got married. I thought I was going good. I was until I went ahead and we had a daughter. Then the financial stuff started happening. The debts started coming.* (Single-income household, Toronto)

> *When I got married and I had children, you acquire more. You have the car; you have the furniture you have to buy; you have food and clothes for the children and things that they need. I didn't work when my children were small because I wanted to stay home and be a parent as a stay-at-home mom. I didn't want to pay babysitters until they were about 12 and I did that because 12 years old is okay. It was hard with just my husband's wage and that went for all of us. That was a sacrifice, you know?* (Woman, Toronto)

Family breakdowns were also mentioned as a cause of strained financial circumstances, particularly when children are involved. Both custodial parents and those paying child support tended to see divorce as having a profound and often negative impact on their financial circumstances.

> *I've explained everything to her. "Mommy cannot buy this … there's no ifs and buts about it." She has to understand – "Oh mom, can I have this?" "I'm sorry, honey, you have to wait until the end of the month."* (Single-income household, Toronto)

> *Because I'm divorcing and it's like Danny DeVito in War of the Roses, literally. I have a mortgage and the wife and the kids are in there, and I rent a friend's basement and I've got a very reasonable rate but still, it's another amount to pay on top of that.* (Man, Vancouver)

> *That was difficult and then I became a single parent; then you realize life is very difficult. It's a struggle because it's all on your shoulders so learn from that.* (Woman, Toronto)

> *Our relationship deteriorated and the divorce and subsequent legal entanglements caused me to have to, more or less, sell everything in an attempt to pay her off, which didn't work. And alimony, child support, the whole schlemiel.* (Man, Toronto)

Another factor, which is less frequently mentioned but can be devastating when it does occur, is illness or injury – or even death – of an adult family member, whether or not that person is also an income earner. Being without full income for a period of time, having to depend on disability supports, or having to replace the services of an adult who works in the home can place severe strains on a family's financial circumstances. This is particularly difficult to recover from when the disability is permanent or there is a death of a sole income earner.

> *And then by the time '86, he passed away and then the next thing I knew I had to give up the garage. I tried going to school but that didn't help, so our budget went right down hill and then that's when everything started climbing up higher with the prices of living.* (Woman, Edmonton)

> *We were doing good until [my husband] fell off the ladder and had to go to the hospital and he was off for about three or four days, and he comes back to work and he ends up being fired. I guess the boss did not have Workmen's Comp, so we was let off work for about three or four, no about a month, before he got the next job so we're trying to get that paid off now, now that he's got this job.* (Woman, Edmonton)

Job loss is another factor that can have a profound impact on financial circumstances, particularly when it takes some time to find another job or the new job is less well-paid. While periods of unemployment are not necessarily part of the history of the sub-prime borrower, many sub-prime borrowers are in such vulnerable financial circumstances that even a short period of unemployment can trigger a debt crisis.

> *She's on disability now and she's legally blind, and I lost my job about a month ago so I just got a new one, so I'm basically starting from the bottom up again.* (Man, Vancouver)

> *Losing a job can be stressful and then you can lose money because it's not so easy to be back in the salary scale you had before.* (Man, Edmonton)

> *I just lost a job in June and it was very difficult because, my spouse, he's a gambler, and I have a little baby as well. He's actually three months old now. And I knew that I was going to lose my job but not too long ago, like, they just informed me in December that I was going to lose my job in June, and when I heard that I was expecting.* (Woman, Vancouver)

Some referred to the aggressive marketing of credit cards, loans and lines of credit, as well as the tendency of financial organizations to raise credit limits. Some refuse offers of credit they do not need, but others find themselves accepting such offers – and then finding them too tempting not to make use of. Some of these participants felt that it was a deliberate business decision on the part of lending institutions to encourage customers to go into debt and stay in debt.

> *I think we had a successful company and the bank manager actually asked why we didn't have a credit card.* (Woman, Vancouver)

> *I find that I've become a lot more popular since I'm making my minimum payments because I am making them. Making interest payments but they keep upping my … They gave me $40,000 against my house or something. Didn't want it, but if I did it, I got a better deal. They had my property assessed for free but I had to take this extra equity credit that I can dig into any time I want that's sitting there waiting for me to tap into anytime I want, which is very tempting but I don't want to go there.* (Woman, Vancouver)

> *I think banks or credit card companies are after people who make minimum payments. They're more after them than people who make regular payments because they know they'll make money off them.* (Woman, Vancouver)

> *I think that banks and mortgages and credit card companies that are at the university campuses that are getting these kids in debt earlier and earlier, I think we'll see a lot more poverty.* (Woman, Edmonton)

I feel like I'm getting it pushed on me. Like you can have a mortgage, you can have this credit card; do you need a car loan? As soon as I started my new job, they sent me pre-approved $5,000 credit card. Do you need a new car? Do you need this? When I was at, before I had my new job, of course nobody wanted me. (Woman, Edmonton)

They started giving me credit cards when I was 18 years old and I was very irresponsible; racked them all up and never paid them off. (Man, Edmonton)

Some mentioned broader social or economic factors that had an effect on their personal financial situation, such as downsizing, outsourcing of jobs, inflation and the high cost of living. The latter is a topic that affects all of these urban-dwelling participants to some extent, but particularly those living in Edmonton, where the current energy boom in Alberta has led to price inflation and massive increases in housing costs.

Inflation can just destroy your whole planning. (Man, Edmonton)

More bills because it seems like phone, power, everything is going up and you just want more because you feel you don't have enough, so you just buy more and more and more. We're kind of living paycheque to paycheque. (Woman, Edmonton)

And everything is going up; cigarettes, gas, but I'm not really worried about gas because I don't have a car. Bus passes, buying tickets, are $2.50 now. I remember when I was little it was, like, 80 cents and bus passes are going up to $60. (Woman, Edmonton)

My situation today is harder; it's harder because job situations are changing. The security that was there 20 years ago is not the same now. There are so many jobs that are being farmed out and gone like that, whereas before you felt you could leave one and go to another. It was easy for me when I came here. I found one in a week and I left when I wanted to leave. Here and now, it's different. You had better hang onto it, so you have to watch what you're doing. (Woman, Toronto)

I do have a good job, so I'm not 100 percent sure with the job yet because so many changes now you hear about, you know, outsourcing and all that. The field that I'm in, that makes me worry. I think half of it if I didn't have to worry about that, I would feel much better. (Woman, Toronto)

One expression that was common to the narratives of many participants was "living paycheque to paycheque." Regardless of the specific circumstances that resulted in their having to live without any cushion for dealing with unusual or unexpected expenses, from a needed prescription to an emergency car or home repair, it is this phrase more than any other that encapsulates the manner in which many of these participants are forced to handle their financial situations. Not only do they never have enough money to get ahead of the game, they are constantly falling behind as each new demand on their finances that goes beyond food, shelter and other scheduled expenses either wipes out whatever discretionary funds they may have, or forces them into a cycle of debt.

Finances and Spousal Relationships

People in relationships must deal with an additional dimension when considering their financial circumstances. Not only do they have to consider how to manage shelter, food, clothing and other expenses for two (or more, if children are involved), but they must negotiate all financial issues with their partners. Participants in relationships describe a variety of approaches to household finance management. In some households, responsibility is shared in a fashion that both partners agree on, while in others, one partner may take a greater share of responsibility for allocating resources.

> *What we do is we get a piece of paper, at least I do, and I say okay this has to be paid, this has to paid, these are the groceries we need and then we try to work it out between his and what I get and we try to get everything paid what we can, do what we can and if there's any money left over, oh yeah we can go rent a movie.* (Woman, Edmonton)

> *Yeah, see we split it 50/50, it's just that it's not going to get done if he has it, so I have his bank card and I just go to the bank, push the bank card in and push the amount to bill and stick the bill in the envelope and call it good.* (Woman, Edmonton)

> *I look after my money and she looks after hers. We've just got a bill payment arrangement. I pay the bills that don't need to be thought about. It's never divided equally. I pay way more because I make more. It's only fair that I pay twice as much.* (Man, Edmonton)

> *He actually takes care of that stuff. He pays all the bills too out of our joint account. He has an independent account and I have an independent account and we have a joint account. All of the rent and our child care … We each put in, let's say, every two weeks, we each put in $800.* (Woman, Vancouver)

Differences in approaches to finances and debt within a family can also create financial problems, particularly when one person has a tendency to spend beyond the level the family can support. Some, but not all, sub-prime borrowers in these circumstances eventually find themselves in a situation of family breakdown. This is particularly problematic when one partner had assumed debts on behalf of the other or debt is held jointly and with the end of the relationship, one partner defaults or walks away from the accumulated debt.

> *I'm more of a realistic, practical type of guy. You buy something if you need it. [And she is] "Let's buy this picture. It looks good over the fireplace wall." We don't have a chair to sit on yet, why are we buying?* (Man, Toronto)

She's a really high maintenance girl, very high maintenance. She's looking for something expensive for a wedding and the place she wants to live is a downtown condo – not anywhere else, just downtown. She's working, she's working, but the thing that she wants is more than what we can really afford. (Man, Toronto)

In terms of finances, we're having problems with having our sort of values and goals match in terms of where we are. (Woman, Vancouver)

She was born with money, so I'm more frugal than her. She just spends. (Man, Vancouver)

I couldn't even bring up money because we had such different ideals of it. I'd be talking about pay down the debt and she'd be talking about buying a new condo and a BMW Roadster. (Woman, Vancouver)

Sometimes I just don't want to argue. I don't want to yell anymore. I don't want to fight about it. I just … Fuck it, fine. Let's just spend money then. And then when all hell breaks loose later and you can't make your truck payment and then you lose it, I mean like "How did you make this happen?" I didn't do this. You did. I didn't stop you but you're an adult. I'm lucky that he even has a bank account. Like he's that bad with money. He's just a chronic, chronic irresponsible guy. (Woman, Vancouver)

I met some other guy who was just the complete opposite and everything just went completely downhill. You see it happening but you think, "I'm not going to go out and find someone," but it just got out of control and I ended up just abandoning. I spent two and a half years with him there and I just abandoned my whole life. I had absolutely nothing. Like the landlord was going to come and send the sheriff to my apartment and I was just, "How could this happen?" (Woman, Vancouver)

Credit Attitudes and Behaviours

A number of participants reported a history of impulsive or reckless spending, and a tendency to purchase on credit without paying attention to their ability to cover their debts. Many seemed to display an inability to defer their desire for specific items; others appeared not to have begun their heavy use of credit without any real awareness of the consequences of assuming a significant debt load, or any knowledge about how to manage credit and debt.

> *I'm fine with the numbers, making a budget and everything. It's sticking to it that I have trouble with (laughter).* (Woman, Toronto)

> *I'm scared that I would just spend. That's exactly it. I know how easy it is, and this guy I knew, and he got a free t-shirt for signing up for a credit card.* (Woman, Edmonton)

> *You just max it right out so there's no limit left and then you don't pay it for two months because you can't and then it's like $900; $900 instead of my $800 limit on that one.* (Woman, Edmonton)

> *Another thing, when you use the credit cards and the payday advances and stuff like that, sweet I've got money. Awesome, and then you think, it's money I didn't work for and you don't see the future, oh shit I'm going to have to pay that back. Oh God, the kid needs a $200 pair of cowboy boots and I can use a $300 pair of boots. You don't see it like, I worked hard for this damn money. It was easy come, easy go.* (Woman, Edmonton)

> *Probably toys I would spend it on and then I would probably regret it eventually. No, I would probably buy a new snowmobile or something reckless like that.* (Man, Edmonton)

> *I knew that I needed money and that I would get approved, so I just applied all over the place. And they all sent them to me. I was so excited. I remember calling my mom and I felt so grown up and I was so excited and "You're never going to believe what I got in the mail and I got this and I got that and here's all the limits. I'm just not going to screw it up. I'm just not going to screw it up."* (Woman, Vancouver)

> *I liked my card, my little green card. I used it with wild abandon, but I never remembered that it costs to use it. I just used it. So when I get the bill now and I see all these fees and then my account invariably ends up overdrawn.* (Man, Toronto)

Credit card debt is often mentioned by participants as part of what has made their financial situation difficult. Some found it necessary to use credit cards, with their high levels of interest, to cover basic living expenses during difficult times.

> *I was probably sitting around $3,000 balance and just went over and then that was when I was really in debt, living so I would put things like my car payment on my credit card.* (Woman, Edmonton)

> *I was hit by a car crossing at the lights and being in the hospital, can't walk, can't do nothing, had to tell my daughter, "Okay, use the credit card for food and that kind of stuff." So, in a year's time, my credit turned and my debt has just risen because of that reason.* (Single-income household, Toronto)

For others, it seems that the balances on their cards simply creep up until they are only able to make minimum payments, if that.

> *Yeah, it's just paid for our trip to Cuba for our honeymoon. It goes on there because I know I put enough down on it that it keeps going down and down and down but then I look and with the interest, I'm like oh; I'm carrying a much higher balance than I wanted to. Before I capped it and then they just say, congratulations you've got another $1,000.* (Woman, Edmonton)

> *I did have bad credit because of my stupid Canadian Tire MasterCard, because I wasn't paying it off.* (Woman, Edmonton)

> *Not ever allowed to use it again. I don't know what became of them. I owe money on credit cards but I don't have the credit card any more. What I did was, I just didn't pay the others but I kept one and I just keep the payments going.* (Woman, Vancouver)

> *Well, once upon a time, I was paying off the balance. Right now, all my lines of credit and the credit card, I'm just making interest payments on it right now. I'm pretty much maxed out. I do minimum payments and that's the only way it's working.* (Woman, Vancouver)

> *It's my credit card and I used to pay off the balance in full. Recently I can't pay if off in full so I carry a balance but it's not exceptional.* (Woman, Vancouver)

> *It's because you're thinking, okay, you have the $2,000 but you have 10 different bills so you're thinking, okay, well if something happens I'm gonna hold back so much but I'm gonna pay minimum, minimum, minimum, minimum. Do you know what I mean, so that I still have something to fall back on just in case, you know,*

like she said, the car breaks down or something else happens. Then it works out right away. (Woman, Toronto)

Some have never considered the importance of establishing and maintaining good credit.

> *I feel uncertain about my credit. I've never really stressed the importance of building good credit at all. I never really cared about it and I've become more aware that maybe it was a mistake.* (Man, Vancouver)

Personal Identity and Credit Issues

Most participants did not seem to think of themselves as being "low-income" but rather as people who would otherwise be of average means except for various mistakes or events in their past. Some are deeply embarrassed by their financial circumstances and the actions they are required to take, including the use of sub-prime lenders, because they do not see themselves as "that kind of person."

> *We'll probably end up having to use them. We don't want to use them because we feel it's embarrassing, at least I know I do, going to take something in to hock or to the Money Mart. It is so embarrassing, people seeing you go in there. But it was so funny one time when we went in, and to pay a bill and went in there and then a girlfriend of mine, she was behind me, oh gee I was just looking at some stuff, you know. And we knew she was in there for the same thing and we did the same thing.* (Woman, Edmonton)
>
> *I wasn't embarrassed but more like admitting that I would use a place like that. I guess just knowing what they do, what they charge. Uncomfortable knowing that I'm not really someone like that.* (Woman, Vancouver)
>
> *I did feel a little bit strange going into a place like Money Mart because I never imagined myself as the kind of person who would need to go to a place like that, but then I thought well what is a person like that, it's kind of like you were asked. Oh, it's a person like you. Oh, that person was me. And it is a little bit humbling to realize that you might need to use those kinds of services but in terms of the financial cost, it's a business.* (Woman, Vancouver)
>
> *I don't know how to word this properly but I think, for me, there's always a bit of a stigma with me going in there. Sometimes I feel like, why the heck am I here? I should have better control of my own finances.* (Woman, Toronto)
>
> *I don't like to because it actually puts you, I threw away, I had that little green card from the cash store and I actually got rid of it because it's so tempting. It's like right there; just load it up and it's like a debit card but to me I find it actually embarrassing. Because my husband was like, "Oh, I'm going to go to Money Mart and pay the bills." To me, it was like, don't tell people about our financial situation, it's kind of embarrassing. I don't want people to know we go to Money Mart and stuff like that. Because it's a low-end loaner instead of the bank, because you're not good credit to go to the bank.* (Woman, Edmonton)

At the same time, many feel that because they do not have, or did not have in the past, full-time employment or "enough money," or because they have high debt loans and poor credit, they are viewed as undesirable customers by many conventional financial organizations. This translates not only into reduced access to loans at a reasonable interest rate, but also to a sense that they are not respected when they conduct any financial business with a bank.

> *When you go to the bank, you swipe your card, it shows your number and if it's not a certain number – the bank has too many customers, too much money, that's the problem.* (Single-income household, Toronto)

> *I would say that a lot of people are going there, especially the way that I don't like to talk to a person in the bank when I don't have a lot of money in my bank account. Like, if I'm giving them a cheque and it's just trying to get me out of paying a little bit of debt and they're looking at you; they might not look at you the same as at someone who has a lot of money in the bank.* (Man, Edmonton)

> *I was a single parent. I had actually gone in and asked for a credit card and I remember them telling me, they said, "You are the highest risk group" and I remember them pointing their finger, shaking their head, because I was a single mother. And, I mean, I was a single mother in the 1970s and so, I'm even to this day, bankers make me shake.* (Woman, Vancouver)

> *Banks don't like self-employed people. And so unless our company's doing exceptionally well, I felt discriminated against.* (Woman, Vancouver)

> *It's just something that makes you want to go to some of these other places as opposed to conventional banking because I find when I used to go to conventional banking, sometimes I find they are more afraid to lend you money than the other places. You know what I mean? So you go in there and it's like almost there's a process of elimination kind of thing, oh but you know, how secure are you? You have that feeling that they don't have the confidence in you to actually lend you money.* (Woman, Toronto)

> *No one would sponsor me. My bank wouldn't give a waitress, student a $600 loan where Money Mart would. So I think that they're a little more judgmental. Now, I think that I'm in a better position where the bank would give it to me.* (Woman, Edmonton)

Those who have immigrated to Canada do not for the most part report open discrimination because of their status. However, some mentioned difficulties in having professional credentials recognized, which had profound effects on their or their parents' earning capacity, and made some families more vulnerable to debt.

> *I was a professor in university there but coming here with the language, it just kills. I was teaching the capital of the location. So I came here and I said well, it was a struggle of course to go to factories. It was a very hard time for me and I needed to live in a basement.* (Woman, Toronto)

> *The whole family came at once. Parents, again although they were very qualified there, they were not here so there's retaining that has to be done and that puts a strain on financials for everybody. It was difficult learning to have to do with what you have. I was very young at that time so I didn't even know. You just know you're little, you're going on a plane and you're happy (laughter). You know? You don't look forward to that but it was, like, you're coming here because you're just coming with what you have. You're not coming saying you have a job opportunity or anything like that. So your parents come and you're in a small place; it's cramped and there's struggles and stuff like that.* (Woman, Toronto)

Several participants indicated that they felt they had been discriminated against in terms of access to loans or mortgages because of their age – either because they were young or because they were over 40 – or because of their health status. Others felt that age and disability did not affect their borrowing capability directly, but did make them more vulnerable to job loss, which could lead to a debt crisis.

> *I thought that if I'm on disability, they're like a no-no to me [loans]. But I'm hoping to find someone who will, but I still haven't yet.* (Single-income household, Toronto)

> *Even now, I'd be very worried if I was in the position to arrange a mortgage. A little scared. If I really wanted one, I'd be afraid I'd be turned down because of my age or the fact that I'm only working part-time. I'm doing some good jobs. I'm not likely to be thrown out of 12 Division – I work there part-time – but scared.* (Man, Toronto)

> *I feel threatened now because the older you get, you are replaced by younger (laughter) because they don't require, they're smarter. They're quicker off the goal and we know that when we get over 40, it's harder for us.* (Woman, Toronto)

Moving toward the future: strategies for improvement

Many participants reported having experienced a period of time in which they felt "stuck" or even "trapped" in terms of their financial circumstances at some point, either in the past or in the present. They want to resolve their financial concerns and move forward – getting out of debt, beginning a savings regimen, repairing credit, being able to buy a house – but they cannot seem to figure out how to make that happen – or, if they have a plan, they are not able to make the plan work.

I'm supporting four people on one income, so it's pretty much cheque to cheque. I don't have much savings. And any time I do end up getting a little bit, something comes up. (Man, Vancouver)

I'm just living paycheque to paycheque and doing things that I really wouldn't think I would do for money, such as medical studies and stuff like that. I'm just kind of in a state of limbo right now. (Single-income household, Toronto)

I seem to be in a plateau situation. I've worked, worked, worked all through school to get to a certain point; I've got a job which I'm happy with, but I also have goals to sort of move ahead in my job. I'm now at the point where I'm just constantly trying to work up but I don't know how fast that's gonna be. Meanwhile, I'm still paying for my past and feeling that I'm not quite making it. (Woman, Toronto)

No debt except the house. To have the house, it does but it doesn't seem like I'm getting any further than that. I got forced into the house, which was good, of course but I can't make nothing else happen. You spend it when it comes. It's too easy to do. (Man, Edmonton)

There's some very good programs out there, investment opportunities and that, I would like to explore more of that. But because after I graduated, I haven't found that income in order to invest. That's what I feel like, I'm still stuck in that line of just depositing the money. (Single-income household, Toronto)

A few participants reported that they have gone so deeply into debt that they cannot see a way out – rather, that they are either just barely managing to hold the line, or find themselves falling further and further behind.

The first payday loan place who I give, like, 70 percent of my cheque to because they charge me like $18 on a $100 or something and then I go from there to pay the interest on the other one who I owe, like, 50 percent of my paycheque to. And then I go from there to the very last resort place, where I go if I'm absolutely completely out of money because they charge, like, $26 on $100 or something. See, the thing is when it's rent time, I can't do anything about it. I have to just pay everybody, pay the interest and pay my rent and then I'm lucky to have like money for food left over. And then on the fifteenth paycheque, every time I try and get a little bit ahead, like I'll put an extra, I'll just take a bare minimum. I'll just take enough so that I can get by. But then it's always like a week later, it's like: "Okay, I'm bored, I have no money, I have nothing to do, like I'm just miserable." And then I think I make enough money, why do I live like this? (Woman, Vancouver)

> *It's a vicious circle, and that's exactly what it is and that's why I'm scared to even step, like go that way, you know what I mean? Because it's, like, why do I have to go in to debt just to have something I need, like shelter? I don't get it.* (Woman, Edmonton)

A number of participants discussed the impact that being in debt had had on their lifestyle and their image of themselves. Those who are still struggling with debt must cut back on their expenses, which often means curtailing their social lives, denying themselves and their children anything beyond the basic essentials of life, and sometimes having to deal with sub-prime lenders even for necessary items when something unexpected comes along. Even those who have put their financial affairs in order are aware of a gap between where they could have been, in terms of security and accumulation of assets, and where they are.

> *It's a huge impact. Before the mortgage, it was going out to dinner three or four times a week. Now it's like, yes, okay, that could be a mortgage payment. So, yes, huge impact on lifestyle and everything else.* (Man, Toronto)

> *I don't have people that I talk to about this because it's humiliating. It's totally embarrassing, and that's another thing is my friends call me and want to go out, or my brother calls me and needs to borrow money and it's, like, I can't say I don't have any money because I make a lot of money and it's just embarrassing, right, and I wouldn't want people to know.* (Woman, Vancouver)

> *I would have liked to have had a brand new car by now or be putting something toward a down payment on a condo and I don't have that.* (Woman, Toronto)

> *Now it's, what are we going to have for supper? Now [our friends say] "Oh we don't dare invite [them] to go out because we know they don't have the money to pay for it." So we're left out on everything, so it hurts us. So as I say, prepare for that rainy day because it looks like it's getting cloudier and cloudier and cloudier.* (Woman, Edmonton)

> *Now I'm in this payday loan thing where I just go back and forth. Like it's just a flip flop of "Can we pay the bills?" Okay, well no we can't so.* (Woman, Vancouver)

Worry or anxiety is a common problem; even when these participants think that they have matters relatively under control, they worry about what might happen. Anxiety is much greater for those who do not yet have a handle on their personal financial situation.

> *I do worry. I worry about money to the extent that I guess I recognize my past. Even though I think I'm relatively comfortable I still worry, which is kind of an oxymoron I guess.* (Single-income household, Toronto)

> *I've certainly got a mortgage and business loans and stuff. It's not something that I'm in a situation where I'm really worried about it or that it's at a crisis situation because it's not. It's a manageable amount of debt, but it's still debt, it's still out there. It's still a mortgage and it's money I need to put out every month and you have to manage your expenses and stuff, so it certainly impacts my lifestyle.* (Man, Toronto)

> *The impact is high. I wake up every morning thinking about what I can pay in terms of how much can I pay off my line of credit without being detrimental to my pension in England. I really am concentrating a lot on that pension in England. The more I pay in, like, I pay off two hundred and some dollars for this to bring it up to a higher rate, and no matter which way I go, I just can't figure it out. I'm normally okay with numbers but I don't know how much to pay over and above the minimum on this.* (Man, Toronto)

> *I just got a mortgage, I just got married, just got a full-time job that's not a day-to-day, it's a professional job and I see myself at the bottom of the rung and I can climb but it's a) how long am I allowed to stay there? and b) am I going to be permanent there? So I still have those questions and unknowns too, which are really scary, because I lose my job and that takes us back down to the past. That takes us back to the debt, to the wondering.* (Woman, Edmonton)

For some participants, the first step toward moving forward is learning new habits and attitudes to replace the behaviours that led them into high levels of indebtedness in the past.

> *Just be more aware of money and the people I'm involved with. Just kind of have more respect for money and being more aware of my spending.* (Woman, Vancouver)

> *I find you kind of live and learn. You borrow money, either mortgages or personal loans or whatever, and invariably you come across the pitfalls and you hopefully learn from those mistakes and take that for the next time.* (Man, Toronto)

> *[credit card] For emergencies only now because we want to make sure that we have it when we really need it. We probably got it down to where, don't touch it unless we need it.* (Woman, Edmonton)

> *I think I learned a lot from my past, about how scary and overwhelming it is to get in that debt because it's a constant worry. So I think I've tried to get away from that and said no to certain things and no I really don't need that $7,000 shirt or whatever. I can step away, I've let my rational brain, we've really shopped around for things that could be; okay I'm going to keep my 10-year-old car. It is worse on gas but in the long run, it is [better] than having a car payment, so I think we've been pretty good about rationalizing what is the better financial*

venture now than I did in the past because before I would just, I think the more debt I got into, the more I would spend. I was almost like a vicious cycle; it definitely was. I'm still tempted by material goods and things, but I think I'm a lot more rational of a spender than I used to be because I know I couldn't get out. (Woman, Edmonton)

I'm finally getting my husband to understand a little bit more, you know what I mean? Now we're looking at, okay this place we buy the meat, this place we buy the bread. Okay, we can go to Giant Tiger and get clothes not that bad. It's not, like, oh geez we want it. Long time ago, oh yeah we want it, but okay, we've just kind of got to wait. (Woman, Edmonton)

I just grew up. I just started making responsible decisions; am paying my bills on time and trying to make sure my credit cards are always paid. My Dad is an accountant. I presented my situation to him and he gave me some good advice about all this. (Man, Edmonton)

I won't buy anything unless I need it. For other things, I'll buy junk, whatever, but when it comes down to serious things, I won't. I have to think about it before I do it. A car, I would not go buy a $10,000, $20,000 car because I know I'll end up getting problems money-wise, so I'll just get a cheaper car, take good care of it, and that's it. I'm the only one who drives so I can put kilometres on a car faster than two people can drive. (Man, Vancouver)

Many participants have identified strategies – some more appropriate and productive than others –for getting themselves out of the circumstances they have found themselves in and moving toward a less worrisome situation.

The perception of education as a "way out" was a common theme in accounts of participants' current financial circumstances. Some felt let down or disillusioned to discover that completing some form of post-secondary education has not led to the "perfect job" and comfortable income they expected. Others, however, reported that they are in the process of going back to school or upgrading skills, or have plans to do so, with the expectation that this will be the path to a more secure financial situation in the future.

I'm thinking maybe go back to school, take a few more courses, something like production engineering. I'm capable of a lot. I know a lot on my own but as far as if I want to actually have a job somewhere, without certificates, companies will not hire you. (Man, Vancouver)

I'm just working on back to school, and once I get this diploma, my degree, then I'll qualify for jobs that pay well and have benefit. I want to get my Bachelor of Social Work and then maybe Social Services. I'm already working in that field, so I know a lot of people. I have contacts already. So, the only thing that's standing in my way is just the piece of paper. (Single-income household, Toronto)

> *I feel that my financial situation, because I did get education behind me, has greatly improved from my past and I feel that it'll be good for my future. I want to eventually go back to school and become a teacher instead of working with Capital Health because it makes less money, a lot less money than what I make, but it's more what I want to do and make myself happier.* (Woman, Edmonton)

> *Once I finish school, depending on what happens with our relationship, I know that I can sort of recoup my losses and pay off my debt and start earning decent money and, some of the things that were important and be able to put some money away for my daughter and eventually buy a house for us and I'm just going to get some good grounding and then I think, within the next five to 10 years, that's something that's very possible.* (Woman, Vancouver)

> *I graduated and I haven't found that niche where you find the perfect job and feel like you're not living paycheque to paycheque, but that you have a future in that career. In Canada, I'm just wondering, maybe that doesn't happen for everyone. I might go back to university or something, but maybe that ultimate career for women, if we have families too, maybe it's not always possible to be super mom and have the perfect career, the family.* (Single-income household, Toronto)

For others, identifying the "right field" in which they want to work and finding a way to enter that field is seen as the "way out" of being trapped in a cycle of debt. Finding a career that suits their interests and abilities – that they feel they can devote themselves to and enjoy – both improves their sense of their circumstances and increases their chances of achieving a well-paid position with potential advancement.

> *I actually figured out the field that I want to work in and I'm working in that field. I still live paycheque to paycheque, but I can actually make it to the next paycheque, whereas before I would be not making it to the next paycheque. I'm making more money now.* (Single-income household, Toronto)

> *Today I am more positive. Because I am in the field that I was wishing for.* (Woman, Toronto)

A number of participants saw starting or growing their own business as the best strategy for improving their financial circumstances.

> *It's looking at a much more stable job and then moving into my own business. I have my own catering company. So I moved into my own business. Definitely a lot more planning and a lot more stability but still pretty high debt loads, but it's for business expansion and assets as opposed to debt just for spending.* (Man, Toronto)

I'm going to be in business for myself because my family, practically all of them, they're all entrepreneurs, they're all successful people. So, with that example, I feel that I've got a pretty good chance of doing the same thing, living the same kind of life that they live. (Man, Toronto)

Others have decided that the best strategy for them is to take advantage of the current economic situation and focus on investments in financial markets or real estate, with varied success. The strategy of "flipping" houses and profiting from the overheated housing market in many urban centres was a scheme that appealed to several of the participants, but which also carried with it the potential for incurring an increasingly complex and hard-to-manage debt load as they accumulated mortgages on properties that they hoped to quickly resell.

We had one house that had no mortgage and then we refinanced that, so we bought another house. Then we did that again to buy another house. So we're borrowing against our own property and we have people that live in our houses that pay rent. When it gets stressful is when we get that phone call that I need to move out in 30 days and it's the whole, now we've got to make sure we can cover this mortgage plus our own payments and the car payment, so then it becomes a juggle. Most of the time it works out, but it's still a stress. (Woman, Toronto)

I feel hunky dory because I have a good investment plan. I set aside so much money per paycheque so that I don't see the money so it's not money I'm losing. It's going directly from my paycheque into different savings. (Woman, Edmonton)

We have lots [of] property. I buy with my sister. I have to because of my situation. But we just bought a place in August in Edmonton and it just went like that. We bought in Abbottsford 18 months ago. Went like that. I have one in North End. (Woman, Vancouver)

For some, the key to moving forward is simply good planning, and taking care to research and understand the consequences of their decisions.

My perspective is gather all the information you can, put your own thoughts into it, and then do a decision on whatever it is you want to do. Not just financial, just in terms of general life. Moving on, obviously in terms of a home search, home planning, to actually getting and paying off a mortgage is very much entered into my plans. Again, the saving for the retirement, saving for the kid's education, that sort of thing also enters into it. The question I have to ask myself is, I don't know how far in the future I need the plan, because I think it's different for everybody. (Man, Toronto)

I try to talk to as many people as I can about it. Like I said, all my family, they're all business people so I tend to take the advice that they give me, because they have a lot more experience than I do. (Man, Toronto)

A few participants have found themselves so immobilized by debt that they have simply defaulted and "gone into hiding" with the idea that after six years, their defaulted loans will be removed from their credit rating and they will then be able to begin restoring their credit.

> *At this point, I couldn't do any kind of consolidation because it will end up like my Calgary debt that I have every intention of hiding from until it goes away. So to deal with the situation that I'm in now, I can't separate the two because I have six years. I know the last day that I paid on any one of those things and everything else was before that. So six years after the last date of activation from it, it all goes. Six years from the very last day you pay or acknowledge that debt, it goes away*. (Woman, Vancouver)

> *January 08. Every month, it's like an eraser comes out and MBNA erased and Nova Scotia is like this. So every single month. So I think my problem is almost immediately over as long as I can wait out this year and somehow they don't add it back on. But that's really all I have to do. Well, actually, it'll free me up. Right now, the only problem I have is the bad credit rating and, like I said, if I try to make a payment, then I'll add on another three years. So, by it all being erased, okay, I currently have a successful business. I'm already running on-line businesses where I could travel or do whatever. So basically, once my credit rating is cleaned up, then I could just be myself. I'll have to re-establish and get credit cards again.* (Woman, Vancouver)

The Future: Hopes and Fears

Most participants expressed hopes for the future for themselves and their families. Many felt that they had, were about to, or would soon find a way to improve their situation, and they would eventually be able to live in relative contentment with their material circumstances and provide for their families' and their children's futures.

> *Right now, I'm thinking more for my daughter, education-wise. Right now, she has a good head on, but that can change at any time. But, hopefully, I can have the money to let her go to university, do whatever she wants to do education-wise. That's my basic thing that I want to see happen.* (Single-income household, Toronto)

> *I think if my work continues to keep me on, I keep getting education paid for and I keep bettering myself so I think I will be worth a lot more in the future so, because I'm at the lowest bracket where my husband has been working for years, so I feel good that we're just going to keep increasing and be able to meet with the demand of the cost of living going up – so I feel pretty good about is, as long as I keep working.* (Woman, Edmonton)

> *I have a government job so, as a lot of people say, I'm set for life because I work in a sector that probably won't be touched by layoffs because it's the courts. I have good benefits, good pension and everything, so I don't worry about where the money is gonna come from. It's just a matter of trying to catch up from the past.* (Woman, Toronto)

At the same time, many worry that they will not be able to achieve these goals, that something will happen to interfere with their plans for getting out of debt, or that they will not be able to make effective plans.

> *You have to be careful because there's always health that goes down hill. Like, I used to make money cleaning places and all that and my health went down and now I'm my own age. My husband, he's the breadwinner right now, but his health is starting to go down and that's why I said I wish he was at a desk working instead of the oil fields.* (Woman, Edmonton)

> *I think with the field that I'm in, particularly because it's already started in a few areas of where I work, there's been outsourcing. You keep hearing it, hearing it, it's coming, it's coming, it's coming; I think that's a big worry. Although you do have back-up plans, you want to meet a certain level before you have to implement something like that because you don't know.* (Woman, Toronto)

> *I'm just worried that, if I ever fall sick, how I'll ever pay the bills. It's a worry but it's a small worry for me right now, but it's still there and it's significant for me*

to think about it. If I can't make the payments, all the money I've invested will be gone, like, my capital. (Man, Edmonton)

Maybe not being able to make your payments, screwing up my credit again because I don't want to go through that again, so I want to make sure that everything is on time. (Man, Edmonton)

Many also expressed opinions about the future of the economy, and national or even global conditions that might affect them or their children, either positively or negatively.

I think we're all going to need our own little bubble. And if you don't have the money for it, you're going to be left outside. (Single-income household, Toronto)

I can't predict tomorrow's weather, so the future is a great deal of uncertainty. I often, I shouldn't say often, but I occasionally think about what the world situation is, wars and diseases and riots and conflicts, and say, is it possible that the entire capitalist system could collapse and we'll all be bartering in gold and diamonds, and chunks of food or something. I know that sounds doomsday-ish, but … (Single-income household, Toronto)

I worry about it a lot and I feel that with the economy the way it is, it's going to go downhill, and everything is going to be tighter and tighter and tighter. (Woman, Edmonton)

I feel worse for the generation that's coming up behind me, I guess the millennials or whatever that generation is called, because them coming out of school, especially university and stuff right now, I don't know how they will succeed because people on their own won't make it. I wouldn't be able to have a mortgage and I do have a good job. I wouldn't be able to do it on my own, so I think I really worry about that and I think that banks and mortgages and credit card companies that are at the university campuses that are getting these kids in debt earlier and earlier, I think we'll see a lot more poverty. I think we'll see a lot; I think there will be such a class distinction in the next few years if the economy stays the way it is and I mean it is a boom or bust situation that we're in right now and it's only so long that it can go before the bubble burst, and I think we really need to plan for this huge gap between the rich and the poor. Like the middle class is definitely going to go and I think that's what I worry the most about. (Woman, Edmonton)

Well, it might not be a total crash but, I mean, if it does; the problem is that I think, in Canada, all the fabrication or manufacturing facilities are shutting down because no one wants to buy anything from Canada to be exported because it's not feasible. It's like buying from the U.K., right; people don't want to buy from there because the pound sterling is worth too much and the only thing is China, Mexico, all the other Third World countries and South America, is a cheaper bet.

The labour is cheaper so I think, in that sense, the economy will have to go down, guaranteed. (Man, Edmonton)

I think the way the world and we're designed, is to always be in debt, never have enough. It doesn't matter how hard we work, how much we earn, how much we upgrade, we still never have enough. It's like, you could bring people here with 10 times the income and they'll still have the same stories, still nag about something. (Man, Vancouver)

Desires for the Future: I Wish, I Want

Participants completed an exercise in which they listed the things that they wished or wanted to happen in the future in terms of their financial circumstances. Not surprisingly, some participants mentioned issues that were relevant only to their specific financial or life circumstances, but in looking at the lists of all participants, a number of key elements emerged as being of significance to most, if not all, participants. Some wishes involved specific changes to their financial circumstances:

- Promotions and raises
- Jobs, new jobs, better jobs, secure jobs
- The ability to pay off debts, credit cards, mortgages, lines of credit
- The ability to buy a house or condo
- The ability to start, acquire or grow a successful business.
- The ability to save and invest
- Being able to live comfortably with enough money to travel, accumulate desired possessions or to enjoy life
- Having fewer expenses (i.e., lower rent, more affordable transportation, reduced cost of living)

Other commonly expressed wishes involved hoped-for changes in their own behaviour (or that of family members) that they hoped would make them less vulnerable to precarious financial situations, and knowledge or access to knowledge about financial management that would enable them to make the kinds of choices needed to get out and stay out of debt:

- Change work habits
- Improve financial management skills
- Controlling spending behaviour of self or spouse
- Understanding and knowledge of finances, risk/reward analysis
- Having trusted financial advisers

In fact, a number of participants indicated that the one thing that would do the most to improve their financial circumstances would be the ability to understand and manage their finances better, or having a trusted financial advisor who could help them to make better decisions about their finances.

> *I want to be able to trust a financial planner, go into the bank and trust that person to help me.* (Toronto, single-income household)
>
> *Money managing. I have got enough money to spend so it's easy to pay the bills, but there should be more. There should be more to go around.* (Man, Edmonton)

I wish I had got educated earlier in my finances, because I find, the more you know, the better off you are with any subject. I also wish I had an expert in the financial services area that you could turn to. You dad is fine, but it's not his career. (Man, Toronto)

I just don't know what would be best for my future and I know what I kind of want for my future, but I don't know exactly what I'm gonna need for it. I wrote down planning but I do actually plan it pretty well. No, just kind of an initiative to be able to do a few things a little better. (Man, Edmonton)

I think I probably just scratched the surface in terms of what I need to know. I still would like to know a lot more on stocks, bonds, other financial products, things of that sort. Not only for me but even when I get married, I can prepare my kids for the same sort of thing. (Man, Toronto)

The responses of all the participants in terms of what they wish for and what they want are listed in the following tables.

Toronto: I wish, I want	
Women	I can have more renters in about next few months. I wish I can sell my furniture and appliances I can open a business That my debts would reach a comfortably manageable level If I had to borrow, it would be enough to bring everything together and only have one debt to manage and not have to juggle Job security I could be promised job security To be debt-free within a few years For my children not to have the same lifestyle of buying things that aren't necessary or meaningful for future That my job paid a wee bit better so I could pay off my past debt That I had enough energy to take on a second job That my work was closer so I didn't have to pay for commuting To be able to buy a new car and a condo I would get a promotion My company to move offices so I wouldn't have to spend so much on transportation I could find a place with cheaper rent The interest rates would go lower so I could pay off my mortgages quicker I made more money @ my job so I could pay off my personal LOC quicker and increase my monthly RRSP contributions The cost of living would come down (i.e. gas, house, cost of food, hydro, etc.) so we don't feel tapped every month To be able to make more money so that I would be able to support my parents so

Toronto: I wish, I want	
	they could retire now as I am only child
Men	My girlfriend would spend less money I had a job and made a lot of money My investments were doing well I could pay off my bank loans and VISA To get a better job position so that I can pay off the above so then I can benefit my children and grandchildren in England I could finish paying child support To be in a financially successful business I made more money Got a promotion or a better job To pay off my mortgage To have enough income to be 'free' That I could get my oven client to endorse a line of cookware, food, stuff, etc. To continue building my business Continued sales and prosperity I had a better situation I got educated before re finances I had an expert in the professional services I could turn to – a professional I grew up with I could see into the future To change my work habits – work more To monitor my finances better and more often
Single-income	Oprah Winfrey in the U.S. gives houses on TV to guests, one of those, and Meredith gives money to game show contestants. I want to be a millionaire. Fixed rate, locked in at a specific rate. To win a *Reader's Digest*, bank contest or store contest – $10,000. To be debt-free To be in a better financial situation I could get a loan To be able to work again To be able to trust a financial planner More, better and accurate information about products, alternatives Risk/reward to be more clearly understood I knew what to do To have confidence and trust in the person in the organization I'm dealing with For more money to be distributed to small businesses, artists and programs Cheaper rent geared to income Student loans waived Banks to appreciate all their customers, even the poor To not have to worry about money

Toronto: I wish, I want	
	New job Job with good benefits Be part of a union Career change Second family income Inheritance Own a home Stability in career Savings in the bank Secure future Retirement plan

Edmonton: I wish, I want	
Women	We had a home = paid total off My husband had a good paying desk job We had enough money to feel comfortable If we wish to pay something, we can Pay off all my bills Rent was a lot cheaper Getting a house was in my range A raise Would be able to work more OT Stopped impulsive buying/purchases Credit cards would be 0 balance Better job security To have so much extra money to impulsive purchase More OT available To divorce (can't afford) – can afford 2 live without him just the divorce is $ My husband would work regular hours & have a set paycheque I wish I would get an FTE instead of a contract job I wish I would have my Masters degree to put me into a job market To not have a mortgage To be able to travel To be debt-free
Men	Learn to control spending Retire comfortably To use my money wisely Start doing something now Invest something To buy a house To earn more money To travel Find an area to buy an affordable house Good to invest a bit of money I could have hard cash to invest I could find an investment to profit generously Buy and sell property Stability Work I could pay off $$ I could have savings To be debt-free by 35 To own my own home by 35

Vancouver: I wish, I want	
Women	I get a better job I have no debts Pay off my debts My husband could be more financially responsible To have money in the bank and start building for the future My debt was paid down To be able to invest more money, worry less about it and live more freely doing the things I enjoy in life (i.e., travel) I wish my credit rating was restored even to 0 I wish I could get ahead enough to get out of payday loan debt I want to be financially free
Men	I wish I was out of debt at this moment in time I want to be happy for the rest of my life I wish that my hard work with my music becomes successful I want to have stability and money in my account at any given time Not rich but comfortable living I wish I could better my life and my security I want to move up in life so my family could live better I wish that my wife would settle estate money fairly To have things settled so that I can buy (mortgage) small place with my kids I wish I had enough money to won a penthouse in the west end I want to have enough to raise a family comfortably I wish to upgrade my math successfully I want to use it as a stepping stone to open more doors (i.e., to make money)

Financial Organizations Used

Most participants have accounts with conventional banks or credit unions. A number have mortgages with these financial organizations, and some have loans or lines of credit with conventional financial organizations. Participants' relationships with sub-prime lenders are for the most part in addition to rather than an alternative to a relationship with one or more conventional financial organizations.

Participants mentioned relationships with the following financial institutions; many had relationships with more than one type of organization, and all had made at least some use of the services of sub-prime lenders, if only for cheque-cashing.

Banks and trust companies:
- RBC
- TD Bank
- CIBC
- Scotiabank
- Maple Trust
- BMO
- Canada Trust

Mortgage providers (other than banks or trust companies):
- FirstLine
- Exceed Mortgage

On-line banks:
- ING
- PCBank

Loan companies
- CitiFinancial
- Prudent Financial

Sub-prime lenders:
- Money Mart
- Unicash
- Canada Cash Advance
- The Cash Store
- Citibank
- Money Team

Other financial services:

- Western Union
- Wells Fargo

Many participants indicated that they use a number of different organizations, for a variety of reasons. It is not uncommon for someone to have a chequing account at a conventional bank or trust company, a credit card obtained through a retail store or affinity program (Canadian Tire Mastercard, for example), a mortgage with another bank or mortgage provider, and one or more short-term loans through one or more sub-prime lenders.

Some, however, prefer to limit the number of financial organizations they do business with because they have established a good relationship with their bank or trust company. These participants will normally conduct most of their financial dealings with one conventional financial organization, and only seek out another organization, either conventional or sub-prime, if their bank refuses a particular application for a loan or line of credit.

> *If I ever get life insurance or a mortgage or anything like that, I'd do it through my financial institution.* (Single-income household, Toronto)
>
> *I would prefer a bank. There's just something about … I don't know. I find the level of service almost the same but I have a relationship with the bank. They know me and I like that feeling of security that I get …* (Man, Toronto)
>
> *Well, my bank, I deal with them all the time. I've actually had my bank make me a loan before, with no credit really, just on knowing me and having my dad bank with them for years. So the owner actually made me a loan for a couple of thousand dollars based on nothing, other than my job. So …* (Man, Vancouver)
>
> *It's the lesser of two evils. I'd rather not go to either place, but … (laughs). I'd just be more inclined to deal with my bank for any of those services.* (Single-income household, Toronto)

Determining Factors in Choosing a Financial Organization

Participants mentioned a variety of factors that enter into their decision to choose a sub-prime lender over a conventional financial institution for any given transaction. As noted previously, many deal with traditional banks, credit unions or trust companies, and with sub-prime lenders.

Many mentioned convenience as a key determinant in their decisions, although convenience covers a variety of more specific issues. For some, the convenience provided by sub-prime lenders lies in the fact that they are open and have personnel available to complete a wide range of transactions much later – in fact, some mentioned sub-prime lending outlets that are open 24 hours per day, including weekends. Those who work long shifts or weekends are often unable to go into a bank to cash cheques, or to discuss loans at hours when the bank is open and loans officers are available.

> *It seemed more awkward to get into the bank and actually get there when it's convenient for the bank. They're only open until 3:30 p.m. or 4:30 p.m. or whatever.* (Man, Edmonton)

> *I like my bank, other than the fees that they charge. I have a good relationship, I'm trying to foster a good relationship with them, but I use Money Mart, when it's more convenient to go there than it is to go to the bank. Convenient meaning time of day. The bank is closed.* (Man, Toronto)

> *I first started to use them just to cash my cheque quick without using the bank account. The bank wasn't open or whatever when I got off of work and everybody was going out for a beer. That's when I first started using it. I would just cash the whole cheque and I had a lot of cash in my pocket (group laughter), so then I'd go out and spend it. That's when I first started using them.* (Man, Edmonton)

For others, convenience means that the process of completing the desired transaction is simpler – participants reported that sub-prime lenders have fewer regulations and restrictions, ask fewer questions and require less paperwork than conventional financial institutions. It is easier to cash cheques, and easier to take out loans.

> *You are paying for that convenience of being able to walk in and literally walk out not even two minutes later with $600, $700 or $800, whatever you want, in your pocket as opposed to going through the whole fiasco of the bank; going through a credit check.* (Woman, Toronto)

> *Normally, when you go to the bank, they want to ask you what your family is all doing and yourself; how much money you spend and all this other stuff. It's too much of a headache and it takes too long. By the time they get things processed in the timeframe, it's just ridiculous.* (Man, Edmonton)

> *If I go to a bank, there's always the worry that my past is gonna come up here; I'm gonna have this big long story that's gonna take me longer and I'm gonna have to wait. I'm gonna have to do this and it might not go through. I might as well go somewhere where I'm just gonna get through with less questions.* (Woman, Toronto)

> *If you ask for a bank loan, it's a lot of different than if you go into a Money Mart (laughter) and get it. Because they want you and they don't care anything about your past. Two references and you have money just like that. You go to the bank and there are all these embarrassing questions and everything; the people you work for and all that stuff. You have to make an appointment. When I needed $800, I needed to cash advance my paycheque because I get paid every two weeks and I just went into Money Mart. I went to a bank first and there was such a song and dance about it I thought, forget it. I went into the Money Mart; it was high interest but, you know what, I needed that money fast – it was a lifeline. They were nice to me; they were really nice to me.* (Woman, Toronto)

Convenience for many also means quick results. In an emergency situation, it is far easier and faster to get a payday loan or other sub-prime loan than it is to negotiate a standard loan with a bank. For people who are living paycheque to paycheque and do not have a cushion to cover even the smallest of unexpected expenses, begin able to get a loan of even a few hundred dollars within a very short period of time can be very important.

> *Sometimes, you know like, I've got five children, so sometimes you just need to get something right away and you need the money, the cash right away in advance but you don't have it.* (Woman, Toronto)

> *I still use Money Mart, I mean, when I need cash and I've been way over for something. Yeah, baby stuff or even food or you know rent.* (Woman, Vancouver)

> *From a convenience factor. You're basically saying, I need it now and I'd be prepared to take a little bit less so long as I know I have the security of it now.* (Man, Toronto)

> *Very expensive but sometimes you are really in need. When I went to repair my basement, and there is no doubt that I need to rent because of the income that is coming. I need to survive.* (Woman, Toronto)

> *For me, it would be small business expenses, so if it came up at the end of the month where you need the inventory or even to meet payroll. And, basically, it's just not available to you from the bank. In order to increase some kind of credit line or whatever, it's not a quick fix. You have to go in and you have to apply and whatever. It's not something they just say, oh, no problem, we'll give you an extra thousand dollars or whatever.* (Man, Toronto)

> *You don't have a choice sometimes; you just need it right away. Sometimes, you'll go to a bank and it will take days, sometimes a week or longer. This is, like, right away.* (Woman, Toronto)

For some, quick results are important simply because they feel highly time-pressured, and would rather pay a premium for having to take as little time as possible out of their daily schedules to negotiate a necessary financial transaction.

> *Another thing that hits me a lot of the time, if I have to go in there, is that we're in such a time-managed environment that it's time, it's always a race against time and if I have to go into the bank to do this, it's gonna take me longer and I don't have that much time because you only have so much time.* (Woman, Toronto)

> *Just for speed sometimes I use the Money Mart cheque-cashing service.* (Single-income household, Toronto)

> *I was working all evenings so when I would go to the bank, it would be closed at nighttime, so there would be no possible way. Plus, I could have went around it but really it was just like, just get it done, just go there after work, or whatever it is, and go home and do whatever.* (Woman, Edmonton)

Another aspect of convenience is the lack of holds on cheques at a check-cashing service. Because so many of the customers who make up the sub-prime lender's target market live, as they themselves acknowledge, from "cheque to cheque," an unexpected expense or the major banks' policy of placing a hold on deposited cheques can be a serious matter; many of these consumers do not have any kind of cushion and are unable to maintain the required balance in their bank accounts to reduce bank fees and eliminate the necessity for a hold on cheques.

> *So, I've been dealing with BMO for 16 years and I still have problems with them. I had a cheque I wanted to cash at another Bank of Montreal but they wouldn't cash it because there was a hold. I even talked to the manager there that knows me. But if I walked in the store, right away they'd go, okay, cash his cheque. What's the difference?* (Man, Vancouver)

> *The bank actually puts a hold on people's money who don't have a lot of money in their account. So, I'm going to wait five to seven days to get my cheque.* (Single-income household, Toronto)

> *I mean I can't wait five days for my cheque to clear necessarily. And if I have no money, I can go in there and get a payday loan.* (Single-income household, Toronto)

Just as a last resort. If my bank won't negotiate the cheque, odds are Money Mart will. It's a company they don't recognize, that I don't have a history of depositing … (Single-income household, Toronto)

I try to get all my cheques direct deposit, so I don't have this problem, but every so often that screws up and I get a cheque. And I get a cheque, it's a CIBC cheque, I take it to CIBC and they won't cash it. They won't cash their own cheques. It's like the day the rent is due and I have a cheque instead of the money in my account. So, it's like I have to cash it, I have no choice. I mean I'm forced to do it. (Single-income household, Toronto)

Cashing cheques. The banks were closed and I needed the money. Banks sometimes put a hold if you deposit it through an ATM. If you need money now. It was three percent or something like that, which is a ridiculous amount but you got to do what you got to do. (Man, Toronto)

I'd never put the money in the machine. Because there's a time lag between the time you put the money into the bank and the time that it actually goes into your account, and you're going … you're waiting, you're waiting, you're waiting. That's ridiculous as far as I'm concerned. That shouldn't happen. Therefore, I don't use it because it's not convenient. (Man, Toronto)

Another key determinant for choosing a sub-prime lender is credit issues. Some participants have no other access to credit, or have already utilized all of the credit available to them through other sources, due to a poor credit history, credit cards that are "maxed out," overdrawn accounts or other circumstances. For these participants, as long as they have a job, they can get a payday loan from a sub-prime lender even when no one else will deal with them.

If you have poor credit and you're only making about $10 to about $14 an hour, there's not too many banks that are going to say "Okay, well here's some money for a house, here's some money for this, go ahead and you can pay us anytime you want." We'd love to take a mortgage from a bank, but it's just too hard. We just use them to put our money in, and the money goes out to pay the bills and that's about it. (Woman, Edmonton)

Because the bank doesn't lend me money. I don't got no credit cards or nothing. Nobody will even give me one. (Man, Edmonton)

Convenient, meaning if my account is overdrawn or if I feel I've paid too much in fees that month. (Man, Toronto)

Some are concerned about what they may be required to disclose or explain in the process of applying for loans or credit at a bank, and how their responses will affect their ability to get a loan.

> *I think the bank is more difficult. They ask a lot of questions at the bank.* (Man, Toronto)
>
> *If I went in and asked for a loan, I feel it's gonna go into my past or something; like against my future when I'm asking again.* (Woman, Toronto)
>
> *If I go to a bank, there's always the worry that my past is gonna come up here; I'm gonna have this big long story that's gonna take me longer and I'm gonna have to wait. I'm gonna have to do this and it might not go through. I might as well go somewhere where I'm just gonna get through with less questions. Your credit and there's checks they have to do, all that kind of thing.* (Woman, Toronto)

Some participants cited anonymity as a factor in their choice of a sub-prime lender. These participants indicated that, at times, they have a need to keep loans concealed from spouses, parents and, in some cases, other lenders. With a payday loan, they can borrow without concern that others will find out about their borrowing because, they said, there is "no paper trail" associated with payday loans.

> *It was better than getting overdraft. It was better than using my overdraft. I didn't want to make it obvious on credit cards because it's all written out.* (Man, Vancouver)
>
> *I've also used these cheque-cashing places for extra money, like, if I wanted to buy some equipment. Basically, it doesn't leave a trail.* (Man, Vancouver)
>
> *This way, you're independent and nobody has to know your business in the family or make you feel bad.* (Woman, Toronto)
>
> *If you're going to a family member to borrow money and then you borrow, say, $800 to fix your van. Then two weeks later, they see you going out to a movie with your spouse and it's, like, "Oh, you've got no money to pay for your van but you've got money to go to the movies." (laughter)* (Woman, Toronto)
>
> *If I need quick money because something major has come up and I don't even want to discuss it with my spouse, then I'll go to Money Mart. It's easy and it's simple.* (Woman, Toronto)

Attitudes toward financial institutions

Many, but by no means all, participants indicated a preference for face-to-face financial transactions – going into a bank or other financial institution and talking to a "real person" – rather than Internet or ATM banking. For some, this was simply due to a desire for personal contact. Others expressed a lack of trust in ATMs, but this was not a universal feeling, and some actually preferred using ATMs or on-line banking for simple tasks. Others mentioned a desire to be able to get information from a knowledgeable person and have their questions answered.

> *I prefer the personal contact. For the amount of service charges they ding me, I'd sooner talk to a person.* (Single-income household, Toronto)

> *I like to go in also and speak with someone to get whatever questions I have answered. I like to use the bank machine to get an update on your statement. That's about it for me.* (Single-income household, Toronto)

At the same time, a number of participants said that they felt they were treated with greater respect and received friendlier service at sub-prime lending institutions than they did at banks. For some, banks seem to be too impersonal, or too difficult to deal with, or not interested in creating solid business relationships; on the other hand, sub-prime lending institutions appeared to these participants to be actively interested in providing service.

> *I find at the bank, if I need to go into the bank, I find that for the simplest thing, like I reduced my amount that I wanted to put into mutual funds just for December and January, at Christmastime for extra money, it wasn't something the teller could do. To me, it seems like it should be so easy. I should be able to do it on time but I have to see my banking person that I deal with, my personal banker, to do a simple thing.* (Woman, Toronto)

> *I find that the people at the cheque-cashing places have generally been a lot nicer to me. And the banks have this weird idea that me giving them money is them doing me a big favour. I'm giving you money so you can invest it and make more money, but somehow that's doing me a favour. Whereas, the Money Mart, that's just a business transaction. That's just what it is, that's all it is. I've had a really bad attitude from a bank teller before. I go to cash a CIBC cheque and they're, like, "We don't cash our own cheques." And then they just treat me like I'm idiot for thinking that that's weird, right? So, I mean, things that 20/25 years ago used to be a given at a bank is now like where are you getting these crazy ideas from.* (Single-income household, Toronto)

> *If I go to the bank and I ask a question, sometimes they look at you like 'we can't do that here, you have to go to this place.' I was just asking a simple question. But*

> *these people at these other outlets seem to be a lot more, how should I say, friendlier, much nicer.* (Single-income household, Toronto)

> *I'm big on customer service. I find that if I go to something like a Money Mart, they are much more pleasant because I think they welcome me as a customer.* (Woman, Toronto)

> *They understand everything you want right away. There's no "What do you want?" They know.* (Woman, Toronto)

> *And they have people that speak in several languages there too, so you never hear anyone having to struggle. There's lots of Spanish; lots of Italian, English.* (Woman, Toronto)

> *I find that if I go to BMO at First Canadian Place, they're all wearing suits and everything like that. You may get a teller that's friendly but the overall atmosphere is "Why aren't you in a suit?" kind of thing. It looks like you have to be from Bay Street or something. I go in there in jeans and a t-shirt and it's "I have an account here, you know. So excuse me for not wearing a tux to come do my banking."* (Woman, Toronto)

A number of participants, however, mentioned experiences with sub-prime lenders that were not satisfactory, or found that their procedures were not preferable to those they experienced at banks.

> *To cash a cheque or a loan or anything, then it's a lot more difficult dealing with a Money Mart or a cash money type place. Because they have all kinds of rules and regulations. Because people come in just to do that quick thing so they don't just take anything and say, "Oh no problem, here's your money." Your bank, you have a relationship with, they know who you are. So if you need to do something extra special, they still have their rules and regulations, but you have a relationship with them.* (Man, Toronto)

> *The one occasion I went into this Money Mart, I was treated with suspicion. I was bedraggled, it was raining and I had a cap on sideways and, I don't know, I probably didn't look the part. What's this? I said, it's pounds, it's sterling, it's GB pounds. And I had to keep repeating this and then somebody came from the back and looked at it and looked at me, and I thought, I don't need this. If I go into the bank … I'm 200 percent towards the bank. I get treated … "Hey, John, how are you? How are you doing?" They're there. They're almost family. I talk to them, maybe because I'm paying about $160.00 a month interest to them.* (Man, Toronto)

Some participants view sub-prime lenders in much the same way as they view other financial organizations – as businesses whose function it is to make financial services available to the public. These participants are aware that sub-prime lenders often charge higher interest rates and fees than banks, but they view this as the cost of doing business with a lender who accepts a higher risk and offers greater convenience.

> *They just basically look at your information and they go: "Do you make this amount of money? How long have you been there?" They see that you're a person that's not a person flopping from one job to the other in two or three months, so they know you have some sort of foundation. They look at your foundation; they look at you as a whole person and you feel like a whole person. They may charge you a little bit more but you know that this person makes me feel; they feel confident in me as much as I feel confident.* (Woman, Toronto)

> *I don't really get treated better at my bank because the woman that I deal with there and she's, you know, when I have for whatever financial issues I have and so it's a much more personal relationship. Whereas, like you were saying, when you go into the Money Mart, I mean, it's a transaction and you know that you're there because you need to get the money and, yes, they're going to charge you for it, but it's a business transaction and it really doesn't feel like there's anything sort of personal about it.* (Woman, Vancouver)

> *Absolutely, and I've been in that situation may times, where, in order to get the money, I need to pay a much higher rate or premium or service fee or whatever it is, and some of them are over the top. You can go to your usual financial institution that charges you whatever or you can go to other places which are a lot higher rates.* (Man, Toronto)

> *No, it's a good business for the lender, not for the borrower, but sometimes it is good for the borrower because if you need it now and you want to flip something and that small amount of interest that you're gonna pay, it's just a cost of your investment anyway.* (Man, Edmonton)

> *Not to get money out. I recently needed money to buy currencies. Because I knew I could make a lot of money if I flipped it. So I went there and it cost me money to get money, but it was an investment so I didn't mind that it was costing me. So I knew that it was kind of a rip-off. It was a loan for $7,000. I didn't think there was so much paper work or anything. But I totally understood and, to me, it's just like a business transaction and they were going to, I can't remember what it was, how much it was, but basically I just needed the money right away for a deal and so I just went in there and I paid it. That was it.* (Woman, Vancouver)

Others feel that sub-prime lenders are actively engaged in gouging lower-income people. They wish they did not have to use sub-prime lenders, and sometimes express feelings of embarrassment that they need such services.

Sometimes, you'll see them in certain areas of the city where there will be tons of them and then there are certain areas of the city where you don't see as many. Overall as a Canadian, I must say that the amount of them that are out there scares me; that there are that many people that need to use that type of outlet. (Woman, Toronto)

I'd rather not go to Money Mart or a place like that. I don't really like these kind of places. Because they prey on the poor and the homeless. They charge you money to cash your welfare cheque. I don't want to give them any more money than I have to. I don't like using them to cash cheques, I just do it when I have no other options. (Single-income household, Toronto)

I would never go at midnight to cash a cheque, but if I needed a short-term loan, I would go there. But I would use the services of Cash Money more if it wasn't such a rip-off, if their rates weren't so high. When I go to do it, it's almost killing me to go and do it because the fees on it are so … I would do almost anything if I had to, to avoid giving them all that money, but unfortunately, sometimes you have to, there's no choice. If it wasn't such a rip-off, I would probably use their services a lot more. (Man, Toronto)

They're taking advantage of people that are in desperate situations. (Woman, Vancouver)

It's just I'm stuck in it. And I just can't get out. And I find that they do gouge and, I mean, I used enough of them to know and, you can tell, and I think that they are gouging you because it's been years that I've been going through this process because I did the same thing in Calgary before I left and over the years how it's evolved from just the first Money Mart payday loan, it's evolved to this huge booming business and they see that they can do this to people. Not do this to people, but that people who actually really need it and people who have maybe a lot lower incomes than I do, they don't have a lot. You know, if they take out 60 percent of their pay and they've got two kids, there's no way they're going to be able to pay that back and then all it does is it puts you in this vortex where you can't get out because there's no point where you're going to be able to make that step to pay that extra $300 because you need that money and it just keeps sucking you back and even if you think you're almost there, any time a little glitch or a bump just puts you right back in the same hole. (Woman, Vancouver)

Loans

While some participants had only made use of sub-prime lenders as cheque-cashing services, many had also used these institutions for loans. Most took out loans, particularly "payday" loans, because they had an immediate need for money and were unable to access any other options, either from conventional financial institutions or from personal sources, such as family or friends.

> *I get paid on the Friday but I'm broke on the Monday, and I can't wait until the following Friday for my next pay, so I would use Money Mart.* (Single-income household, Toronto)
>
> *It comes just basically from running a business and not even just the business but before that as well where you've got a cash flow crisis, a cash flow problem, at that point of the month where you're obviously not going to have enough cash to meet your expenses that you have or whatever, or something comes up, an unexpected expense, so you need to get cash somehow. So all those places that you can go to and get cash advances or payroll advances or whatever, and the rates are through the roof crazy. The payday loan is that they give you an advance based on your pay stub, a percentage of what your income is going to be for that month. And like I said, the rates that they charge you for that are crazy. When you build a business on your own and you're self-sufficient and you don't have a lot of other family or whatever that you can turn to, sometimes that's your only option, so you got to do what you got to do.* (Man, Toronto)
>
> *There was a time when I had to cover my mother's bill at the pharmacy. She's a diabetic and she needs insulin and various pills and stuff like that, and she forgot to pay it, so I had to scramble for the money. She asked me and I … Right, but I didn't have the money, so I went to them and got the money.* (Man, Toronto)
>
> *I've only done one, for Christmas, I was paying for a flight to come visit my parents and I did a payday loan. Shoved in my pay stub and just post-dated a cheque, like at a Money Mart.* (Woman, Edmonton)
>
> *He has no money and I always have money, so I spent too much money. I spent all the money and the mortgage was actually coming out and we were kind of hooped, so we went to Money Mart and we got a payday loan for that and it wasn't enough, so we also went to another store and got another loan for that. So one, I think we paid, I think it was $150 just for the damn loan, plus their interest and Money Mart, like the percentage of the loan but it paid for it then but when it came time to pay it off, it really sucked so I had to pay, not the Money Mart one but the other one, in like two different installments, so it kind of sucked. It puts you more in debt by using those things than not using them.* (Woman, Edmonton)

I got in a tight spot a few times where I had to say I put the truck on the line once for a bunch of cash and had to pay that back right away. It was not fun because of the interest. (Man, Edmonton)

I had to, as someone offered me a deal a while ago to buy a car. I couldn't turn it up and I couldn't turn down the offer. I needed some money so I got a payday loan with Money Mart. I figured out this little option that they have that if you actually pay it off earlier than when the date is for, you are charged $15 or $20 for the whole thing so I just paid if off early. (Man, Edmonton)

Those who had taken out payday loans, for the most part, felt that the process had been very easy and straightforward, simply a case of showing proof of income and providing a post-dated cheque.

I think I've had a few payday loans. They have to know the history of your salary and your pay, and then they'll give it to you a week in advance and then your next paycheque. But there's a fee for that too. So, that's only in a pinch. (Single-income household, Toronto)

I basically go in; show them that I'm employed and I have a bank stub to show that it's getting deposited into my account. Yeah, a piece of ID, full ID; show them my driver's licence. If you've been there before, they have it all in the system anyway. Then they ask you how much you want to get because you can get, I think, up to 50 percent of your net pay now or something. You tell them how much you want to borrow; they calculate how ever much it's gonna be and then they say, you write your cheque to your own bank. Then you sign the back as well and you give them that. It's post-dated and they have a little form. (Woman, Toronto)

I didn't think it was complicated. If you look at it very briefly, there's usually three or four pages of actual legal documentation when you go in to do one of those things. But it's not too difficult to see the fee section and how much you're paying. There are about three or four different kinds of fees that you're paying. You're paying interest, you're paying a service fee, and then you're paying this handling fee or whatever else. (Man, Toronto)

You just go in there and say you want a payday loan. Oh you just go in there and you say "I want an advance on this cheque." I want 50 percent to 100 percent or whatever it is. You go in there and you write a post-dated cheque for your actual payday and then they'll just cash it and whatnot. (Woman, Edmonton)

In the past, I've used Money Mart just for payday advances. You have to go in there with your stub, ID, and you have to prove that you're working and then you give them a post-dated cheque and then can just take that right when you're getting paid. Yes, and you're paying interest. (Man, Vancouver)

> *I've done the same thing about 10 years ago. The same thing, getting a cash advance on your pay stub money. I needed $1,000. I needed a lot of money and I needed $1,000 in a short period. The banks weren't open and I think it only cost me a little over $100.00 or something. You had to show your pay stub, that you make enough money that you can get it. There's a few things. It was very reasonable.* (Man, Vancouver)

Others, however, mentioned additional steps involved in applying for loans from sub-prime lenders; these may have involved other types of loans than the basic payday loan.

> *I don't like the fact that they call your work. When they said, we're going to call your work to verify, it's like, I don't want my employer to know I'm borrowing money. Are they going to know when I come back? I don't want them to think I'm broke.* (Man, Vancouver)

> *Well, the first time you go, they'll ask for two references. They want to know, it's not a family member; it's got to be two personal references. They'll check you too. They'll photograph your cheque to make sure and they'll clear it to make sure it's okay. Then once you are on that system, every time you go, they know you; they've got your picture, they've got everything. When they give you your money, you sign an agreement. You have your receipt with everything on it explained to you and an agreement you must pay them back and what will happen if you don't. So they are clear on everything.* (Woman, Toronto)

Some participants mentioned a particular loan product that was structured for making interest-only payments for a certain period of time.

> *We paid off the loan and we're still paying – and what I understand, we haven't even touched it, touched the principal yet.* (Woman, Edmonton)

> *If you deal with them and you talk to them and they agree, you can do, instead of paying it all off at once, just pay the interest off. So, you pay the interest off and then you go the next week, then you pay the interest off, but the $500.00 is still sitting there, right? But unless you say, okay, I'll pay the interest today, and then a day later go in and say, okay, I want to pay the $500.00.* (Man, Vancouver)

> *I missed the small print where it said you would just pay interest for the first three payments. You can't even pay the amount back. So I paid $20.00 three times on $100.00 before I could even return the $100.00. And it was a late night, I need $100.00 now, so I just applied. They called me back, fine, you're approved, it's in your account. And then from what I find out, when they were supposed to take it out, $20.00 is missing. So I called them, what's going on? You guys didn't take out the money. They were supposed to take $120.00 back. No, sorry, we're taking interest, three payments, three times, then we'll take the amount. So it cost me $60.00 for the $100.00 loan, basically.* (Man, Vancouver)

A number of participants commented on the amount of interest involved in such loans; most felt that the interest was high compared to other sources. A few noted that payday loans, if paid before the due date, did not involve interest, only service fees.

> *I borrowed $650 and it was $771 to pay it back, and that was only about a week and a half away to pay it back.* (Woman, Toronto)

> *When they give you the date to pay it back, if you pay it before that date, you don't pay that interest. It's only like $5.00 because I've done that a couple of times on my payslip. Then, when it says on the 15th or the 30th I get paid within the two weeks that I'm waiting, if I got money before that, I'll go in and pay it off and the interest is only like $5.00 over six months.* (Woman, Toronto)

> *Some charge, on $100.00, they charge $20.00. And then there are other ones that will go, say, for two weeks and it's like $3.00 a day. And it depends how much money you're borrowing. If you're going to borrow $500.00, it's going to be close to $580.00 you'll pay back.* (Man, Vancouver)

Mortgages

Most participants who had mortgages reported that their mortgage is held by a conventional bank or a mortgage lender that offers conventional mortgages. Some, however, had investigated mortgages offered by sub-prime lenders. Companies mentioned included:

- BMO
- Scotiabank
- Maple Trust
- FirstLine
- CIBC
- Exceed Mortgages
- Money Mart/Western Union

Most participants with mortgages did not appear to know whether their mortgages were conventional or sub-prime. Many reported that their mortgages were fixed rate term mortgages, however, and among those with variable rate mortgages, at least some had chosen this option rather than being required to take it.

> *I've got a small one [mortgage]. It's with a trust company. It's a variable rate. It's an old one that's gradually getting paid off. Because it's through the same bank that I deal with. So, I figured I might as well stick with them.* (Single-income household, Toronto)
>
> *Mine is a fixed rate at 6.0 percent, for five years. And then I have to renegotiate or refinance.* (Woman, Edmonton)
>
> *It's a six-month variable. Because the interest rates were always fluctuating and going down more. I think it was because I felt that it was gonna go lower and lower and lower, and I didn't want to lock in for five years for 5.8.* (Man, Edmonton)
>
> *Mine's locked in I believe. I think it's for three years. I can't remember; maybe six percent or something like that.* (Man, Edmonton)
>
> *That's Scotiabank. Five-year term. So it's fixed for five years. I believe somebody referred that bank to me and said they were giving out $2,000 if you get your mortgage through them to buy furniture and appliances and stuff.* (Woman, Vancouver)
>
> *I think it's a variable rate. It was fixed at a certain time and I think we did consult a broker to advise us. We did at one point, yeah, and the broker really showed, like, playing one off against the other.* (Man, Vancouver)

A number of participants indicated that they went to mortgage brokers to obtain their mortgage, often on the recommendation of a realtor.

> *Through the real estate agent, they recommended a few places. No they actually interviewed you. You go and they take your information. It was a mortgage broker and they send it out to a few places, like a few different banks or trust companies, or whatever. Then they send back offers of whatever rate and, whatever, fixed or variable.* (Woman, Toronto)

> *Our realtor up in the Beach recommended going to them because they are there in the Beach. They thought since they're here, that we could talk our way through it.* (Woman, Toronto)

> *What I'm getting when we go to get mortgages, we're not stupid; we go around to the other banks to see what they'll offer us. Then we walk into Scotia and we tell them, if you don't give us this rate or lower, beat it, then we're going to another bank for the previous ones.* (Woman, Toronto)

Others indicated that they had shopped around and compared interest rates directly, investigating several mortgage lenders including, for some, sub-prime lenders.

> *The Money Mart, Western Union does do mortgages. So, we would go to each financial institution and get the best rate, because they are backed by Florida, the Western Union, and sometimes they've got rock bottom, like good prices on, you know, percentage-wise, like you might get a lower percentage for your mortgage and you might be able to pay it off faster. But, yet, I'm not against the traditional banks either, if they've got a good rate.* (Single-income household, Toronto)

> *I shopped around, a lot of asking close friends and relatives that have their mortgage, going to different institutions. PC held a mortgage night, stuff like that. Going on the Internet and checking out who has the lowest rates and what the options are and that kind of stuff.* (Man, Toronto)

> *Four years ago, for our $140,000, they were saying from $800 it was going up to $1,200 because renewing and interest fess and we're, like, that's ridiculous so I went and I just browsed mortgage brokers and I found Alberta Mortgage, and they set me up with Exceed Mortgage where I refinanced and I took out a $200,000 loan. I paid off my van and just threw it into my mortgage loan, which made my payments from $800 and a $600 van payment to $1,200 altogether and then the property taxes increased, which made our mortgage up but it worked out a lot cheaper for that.* (Woman, Edmonton)

> *No, we shopped around for a bit. My friend is a mortgage broker, but he usually deals with people with bad credit. My girlfriend and I both have good credit so we got a pretty good rate.* (Man, Vancouver)

Some simply applied for a mortgage from the financial institution that they already do business with.

> *Right now, I'm paying off a mortgage. It's a 25-year mortgage, fixed. [From] the bank, Royal Bank, just because I got all my credit from them as well.* (Man, Vancouver)

AWARENESS AND UNDERSTANDING OF MORTGAGE TERMS AND TYPES:

Most participants understood the basic distinctions between fixed rate and adjustable or variable rate mortgages, and had a reasonably clear idea of how mortgage payments were calculated and how to manage mortgage payments to their advantage.

> *It was laid out when we re-signed it too and it was, like, you don't know what's going to happen with the market. Right now, yeah, it would be great, because the Canadian dollar is so high so you're going to get obviously good interest rates but then it might flash back to the 80s where the Canadian dollar was so high and the interest was way up and it shoots up, so you're playing a gambling game with either. Whereas if you go with the fixed rate, you know what it is, you know how to budget, you know what your monthly is going to be.* (Woman, Edmonton)

> *I plan on having a down payment, make high payments, pay it off as soon as possible.* (Single-income household, Toronto)

> *Well, and then the more money you put down too, it goes towards your interest rate, so if you're able to put down at least double what your mortgages are like, like one more than what your mortgage is a month, then after so many years, five years, 10 years, you're not going to be paying the interest, you're going to be paying the principal amount of your loan, which is going to make your loan a lot cheaper and a lot less money a year.* (Woman, Edmonton)

When asked specifically to define fixed rate and adjustable rate mortgages, participants offered the following comments, which, for the most part, demonstrated at least some understanding of fixed term and adjustable mortgages:

Fixed rate mortgage

- *I guess it would be the same rate of interest throughout the term of the mortgage.*
- *Locked in at a specific rate.*
- *Fixed for the term of the mortgage.*
- *A fixed rate mortgage would be a certain sum for a certain time with, I don't know if privilege is the right word, but privilege to pay it back either at the end of the term or whatever date is specified.*
- *Fixed rate basically means that the percentage is fixed, it doesn't change.*
- *Fixed rate is a fixed rate of interest for the term of the mortgage.*
- *A fixed one is usually a set year and then it's done by the percentages and they're all usually pretty close. Like, when we looked at, I think, 15 lenders, they were all between one- and two-percent difference.*

Adjustable rate mortgage

- *It can vary as the interest rate changes. It's variable.*

- *I said negotiable. Maybe annually you could, depending on the principal and the amount that you've paid off, you can renegotiate your interest rate.*
- *For the adjustable? A flexible rate, like for the various student loans are like that sometimes. If the prime goes down, they lower it to match it. That was one thing I tried at one time. But if it goes up, they cap it. So, there's a flexibility in there of the rate.*
- *I wrote a rate that's flexible, that can be changed at different instances.*
- *You can adjust how much you pay depending on the income or inflation.*
- *Sometimes it's five percent, sometimes it eight percent, and it goes up and down, and you're really taking more chances by doing that. But some people are more comfortable with that because they have money coming in at different times, which is fine.*
- *Adjustable rate means that the percentage changes.*
- *Adjustable, of course, is going to be adjustable, which means your payments will fluctuate with the fluctuation of the rate of interest, so you won't have a fixed monthly payment.*
- *The adjustable I think is you can take it at a certain amount and then it can go down or up accordingly because sometimes it's a prime waiver. It can [be] above or below prime. Certain percentage I would guess, it was set.*

However, many participants did not understand the concept of sub-prime mortgages. Most of these participants associated "prime" with the prime interest rate and assumed that sub-prime mortgages were the best mortgages available because the interest rates would be below prime.

Sub-prime mortgages

- *Below the best, sub-prime?*
- *Maybe it's the amount, the lowest minimum amount you can pay.*
- *I don't know, but I put that it was below prime rate, sub-prime.*
- *Interest rate below prime rate. As a borrower, it would be to my advantage.*
- *Sub-prime is a rate given to a customer below the prime lending rate. It's good for a customer in that sense that their payment will be a lot less.*
- *It means that I'm favoured, that I'm going to get something a little better than the fixed rate.*
- *Sub-prime, well I guess it's below prime, sub meaning submarine.*
- *That sounds like below prime rate. It sounds like a good interest rate.*

A few participants were aware of sub-prime mortgages, mostly in relation to the ongoing crisis in the U.S. sub-prime mortgage market.

- *I believe that it's a mortgage that is high risk to the lender and is low down payment and a strong possibility of default because of the high leverage between the down payment and the amount of the mortgage. Therefore, it's high risk to the lender and,* *therefore, if it's high risk to the lender, and the borrower defaults, then the lender is on the hook, so to speak.*

- *It's for people that don't have good credit. Well, it's a higher interest rate.*
- *As far as the sub-prime mortgage, I actually know a little bit about that. I think it's really big in the U.S. and the easiest way I can describe it is really being haphazard, with the mortgages that you give out. Because I know they had a big problem in the U.S. with people being able to pay them back because they give out large chunks and at the end of them, you have balloon payments, which, if they couldn't afford it when they were taking out the mortgage, a lot of people are going to have problems paying it back afterwards.*

Sources of information about sub-prime lenders

Participants mentioned a variety of ways through which they became aware of the sub-prime lenders they have used. A number turned to such institutions after hearing about them from family, friends or acquaintances.

> *My brother-in-law. He's a mechanical engineer. He needed some loans and everything. He's the one who recommended them and he helped me.* (Woman, Toronto)

> *Well, I worked at a restaurant and everybody used it. Like, people would use it to go to casino. Like, seriously, everybody used Money Mart that I knew. In that age group, like in my 20s, it was just kind of an institution because some people I knew didn't even have banks, like a bank. They would cash their whole cheque and have cash all the time.* (Woman, Edmonton)

> *Well, probably my parents. My dad probably went there and then recently it was my ex-boyfriend because that's how he cashed his cheques, because he didn't have a bank account.* (Woman, Edmonton)

> *My husband actually, his first car, he got the car and they even gave him enough to buy himself a radio, a stereo. He bought that and it was in, was it two years and he didn't even have it paid off yet, he lost the stereo and he lost his vehicle.* (Woman, Edmonton)

> *Exactly. So I had a friend who I actually, when I first got my car, I drove him to Canada Cash Advance or something like that. Yeah, it was green with a maple leaf and that's all I remember and I was, like, oh, it's that easy to do that? And so I would just go in, like I was always going to Money Mart and just cashing my cheques. I didn't know they actually did the cash advances when I was 16 and then after I'd seen my friend do it I was like, alright, it's that easy to get money in your pocket.* (Woman, Edmonton)

Some mentioned being introduced to the concept of sub-prime lenders, cheque-cashing services or "payday loans" through advertising.

> *Pretty much, they were advertising a service that you couldn't get anywhere else. They were meeting a specific need that you just … There is nobody else that gives you a payroll advance on your money, so it's a unique product, I guess.* (Man, Toronto)

> *I actually saw it on TV quite a bit.* (Woman, Edmonton)

> *Probably, I think I started going there because of the commercial three bucks on a hundred and the guy was rolling around in his Jeep; I can't even remember. That's where I heard it from.* (Man, Edmonton)

Others investigated sub-prime lenders after walking past storefront locations and seeing window ads or other signage.

> *For me, initially, it was just up the street from where I lived when I rented my apartment. Now there used to be, in my head anyway, when I think 10 years ago, it was just Money Mart. Now there are about 20 different companies and they're on every street, everywhere.* (Woman, Toronto)

> *I was walking past and I saw a lot of people there. I saw payday cash advance and wondered what it meant so I went in and I asked. They explained it and I thought, right, I'll keep it in mind when I need it (laughter).* (Woman, Toronto)

> *They have a list, really, that put on the window saying what they have. If they have small loans, anything, and then you ask them and the guy will tell you what's going on.* (Man, Vancouver)

A number of participants indicated that they began using these institutions as cheque-cashing services before they became aware that they could also arrange loans.

> *Well, at first, I was using it for cheque-cashing before they came out with payday loans and so it was, the guy was like, three bucks on a hundred (laughter). That's all we had to pay for the fee so I thought okay, they're not taking too much of it instead of going to the bank.* (Woman, Toronto)

> *And because I had been in their stores. I was cashing cheques on a regular basis. I was already cashing cheques and they had their ads, that this service was available.* (Man, Toronto)

> *I started with cashing cheques from work. Then I just got a small loan to help buy a car, not the whole thing.* (Man, Edmonton)

Personal Narratives

This section presents the edited life-story narratives of the participants in this research. These narratives have been drawn together from the participants' comments in order to illustrate both the individual experiences of sub-prime lending consumers, and the patterns that emerge from these personal and unique narratives.

Narrative 1 (Single-income household, Toronto)

I felt that I came from an impoverished background. I was born in the country, on a farm, no medical attention present, just a midwife sort of thing. No hospital. But I never felt poor. I never felt deprived. If I needed something – my father died when I was six – if I needed something, I told my mother what I needed and she gave it to me. And I never felt – I never abused the privilege. So, I never felt insecure in that respect. I guess that's the main point I wanted to bring out about the past. In the present, I think I have the perfect job, actually, by definition. The perfect job is the job that you don't have to do. In other words, you've created it for yourself and you work at it as you wish to and you do it not just for money, but you do it for something far greater than that. And I don't want to sound altruistic here, but you do it for fame and recognition and humanity. But in addition to those lofty ideals, I do operate a metal finishing brokerage business on my own. It's an outgrowth of a previous company that I managed, and it generates money with relatively little effort. And I find that that keeps me active in the present in the corporate community. To paraphrase somebody who said: "My life has been a series of disasters, none of which ever happened." But I think that I do worry. I worry about money to the extent that I guess I recognize my past. Even though I think I'm relatively comfortable, I still worry – which is kind of an oxymoron I guess.

Narrative 2 (Single-income household, Toronto)

I lived at home throughout my teen years. I didn't want for anything or need for anything other than what any kid wants different than they already have. More than some, less than others. Then, I moved out at 16 and started working. Then that kind of changed my opinion. Then, I started to work hard for little money. The cost of living in Toronto is ridiculous, living cheque to cheque. It was not easy not having job security. And I have a slight resentment, maybe that's a harsh word, for people who don't appreciate what they have. I feel more comfortable, job security. It's a unionized company and …It's a higher rate of pay, benefits, pension; it gives you something to look forward to. Not cheque to cheque, I can actually save some money in the bank every week.

Narrative 3 (Single-income household, Toronto)

As a kid, it seemed so easy. You just go to school and then we had a job by the age of 16. And it actually got worse after that I would say, because then we went to university. My dad was, like, don't go there, that's so expensive and it's going to take all your money. We're not quite at the level of the Americans with education, because they'll pay like $100,000 a year to go to Harvard. And so we follow right along, but we're not making $100,000 in salaries in Canada. So, then students all have a lot of debt and it's really, really bad. And we're all watching American TV and thinking this is great, we can't wait to go to college and all those college shows. They're having a great time, they're getting all this great education. How can that be bad? But it's our financial planning. We didn't have that back then. We have the OSAP and now we've got better plans. But we told our parents back then, you have to start saving now if you expect us to go to college. But nobody did that back then. They're, like, let's not and see what happens. But there's kids out there today, and they're, like, "I owe $80,000 and I have no idea how to pay that back." I graduated and I haven't found that niche where you find the perfect job and feel like you're not living paycheque to paycheque, but that you have a future in that career. In Canada, I'm just wondering, maybe that doesn't happen for everyone. After a while, if you just – like I might go back to university or something, but maybe that ultimate career for women, if we have families too, maybe it's not always possible to be super mom and have the perfect career, the family.

Narrative 4 (Single-income household, Toronto)

I was born in Barbados. I moved here, I was doing very good until I decided not to listen to my mother. I didn't listen to my mom and my aunt, and went ahead and got married. I thought I was going good. I was until I went ahead and we had a daughter. Then the financial stuff started happening. The debts started coming. After I was diagnosed with MS, multiple sclerosis, I was continuing to work. Then I had to stop working. And, what shall I call it, my oh-so-very-nice ex-husband decided he didn't want to have to take care of me. He thought with the MS, I'll be a burden to him. That's when the debt started because I had to stop working. I was hit by a car crossing at the lights and being in the hospital, can't walk, can't do nothing, had to tell my daughter, "Okay, use the credit card for food and that kind of stuff." So, in a year's time my credit turned and my debt has just risen because of that reason. I've explained everything to her. "Mommy cannot buy this… there's no ifs and buts about it." She has to understand – "Oh mom, can I have this?" "I'm sorry, honey, you have to wait until the end of the month." I felt I was going up the hill until this accident happened. I was out there going places, because I was in travel before, the travel business, and I was looking for something to go back to work to, even if it was part-time. Receptionist, whatever, but I felt like now my daughter she's okay, she comes home on her own and opens the door, blah, blah, blah. She can cook. I don't have to worry about her too much. So, that's what I was ready to do. But right now, I'm down there now.

Narrative 5 (Single-income household, Toronto)

I came from a pretty normal family, financially. I had a pretty normal upbringing. I started working when I was 16, had a bank account, started dating. I did all kinds of silly things, like selling newspapers over the phone, but to me it was really great because I was saving for university. I did everything, worked retail, worked in nightclubs. You name it, I did it. I kind of saw university as my ticket out. Even though my parents weren't paying for it, they really pushed the idea. Out of Toronto, to move away, to party. I wasn't really thinking that much about what I actually was going to be doing. So, stupidly I took out a whole bunch of loans. I kind of saw it as OSAP. At the time, it was like late 90s, they were willing to just hand it out. Somehow, it was like a miracle, I got $10,000. I went to a different province and went to school. But I also got a lot of money, got a credit card, and it was all taken care of for as many years as possible. I wasn't really thinking about what I as going to do with it. I actually said to my mom: "I would like to quit now, I'm wasting my money." But I listened to my mom, and I guess in this case that wasn't that good, and she said stay in school, stay in school, you have to stay in school. So, I just did and now I've got a lot of debt. I guess it's more like a stage of limbo where, like a lot of grads who have general degrees and not a specific trade. I'm just living paycheque to paycheque and doing things that I really wouldn't think I would do for money, such as medical studies and stuff like that. I'm just kind of in a state of limbo right now. I guess it's been a couple of years now, since I graduated. I know something has got to give. I know I'm on the cusp of something, figuring out something that I'm going to do. Well, it's got to be through planning, through working. I don't really believe that magic is going to happen.

Narrative 6 (Single-income household, Toronto)

Before my parents had me, they were really poor. Once they had me, they tried to get a little more financially secure. So, I grew up kind of, not poor but kind of lower middle class. Yeah, my parents are really financially conservative. They save a lot of money. They don't [use] the credit card. They only use the credit card if they can pay it off. You know, that kind of stuff. So, unfortunately they both started getting better jobs and more money right at the time that I stopped being around to enjoy it. I was basically not around starting in my early teens. And then I lived from paycheque to paycheque, barely making it, barely able to scrape by. Now is kind of similar to how it's been for the past few years. It's a bit better though. I have a secure job. And instead of getting random crap jobs that I don't like, that I just do for money, I actually figured out the field that I want to work in and I'm working in that field. I still live paycheque to paycheque, but I can actually make it to the next paycheque, whereas before I would be not making it to the next paycheque. I'm making more money now. Before it didn't matter how I managed my money, I did not have enough money to make it. So, if I managed it better then, I would have a week of having no money. If I didn't manage it as well, there would be two weeks before I got my next cheque where I had absolutely zero.

Narrative 7 (Woman, Toronto)

I graduated out of high school and I started university. That's pretty much when I was on my own completely, financially. I ended up going to school in Quebec, so I wasn't working during the year. They didn't help me pay for school or living expenses, but they helped me in terms of whenever I needed a home for the summer and like summer at home is not, that's fine. Food for holidays, that kind of thing – which is good, which was fine. So I would be working during the holidays, during the summer having part-time jobs, whatever and getting OSAP for my education. That was for my living and whatever. I didn't make that much money during the summer because there's only so much you can make in a couple of months and that generally would just last a few months anyway. So that's when I started getting credit cards and that sort of thing. That was my first degree and I wracked up a lot of debt that way. I ended up living at home after that just for a little bit. Then I wanted to go back to school for another degree and moved out on my own because I couldn't live at home. I ended up going back for another [degree], which was the same thing all over again. I actually had a part-time job during my second degree but I was still on OSAP and that kind of thing. That whole process was over probably about seven or eight years. Then I graduated with a whack load of debt and trying to sort of get my place in the workforce but I was able to get a job, an entry-level position. I've just sort of been digging myself out and trying to move out from there. Today, I'm positive even though my current situation, I seem to be in a plateau situation. I've worked, worked, worked all through school to get to a certain point; I've got a job which I'm happy with but I also have goals to sort of move ahead in my job. I'm now at the point where I'm just constantly trying to work up but I don't know how fast that's gonna be. Meanwhile, I'm still paying for my past and feeling that I'm not quite making it. I'm sacrificing what I could be making for what I want for the future, which doesn't really feel like a lot right now but you sort of have to stick it out until you move up.

Narrative 8 (Woman, Toronto)

I went to college in a different country and I came here when I was 20. Twenty-nine years ago. I was actually born here but I was raised in Scotland. I came back home when I was 20 and lived on my own. I found it easy because back in that time period, back in '78, there were lots of jobs and the money was good compared to the rents. I lived nice and I only had myself to care for, so I didn't have children like I have now. I really enjoyed my life. I went places; I had money and went to nice schools and I had friends. I had everything. When I got married and I had children, you acquire more. You have the car; you have the furniture you have to buy; you have food and clothes for the children and things that they need. I didn't work when my children were small because I wanted to stay home and be a parent as a stay-at-home mom. I didn't want to pay babysitters until they were about 12 and I did that because 12 years old is okay. It was hard with just my husband's wage and that went for all of us. That was a sacrifice, you know? Financially, I was better when I was single because my money was my money in the bank. I had one credit card and I controlled it; it was not very much. When I was home watching the children, we had the van; we were paying the van and things like that. It was hard; there was no saving money. There was no expense money and just the plan that when the children were older, I would go back to work and I would save that paycheque but that didn't happen because more things come along. It doesn't happen sometimes the way we planned it. My situation today is harder; it's harder because job situations are changing. The security that was there 20 years ago is not the same now. There are so many jobs that are being farmed out and gone like that, whereas before you felt you could leave one and go to another. It was easy for me when I came here. I found one in a week and I left when I wanted to leave. Here and now, it's different. You had better hang onto it so you have to watch what you're doing. That's how I feel; I feel threatened now because the older you get, you are replaced by younger (laughter) because they don't require, they're smarter. They're quicker off the goal and we know that when we get over 40 it's harder for us. My financial situation is very hard. It's very paycheque to paycheque because things come up; the car breaks down, the van breaks down, it's $800 a shot. If you don't have it, then you're running here to get this, get that and get more debt to cover one debt. It's hard, because I didn't think about these things before because jobs were so good before; they were consistent and now it's not consistent.

Narrative 9 (Woman, Toronto)

My financial past was hard and difficult. We were nine kids and my parents separated, so I have a lot of needs. In Peru, South America. I have been living 19 years here, so do you want me to talk about there or here? It was very hard; since I married, I immigrated here. My husband sponsored me. I was a professor in university there but coming here with the language, it just kills. I was teaching the capital of the location. So I came here and I said well, it was a struggle of course to go to factories. It was a very hard time for me and I needed to live in a basement. Today, I am more positive. Because I am in the field that I was wishing for, to become an instructor. I am teaching so my patients will be young kids and I have been recognized by Ontario so I can work in my field.

Narrative 10 (Woman, Toronto)

I've been in Canada now for 40 years. I came from Guyana, South America. It was a whole new life when we came. It was very difficult because it's all; there are six brothers and sisters that I have. The whole family came at once. Parents, again although they were very qualified there, they were not here so there's retaining that has to be done and that puts a strain on financials for everybody. It was difficult learning to have to do with what you have. I was very young at that time so I didn't even know. You just know you're little, you're going on a plane and you're happy. You don't look forward to that but it was like you're coming here because you're just coming with what you have. You're not coming saying you have a job opportunity or anything like that. So your parents come and you're in a small place; it's cramped and there's struggles and stuff like that. I'm always thinking that's not something that I'm gonna look forward to because I'm here from very young. I should be in a better position at whatever age they were at that time. As luck would have it, life never turns out that way. You end up being in a somewhat similar situation in a lot of ways, maybe not in every way but in a lot of ways on a different level. When I got into my teens, that was much better because you were able to work and you had your little money to do whatever you wanted; you were single, and that made it better. Then you get married and things change because you're thinking, okay, now there's two incomes; you think everything is gonna be even better. Along with that comes a lot of other things that you didn't care about before; you know, a home and, like she said, a car. Now, you're on your own and the responsibility is yours that you have to buy groceries, pay bills; you have your cards to pay and all sorts of stuff to do. That added, you have a second person there but you have a second world of debt as well that comes with all that responsibility. Then you have children and you add to it even more. It was enormous back then. Then I guess I had children; I had them very young so not having the maturity level that I do now, that made it difficult as well because I had my children young and I had three of them at the time, one after the other. That was difficult and then I became a single parent; then you realize life is very difficult. It's a struggle because it's all on your shoulders so learn from that. Today, I am much more – I'm in a better zone. I am not 100 percent where I feel like I'm in a happy, comfortable area; I haven't reached the comfortable area yet. I do have a good job, so I'm not 100 percent sure with the job yet because so many changes now you hear about, you know, outsourcing and all that. The field that I'm in that makes me worry. I think half of it if I didn't have to worry about that, I would feel much better.

Narrative 11 (Woman, Toronto)

I pretty much grew up destitute. My parents were gone, split when I was about five or six. My mother as early as I can remember to the time when I was about 15, she was constantly on Mother's Allowance or welfare. It was just her and us four kids so there were times when we didn't eat. We never had any good clothes. Not at first but I would say by the time I got to about Grade 3 or 4, I realized that my living was sub-standard to what other kids had. They would get a lot of new gifts at Christmas and we would be lucky if we got one new one. It was always second-hand clothes for me because I was the second oldest and I always got my older sister's clothes. There would be times when we would miss school because my mother wouldn't send us to school hungry. It was a struggle. No, actually, this was when I was living up north in Sudbury and then a little later on in the Ottawa valley in my teen years. Up until I was about 15, my mother finally started working some odd jobs and stuff; things were going a little bit better but not a whole heck of a lot better. She was away more so I had to take care of the kids and stuff like that. I ended up getting married at 17 and going from a situation where I had nothing; had no control over the financial situation other than the occasional jobs that I did to being married, having a kid and having to deal with finances. Of course, I basically said, "Woohoo! That's pretty." I've got all this money now even though I wasn't working. It was my husband at the time, his money. Being young, not having the maturity level to manage finances and stuff like that. Well, the only role model I had was my mother and she didn't handle the finances very well. Basically, the past was pretty crappy. [Now] I have a government job so, as a lot of people say, I'm set for life because I work in a sector that probably won't be touched by layoffs because it's the courts. I have good benefits, good pension and everything so I don't worry about where the money is gonna come from. It's just a matter of trying to catch up from the past. Other than that, I would have liked to have had a brand new car by now or be putting something toward a down payment on a condo and I don't have that. We did buy that initial house that I had to use my first-time home buyer status for that and then we ended up flipping it, so now that whole first-time home buyer status of using RRSPs is out the window. Now, we have to make sure we have that cash because I don't want to go down with a mortgage to buy a $500,000 house with zero down or something because that's just ridiculous.

Narrative 12 (Woman, Toronto)

Growing up for me was fine. My parents both made very good money, so I got whatever I wanted, which I don't think is necessarily a good thing because it teaches you to be spoiled. Then, when I was nine, my brother died; he was 11. My parents, well we moved; we upgraded from the High Park area but I think they were very frivolous with money just because dealing with their grief, so it wasn't necessarily good teaching skills to me. I started working because I liked to work, so I always had my own money but I got spoiled a lot. I saved up; I put myself through college; I bought myself my first car and things like that. Then as I got to my early 20s, out of college, I became a travel agent so you're making a crap load of money; really into partying; moved out and lived on my own. All of a sudden, there's rent, car payments, partying and I just racked up a whole lot of debt. It was pretty painful. Then I got into another job, like an entry job at another company but it was just living paycheque to paycheque and eventually having to move back home to save up in my mid-20s I guess to pay off the debt because I wanted to get another car. Within a few years though, from that entry-level job, I was able to triple my income so then things got a little bit better. I just wish I had saved more at that time; like through high school and thought to put away back then. I was able to save and pay college off fine, and pay for the car and stuff but actually putting money away. After I moved back home, I met someone and we moved out and bought a house when he was 32 so he lived at home until he was 32. He didn't have to pay anything, a spoiled Italian boy. All of a sudden he had a huge mortgage and everything. When we first started going out, we decided to start buying property so we own four houses in Wasaga Beach. We ended up selling the house here because of the market. It was just too good not to flip it, so now we're renting which drives him crazy. I'm maxing out; I'm putting as much money as I can into mutual funds; like that's my first, pay me first and I put $500 to $600 a month minimum, but of course, I had to have a new car and all this other stuff. So we're working so hard for our future but right now is stress. I have such a high stress job it's not even funny and I'm constantly looking for something else that's not as stressful. We had one house that had no mortgage and then we refinanced that so we bought another house. Then we did that again to buy another house. So we're borrowing against our own property and we have people that live in our houses that pay rent. When it gets stressful is when we get that phone call that I need to move out in 30 days and it's the whole, now we've got to make sure we can cover this mortgage plus our own payments and the car payment so then it becomes a juggle. Most of the time it works out, but it's still a stress.

Narrative 13 (Man, Toronto)

I started in the rental properties business. Five to six years ago. It was manageable. Money was coming in and bills were being paid. I borrowed money but we were able to pay it off. My wife and I. Yes, we were working together. Well, our relationship deteriorated and the divorce and subsequent legal entanglements caused me to have to, more or less, sell everything in an attempt to pay her off, which didn't work. And alimony, child support, the whole schlemiel. Today, divorced and in a new relationship, high maintenance. I live in a condo. It's in her name but I pay half. No. She's a great lady, but we're going in different directions. She's corporate and I'm more or less … more free. So, I'm paying alimony and child support and I have quite a bit of debt – a car, mortgage.

Narrative 14 (Man, Toronto)

About 10 to 15 years ago, student loans. I had less money coming in than going out but it was all good at the time. You didn't care. It wasn't stressful, it was normal, it was expected. You had money for beer. So it was fine, less stressful even though you didn't have the money coming in. You just did it. It was just expected. That's what it was. So, then you graduate and get a job and you have to pay bills, and that's where we are today. Student loans is pretty much, I don't remember what the payment-free period is anymore, but after six months or something like that, you have to start paying everything. [Now I'm in a] different situation, a lot more debt because you have a mortgage. Well, because I have a mortgage and the bank owns my house. Me and my wife. It also becomes, not only managing your own money, but yours and your spouse's income and debts, and the cash flow and all that. So things have changed. You're not only looking after your own stuff, but you're kind of working as a team with someone, trying to get by. We haven't got to the heavenly situation yet. Wedding expenses, stuff like that. So it's different. It's a lot more stressful time now, whereas, when you were a student, you really didn't care.

Narrative 15 (Man, Toronto)

I started out in the food services industry, so it's a very uncertain business especially when you're starting out. I certainly worked in and around different restaurants in Toronto for a number of years, so it was kind of a hand-to-mouth existence, for sure. A lot of uncertainty, a lot of high debt load, and certainly not a lot of planning for the future

– no retirement planning or anything like that – and my income would be all over the place. We'd have one job that you did really well on, or for a period of time did really well, and then not so good, and then you'd jump to another company. It was always different periods where you'd either be making good money or it wouldn't be so great, and you'd think about where the next job was going to be and that kind of stuff, so really kind of uncertain. What money came in, there was lots of cash money that came in so there was lots of good times. High spending, high income, low income, all over the place. Today, it's looking at a much more stable job and then moving into my own business. I have my own catering company. So I moved into my own business. Definitely a lot more planning and a lot more stability but still pretty high debt loads, but it's for business expansion and assets as opposed to debt just for spending. Not completely different but different than my past, that's for sure. Much more stable, much more planned out, much more, looking to the future you can see the road, kind of thing. I was almost in the catering van a couple of times, that's for sure. Because it's also a varied business as well, but that was in the beginning. Certainly now I've got an established client base so it's not like that any more. Although you still have to consider expenses and all that kind of stuff.

Narrative 16 (Man, Toronto)

Student loan. I was living with my girlfriend. We've been living common-law almost 10 years now. And eight years ago, we were just done school and we were living alone, because there wasn't any support from her family or my family, so we managed our way. It was a part-time job for me and her. And then just four years ago, like, I paid off my loan first and then she paid hers off two years after. Mine was a bit different because I got a job right away, a part-time job. I did ask my parents for help for a little bit. They helped me for a little bit. Right now, I'm living with my girlfriend still. We're planning to buy a place so we've been saving up. Good. We're engaged and we're looking for more money for the wedding and she's a really high maintenance girl, very high maintenance. She's looking for something expensive for a wedding and the place she wants to live is a downtown condo – not anywhere else, just downtown. She's working, she's working, but the thing that she wants is more than what we can really afford.

Narrative 17 (Man, Toronto)

It's going back a long time. I was 70 last birthday. In the 50s, I joined the air force. I had to. I was called up at 18. It was a whole new ball game. I was in the air force and went to the Middle East where I returned about 20 years later as a civilian. I came out of the air force and I had a very good job. I was getting constant money from the air force, of course, that comes in regularly, and I bought a house. Unfortunately, a couple of years later, I had to divorce so I decided to come to Canada and, because I had a couple of children, I said to the wife, I don't want you bothering me or bugging me about money every month, have the house. So I gave my house away. It was more or less paid for. I had a great job working on the Concord, a well-paid job, so I was almost finished paying for the house when I came here. So I really had to start again when I came here. I was scared. I got a job at DeHavilland. It was then DeHavilland, but then it changed to Boeing, and again I was getting good money working in the flight test shed because of my experience. And then things got a bit down and we finished off a production line and there was nothing much doing in the aircraft industry, and that's when I could have gone to the States. I was accepted to go down there and build the aircraft, but I went to the court system. So I worked at 361 University in the courts. The money went down, down, down, but I was happy, good workers, fellow workers, and I was happy with the guys, so I wasn't too concerned about money. That's where I went wrong with my RRSPs. Because of my age, I'm primarily trying to put aside enough money to pay into my British pension, to top it up so I can get a maximum return. I'm getting a small pension, I'm getting 181 pounds a month for a wound I sustained in the Middle East, but that's nothing to do with my British pension. I said, please put it on hold so it will be a little nest egg when I get back. But then, I've got eight grandchildren so it's going to be swallowed up anyway. I have a line of credit here and I'm also trying to pay that off. It's not bothering me but it nags me.

Narrative 18 (Man, Toronto)

Going into the past, I guess we'll start when I was a relatively young boy. I didn't make a lot of money but the majority of my savings actually went into my bank account – I'll say, probably 75 percent. In terms of school, university-educated, like a lot of the guys here. I got out of school with a psychology degree, which didn't really prepare you for much other than being a shrink, which wasn't what I was looking to do. More recently, probably the last year or so, I started to get more into some GICs, RRSPs. Partially my own idea, partially my dad said, you need to start saving for your future. And then a little bit more recently, in terms of a car loan, probably about a year and a half ago I decided to get myself a car so I'd have some manageable debt. I've been able to pay it off every month. I don't have any problems with that, because the majority of it actually comes from my savings, or from loans from family or friends, or payday – various sources. That's probably where we would stop, going up to about a year ago. When I get into today, I usually think, starting where the last past left off, probably about a year ago and moving forward. One of my first priorities right now is in terms of a home search, finding a home for myself. Home or condo, doesn't matter which, because I'm currently living with the folks, which from a business perspective, is probably not the greatest thing but from a financial savings point of view, is a little bit better. In terms of my financial knowledge, as of, again, about a year or so ago, I've been trying to become a little more financially savvy, more educated in the different products that are out there in terms of the different ways to save. Reading a lot of magazines, talking to a lot of friends, talking with the folks, people more experienced than me in this sort of thing. Which again, goes into my next point, learning about RRSPs from my folks, people who have gone through it before. Seeing, not necessarily the mistakes that they've made but different ways to handle it than they would. Tomorrow would be nice. Realistically, in the next six months. Yes. I still have the majority of my savings in my account. I'm not the type of person that spends a lot of money unless it's something I really, really need.

Narrative 19 (Woman, Edmonton)

Well I guess because I'm a little bit older I remember the good times a bit. Jobs were a plenty and like I said, you could go with $50 and bring home boxes full of groceries that could last you for a couple of months. You had money to go places, do things; there was always a good roof over your head. Houses didn't cost that much, you could get a vehicle, for between $1,000 to $2,000 you could get a vehicle. A house, you're looking at maybe five grand. Let's see, I was married in 1967 to let's say, the good times started falling apart we'll say in 1986 and that's when all of a sudden it just started falling apart. I just found it harder and harder and even my children, with my first husband, we could have four kids, we could support four kids, we can put four kids through college, we can, for the future and that. And then by the time '86, he passed away and then the next thing I knew, I had to give up the garage, I tried going to school but that didn't help, so our budget went right down hill and then that's when everything started climbing up higher with the prices of living. I'm finding it's harder and harder to find a good paying job. The rent in '91, we went to River Valley townhouses and we got it for $675 and now it's up to $875, and anyone that's moving in now has to pay around $1,200 so we're, for those places. And grocery-wise and gas is like, unreal, so by the time you figure out, that's $900 for that, then you're looking at $150 per person for your groceries, then you're looking at gas, power and phone and you're looking at about $150 each of that. Gas to get to and back to work, you're looking at about $200. No, I'm on a pension and my [second] husband is taking the brunt of it, so we're struggling; very struggling right now. We were doing good until [my husband] fell off the ladder and had to go to the hospital and he was off for about three or four days, and he comes back to work and he ends up being fired. I guess the boss did not have Workmen's Comp, so we was let off work for about three or four, no about a month, before he got the next job so we're trying to get that paid off now, now that he's got this job. Right now we're starting to see some light. My husband's finally found a decent job which pays around $17 an hour and it's supposed to keep going up.

Narrative 20 (Woman, Edmonton)

1998 I would say more because I lived with my parents before then and then I got pregnant, so 2000 I guess. So 1998 me and my husband, well I guess 2000, we lived with our parents and then we got pregnant and my first car was 43.9 [cents] for a litre, I paid $500 for that car; it was a good little tiger. You could buy a pack of smokes for $4.95. I worked at McDonald's for $4.95 an hour. Rent was cheap, like $400, and that was everything for a house with a yard and a garage. You only needed one person to work because you could still have money to go and get all those toys that your parents wouldn't buy you. It was nice. Now, gas is 99.9 cents, which is cheap or what we think is cheap because after last year. Increase of property taxes and now owning your own home with the mortgages pricing going up. $200,000 for a house used to be dirt cheap. We got a point that was good so our mortgage is only $1,500, with the property taxes. More bills because it seems like phone, power, everything is going up and you just want more because you feel you don't have enough, so you just buy more and more and more. We're kind of living paycheque to paycheque but that's because I'm saving for the future. I don't work as much as I did before. I work part-time and I'm also a stay-at-home day nanny. I'm doing it on purpose because it's kind of easier for my kids and then I work casual because I can still have spending money. I feel good because we have our own bank accounts and I know what I spend will affect me. We are a couple but we kind of treat it more with finances as roommates so that if something does happen in the future, because we both know it's going to happen, then we're prepared for it and I feel that my financial situation, because I did get education behind me, has greatly improved from my past and I feel that it'll be good for my future. I want to eventually go back to school and become a teacher instead of working with Capital Health because it makes less money, a lot less money than what I make, but it's more what I want to do and make myself happier. I feel that if I think negatively about my situation, then it's going to get worse. If I feel that I'm going in the right direction, then yes, it should go in the right direction. I'm not waiting for that door to open up and just someone be waiting with a smiling face and all this gold behind them, but I just feel, you know, like you have a positive outlook on life, like just treating others with respect, you shall get respect back; same kind of scenario but with your financial situation. Things aren't bad for me.

Narrative 21 (Woman, Edmonton)

Well the past, I was living with my mom for, I just probably, she probably moved out, like, two years ago, so it was really easy. Cigarettes were cheaper even though she bought them for me. Rent, as she said, was a lot lower. Eating, shopping, like, you can tell just going in the malls, it's a lot different than it was before. But that's about it; that's all I got. Now, well living with my roommate makes it a lot cheaper for rent, food, everything, bills, so that's really good. Oh no, we went to high school together. Oh yeah, like we're really good. And everything is going up; cigarettes, gas, but I'm not really worried about gas because I don't have a car. Bus passes, buying tickets, are $2.50 now. I remember when I was little, it was, like, 80 cents and bus passes are going up to $60. Well, it's not like I didn't know, like I don't know a lot of words like a lot of people say but it's not like I don't know that I'm going to be in debt no matter what because that's how it just goes, right? And I think that's ridiculous how it is like that because it's a vicious circle, and that's exactly what it is, and that's why I'm scared to even step, like go that way, you know what I mean? Because it's, like, why do I have to go in to debt just to have something I need, like shelter? I don't get it.

Narrative 22 (Woman, Edmonton)

Well, I went back to student loans, new car; I was really, really in debt. Like I just couldn't, I lived paycheque to paycheque and so eventually I had to go to school part-time and work to compensate. Then I actually, well, I went to school in B.C., which is a lot more expensive even. And the cost of living being so high, could only work waitressing jobs which can give you the most money in the short amount of time. It's cash, it's instant, but then just took out debt, like new car, needed this, needed this, needed a computer so it was just debt, upon debt, upon debt and finally it was so overwhelming, I had to move home to finish school because I just couldn't afford to live on my own and go to school. [Now] I have a much better job because I've graduated, I'm educated now. I bought a new place with my husband, so we are $300,000 in debt. We have a big mortgage. We saved a lot so we could get a down [payment], we don't have one of those crazy 40-year mortgages; it's only 20 years. They told us it was the lowest mortgage they've ever given at that age, in the past two years, we had the lowest mortgage. We went to our realtor and he said, "You're going to actually have one of the lower mortgages that we've given in years; one of the lowest ones." We had two companies fight for us which is good but we went with Maple Trust, which is a division of Scotiabank. They gave a magnet and we gave them $300,000. But I feel better because I have a dual income now, like my husband makes good money, but we are still, I've gotten myself out of these little debts but he hasn't, so we're still trying to make up for his past. His student loans, his car payments, so that's definitely something we worry about. I did before we got married, actually. I thought it was a really smart move to not carry that in but he just couldn't. But we wish we had more savings, like, we aren't living as much as we did, paycheque to paycheque, but with a mortgage where we're both splitting down the middle, it's definitely hard. We're both paying $830 a month plus property taxes, condo fees, everything. Right now, because I'm just new to everything; I'm new to a full-time job, I'm just entering big girl world. I just got a mortgage, I just got married, just got a full-time job that's not a day-to-day, it's a professional job and I see myself at the bottom of the rung and I can climb but it's a) how long am I allowed to stay there? and b) am I going to be permanent there? So I still have those questions and unknowns too, which are really scary because I lose my job and that takes us back down to the past. That takes us back to the debt, to the wondering.

Narrative 23 (Man, Edmonton)

I guess I was actually pretty fortunate. My family has a little bit of money and they paid for my education for me, so I didn't have any student loans or anything like that. They started giving me credit cards when I was 18 years old and I was very irresponsible; racked them all up and never paid them off. What's that? No, I eventually paid off all my own debt but I relied a little bit too much on my family for, I guess you would say, getting me out of any kind of financial difficulties or anything like that. I just had no sense of responsibility when it came to finances, so I didn't give it a lot of thought. No, I actually took accounting in school. I'm very smart when it comes to numbers. I just didn't really care. I don't know; I didn't see any ramifications of like maybe I just didn't get what it could do to me in the future. Now is good. Now is better than it was in the past. I managed to clear up my debt and well, old debt and acquire some new (laughter). No, I just grew up. I just started making responsible decisions; am paying my bills on time and trying to make sure my credit cards are always paid. My Dad is an accountant. I presented my situation to him and he gave me some good advice about all this.

Narrative 24 (Man, Edmonton)

Mine pretty much started when I was 14. I started working and I had money; like I've been working full-time since I turned 14. Then when I hit high school, I needed more money because I wanted cars, clothes and everything else so when Grade 10 came around, I dropped out. I still worked full-time but then I did correspondence and got myself the rest of the way through high school. I moved out; I got my first place when I was, just after I turned 17. I don't exactly know how it's gonna go yet but I've got a business I started three years ago, and it just keeps looking up for me so I think it's gonna be pretty exciting. I'm just trying to work out with this company that I'm with right now because I can see it's doing very well. Once the summertime hits, then I can work on expanding my business as well because it's only seasonal work that I do. Pretty much because I was in the oil patch and I was making quite a bit of money but now that I'm home all the time, the credit card is backed up; I'm struggling to make mortgage and truck payments and stuff. Yeah, but I wasn't thinking about it, right? When I should have been saving it, I was just blowing it and partying it away. I bought my house a year ago and I took out $60,000 on a Line of Credit towards the house. I paid off my truck, more of my toys, my credit cards and cleaned everything up. At the same time I got rid of the $700 truck payment for a lower interest rate payment that was a lot less and cleared up a lot of different things, so I was okay with taking out that Line of Credit to get rid of a lot of other things.

Narrative 25 (Man, Edmonton)

Well, I had some stress losing my job and I took a dive. The fact that I'm in no career, it's not easy to jump back onto the wagon and make some more money. Well, because of my age, I'm not going too far in the past at the moment; I'm saying the last 10 years. Losing a job can be stressful and then you can lose money because it's not so easy to be back in the salary scale you had before. Really tough, you know. I had to declare bankruptcy about 25 years ago now. Back then, it was easier, I think, but I'm not sure. I managed okay. I just went ahead not thinking about it; really, you just do it and then three or four years later, you start rebuilding. For the future – retirement, poverty level, question marks; still some hope.

Narrative 26 (Man, Edmonton)

Going back to the past for minimum wage, I guess, out of high school. I was living by myself; well I guess with a roommate. Rent was cheap and I made lots of money. I worked just at minimum wage but I still made lots of money, right? Yes. I used to work at a gas station. Now, I guess I've finally got a trade so sure things are looking up now, I guess, or have looked up to where it's kind of levelled off now. I just got the right job and got lucky. Things just happened and all of a sudden . . . I never had a problem with credit until now but it's not because of overdoing it. I didn't get any credit. I never had a credit card. I never got anything. Everything I bought, I paid cash for. Blew all my money and went broke every paycheque anyway. Now I can't even get a credit card because I have got no credit, so they won't give me a credit card.

Narrative 27 (Woman, Vancouver)

I just lost a job in June and it was very difficult because, my spouse, he's a gambler and I have a little baby as well. He's actually three months old now. And I knew that I was going to lose my job but not too long ago, like, they just informed me in December that I was going to lose my job in June, and when I heard that I was expecting. I had the baby in September and I heard it in December and I was on Mat leave. And I wasn't even given an option that I could be on EI or Maternity, so at that moment I heard that in December I was really, I didn't know what to do, whether I should go back to work or if I should stay with the little one. And I was in the situation where I kept thinking, "What should I do – go back to work and work another three months and leave my child at daycares which is going to cost me money or just wait for the time to come?" Today, I have a job but it's not stable and I try and talk to my husband but it's not working out as much. He's still doing what he wants to do and I guess the addiction he has. So I don't know why I'm totally stressed out. I'm not sure what I'm supposed to do.

Narrative 28 (Woman, Vancouver)

I've been in school since September. I've always been really financially independent, and my husband and I have been together for about six years. But, again, when we got together, when we started living together, I said, "We're going to keep our finances separate. We'll have a joint account" because he's really irresponsible with money. He makes quite a bit of money but that said, we both put 50 percent, we go 50/50 on financing into the account. So when I decided to go back to school, I said, "I'm going back to school. It's my decision. I'm going to pay for it and I'll figure out how to do that," which is fine but I still pay 50 percent of the rent and 50 percent of the child care and 50 percent of the groceries and 50 percent of everything in addition to all my tuition and all the extra expenses I've taken on now. Because I'm at school five days a week, I only work two but I only work weekends. It actually makes me feel really resentful and angry. When I see how he spends money and the things he gets on, "You know I've got to pay back some money." Well, you know what? Save some money. You know, that's what the rest of us do who actually think about these things in advance. That's what adults do. Currently, it's pretty much the same thing. In terms of finances, we're having problems with having our sort of values and goals match in terms of where we are. We don't talk about it very much because it's a really touchy subject and that's part of the problem too. I think that's why there's a bit more resentment on my part because when it does come up, you know, even in a very innocent way, it's something that's not received very well. So it's just a lot of stress. I find that the stress that all the financial stuff brings to the relationship and it brings into our home, I'm still annoyed but I know that my situation isn't as serious as other people's – but I feel quite optimistic about the future. Once I finish school depending on what happens with our relationship, I know that I can sort of recoup my losses and pay off my debt and start earning decent money and, some of the things that were important and be able to put some money away for my daughter and eventually buy a house for us and I'm just going to get some good grounding and then I think within the next five to 10 years, that's something that's very possible.

Narrative 29 (Woman, Vancouver)

My past relationship led to a lot of debt. I was doing pretty well financially until then and for three years accumulated tons of debt. My partner, ex-partner – it's a she. She handled a lot of, she was a security manager and chemical engineer. She wanted to pursue her project, which caused a lot of debt. I supported us financially, thinking that this company's going to make a lot of money so the credit all went into my name. I had really big credit. Racked it up to $30,000. Finally, after three years, she went off and moved to Calgary as a chemical engineer. After two months separated, I'm stuck with the debt. It's in my name. Right now, I'm just making interest payments. You wake up and you have nightmares in the night, just with the whole of it all and how the situation, how it was before. Paying off a debt that just reminds me of a really bad relationship. [Now] I'm doing okay actually. My past. Couldn't let go. Waking up with nightmares. Decided to do something about it. I started a Supreme Court action because she left me and I'm trying to recoup some of what I lost. So I hired a lawyer last week. I'm in a new relationship with someone who is completely different. My ex-partner was an over-spender, and the concept about saving or paying down the debt. We have the same value system now. You just realize how important it is to be on the same page with money. As soon as this court thing is over, hopefully I will get some money. If not, my plan is to work on paying off the debt as well as saving, investing money. I'm sort of working on that right now. I've got a plan. I have some cash flow. I'm going to take my investment and get some real estate.

Narrative 30 (Woman, Vancouver)

I always wanted to be self-employed and I always pretty much have been. And I was a single parent. I put myself through university. I have a Master's degree. Oh yeah, now I have grandchildren. My kids' not around any more. But in my past, it was a struggle. I went to university while raising them alone. And I've been running businesses for a long time, and for many years I've been working. I was really good at recording and I would go into meetings, taking shorthand down, and then I always would have a business on the side. And everything was going really well. When I was 15. It was just something people don't do anymore. So I was hired for all the union jobs. I was with the government and everything all the time. And it worked out very well. I got well-paid and, in the meantime, I was running the business and then in about 2000 I had an English language school which are very popular here in Vancouver, and we were doing really well. And I've always been really good with money and I don't have any problems and then 911 happened and I didn't understand at the time the ripple effect. But what happened was nobody came to Vancouver anymore in Canada really even in the United States, and so what happened was I was locked into a lease, $8,000 a month for the school and I had all these teachers that wanted to be paid, and I went out and in the space of I think three days got every credit card I could get my hands on and asked them all to be increased. And what happened was I just kept paying everything and there was a little bit of money coming in but not a lot, and eventually in July – because 911 was in September – and by July, it was just never going to work. And so, basically, I had to take most of my students, put them in another school, and I just felt like a complete failure. We had to do the midnight run, where you leave in the middle of the night. That's all we could do with the landlord, who wouldn't let us out of the lease. And so all of my debt was actually, I got it all in the same period of time. And so, basically, what I'm doing as of the past and more into the future maybe, but I'm waiting for 08 when it's erased. My problem was because I had such a good credit rating is that I owe almost $100,000 in credit card debt, in bank loans. I went there because I had such good credit rating and I asked them if they could kick it up and they all did. And I really believed I could pay this back. But it was just that after 911 and then there was SARS and it just kept, and we just couldn't keep running at a loss. I restructured my business. I do a lot more on-line, which means I don't have to be there as much. It's great. I phoned Consumer and Corporate Affairs to try to fix the credit problem. It turns out that it wouldn't make any difference. That if we've already paid them, they would add another three years before my credit rating would be at zero. So by doing nothing, I'm better off. And so that's the path I'm on today just waiting until all my credit will be erased – like the problems. I am in a position where I could pay but it won't help because basically I only have one year if I wait. If I make a payment, they automatically add three years. So I'm at the point now where I'm very clear. I just have to wait it out. I wanted to pay it. But I only wanted to pay it on the condition that my credit would be fixed up. But if you so much as make a single payment, okay, then they just add three more years. And if you've already waited four and there's only two left, you actually pay the money and you add another year. And I've talked to them at Consumer and Corporate Affairs and she said, "I'm not supposed to agree with you, but you're right. Don't pay." Actually, I've got a couple of businesses that are doing quite well right now. So the only problem is I have a bad credit rating. So I can't do anything. But my businesses make good money. But my credit rating is really bad. I've been creating three on-line businesses and I'm going to L.A. on December 1st and my plan is just to work in L.A. on-line and just to enjoy L.A. I've got a car. I've got my cell phone. I've got my laptop and I can run businesses. And so, basically, what I want to do is take money, put it in property and actually have a cash flow. I will never retire because I love working and so I'll just always be somewhere on the beach with my computer. That's my future and it's already happening.

Narrative 31 (Woman, Vancouver)

My past I put as, oh years ago when I was 18, when I first left home. I moved to Calgary and had a great job, had a great boyfriend, making great money. We started a company and we were doing fabulous. I had, like, the most optimistic financial outcome possible. I spent four years with him and it just kept getting better and better and better, and tons of money and stuff, but for some reason, I didn't like him. So I left him, moved out and I met some other guy who was just the complete opposite and everything just went completely downhill. You see it happening but you think, "I'm not going to go out and find someone," but it just got out of control and I ended up just abandoning. I spent two and a half years with him there and I just abandoned my whole life. I had absolutely nothing. Like the landlord was going to come and send the sheriff to my apartment and I was just, "How could this happen?" And so I quit my job and called my mom and told her to buy me a plane ticket and I came back here. And I just walked away from all of it. So I abandoned my car, I abandoned all my debt and I've just been in hiding ever since. I'm just waiting for it before it goes away. But I'm constantly anticipating that they're going to find me. The creditors. They don't know where I am. They know I'm working but they send mail to my parents' house all the time. But they don't know where because it's out of province debt and so they sent something. "We know you're employed" because my benefits company has to say that they're providing benefits to me but they can't say because of the Privacy Act, they can't say from where or from what company. So they know I'm working. It's just a matter of time before they find me. And then when they find me, if they were to garnish my wages, I'd totally be up the creek. I'd have to declare bankruptcy. If it's not enough money to declare bankruptcy over then that would just be disaster. But I'm already late because I'm still with loser boyfriend. Now, I'm in this payday loan thing where I just go back and forth. Like it's just a flip flop of "Can we pay the bills?" Okay, well, no we can't so. But I make good money again so it's looking better and he kind of flip flops as to whether he actually gets it and gets the whole responsibility of being an adult, but I just seem to be constantly fighting. It all depends. It really depends on whether I stay with him or not. But I want kids. I want a home. There's a lot that I could do with the money that I make now, providing that I can get it together, right? I make good money. There's no reason for me to be in the position that I'm in right now. So it's your responsibility, right? I'm going to have to take care of my parents. What kind of life am I possibly going to be able to [have] still, I'm only 27? What kind of life am I looking at it if I don't get my shit together, right? Like that's a lot of stress for a lot of years to come. And then if I have kids. I would never want to have kids in this kind of situation because my parents were poor growing up and irresponsible and that's probably, I'm not going to say it's their fault, but a lot of it starts from that.

Narrative 32 (Man, Vancouver)

I've been out here for 14 years. I moved out here from Edmonton. I finished university and then I found a job out here, so I relocated out here and I've been here ever since. I guess I was in university, so right there. Back then, the economy, like working, jobs and that, it wasn't like today's job markets. So you really had to work a lot to save. You had to borrow, too. The economies in Alberta and B.C. were totally different. At that time, it was slower in Alberta, if you can imagine, than here. So I sort of timed it, I got lucky, where the economy was picking up here. I was looking at the interest I was being charged on the loans and that was a lot, too. And you're always trying to pay the interest and not really getting anything paid on the principal. Because, moving to Vancouver, I found it a higher standard of living and more expensive city to live in. So I'm bringing that debt with me and then trying to learn. I was out of university and nobody taught me money and how it can work for me. So my management of money wasn't the best. I had to learn on the fly. I was young, I was enjoying Vancouver and what the city had to offer.

Narrative 33 (Man, Vancouver)

For the past, well, I bought my house before the kids. My son is nine and my daughter is going to be four. I moved here in '94 from Montreal. I stayed there for four years and before that I was in Oslo, in Norway for a year, and I'm originally from Poland. But, I was working a lot before the kids, staying with my dad still. He had some extra room, so no rent, but basically my money went to partying. I never saved anything, just partied, didn't establish any credit. I didn't know how to manage money at all. I could get $1,000 spent in two days, and I mean on nothing useful. I'd have nothing to show for it. And I went on like that for a few years instead of going back to school while I still had the chance. Today, I'm working even more. I get up early in the morning, sometimes 3:00, sometimes 2:30, and I work on my own stuff, my own little job, a little thing I'm trying to do. Then I go to real work and come home, kids. I'm supporting four people on one income, so it's pretty much cheque to cheque. I don't have much savings. And any time I do end up getting a little bit, something comes up. I still don't have a good line of credit. I've taken loans here and there but never really used credit cards. My dad was always against it, so he kind of put it into me, don't use credit cards, because he got into major debt. [I had one], it was a drag to pay off. It wasn't a drag to spend. You spend it quickly and it took me a long time to pay it back. And we're renting, so right now I have to work hard. [My business] is an independent hip hop label. So we're working on this project and basically just working hard to get somebody more major to take us on. The project is awesome and a lot of people seem to think so and we've sold quite a bit on our own, but yet it's still not enough to change my lifestyle. And I know I could do a lot with it but I can't afford thousands of dollars for advertising. Basically, it doesn't matter what you have, it's how you get it out there and how much money you can spend on getting it out there. My music man is in Tennessee, so we do everything on Skype, sometimes all night. I spend my spare money on equipment and software and producing stuff, and the wife is not too happy. Some of them are pretty costly.

Narrative 34 (Man, Vancouver)

The past, there is school, BCIT. I came here in 1973 from Africa, Tanzania. So there is school. There is always [student loan] debt, but my parents did help me out there. They got me out of that debt, which was great. But I had credit cards and I had car loans as well. But it wasn't much. It was a $10,000 card and stuff like that. I was always good with money. I always got into debt but I never ruined my credit. I always maintained that. Just because I know how important credit is. From my parents. They're very frugal people and they told me straight, growing up, your credit is basically your worth. The present starts after school and then making money. Now it's just about making money. Right now, I'm paying off a mortgage, it's a 25-year mortgage, a fixed. The bank, Royal Bank, just because I got all my credit from them as well. And then I went with my girlfriend and purchased … Life is around the mortgage, yeah. Car payments as well, but I'm playing the market a lot now and I've made a lot of money in the stock market. Yeah. That's how I will fix it all. Well, we don't spend as much anymore but we still enjoy ourselves. But things aren't as extravagant as they were before. They are getting better.

Narrative 35 (Man, Vancouver)

We don't have to go back that far to when I graduated from university and I worked my way through. And I saved money and got a job, met my wife, got married and started a family, and had kids coming along – we're up to four – so I was more or less happy-go-lucky. I didn't really have any worries about money. I never worried about money. She was a business lady from Hong Kong. Before she came here, she had some money and I had some money, so we had money. But I never really thought about it. I'm a bit of an idealist – I'm more practical now – so I never really had worries. So I gave everything to my wife, my cheque, and then I had a second job taking care of four students, so it was a fair amount of money. That was quite a bit of money and I just gave it to her. I never really thought about it. I never really bought myself anything, I just was happy with the kids and that. I enjoy myself today by having peace of mind. Because I'm divorcing and it's like Danny DeVito in War of the Roses, literally. I have a mortgage and the wife and the kids are in there, and I rent a friend's basement and I've got a very reasonable rate but still, it's another amount to pay on top of that. They were with me for a while before she smashed the lights out. They're with her in the house now, so I'm handling it. I'm not depressed anymore. But I have the rent there and that there, and it's just counterbalancing the present with the future hopes and trying to balance the bills She used to do all that before because she was an entrepreneur-type lady, like a business lady. So now I've taken that, but I'm very busy at work, a lot of hours. So I come home and I tend to get it done but there's debts now, heavy debts. I had to go to the doctor and I got a mild sleeping pill. It's a really cool pill. It doesn't make you tired in the morning. I've gone past that now. I know it will work out. The law will have to settle the estate and get a fair split so I can have the kids at my place, joint custody on weekends. She can't deny that to me. When that house gets sold, then I can buy something smaller and more practical, or put a down payment on it, get another mortgage, and I'll pay the debts off.

Narrative 36 (Man, Vancouver)

School, no respect for money in the past, just regular student jobs and having fun. I used to be worried all the time. Just because, when you get out of school and then after six months, you start seeing what student loans take from you and how little a dent it makes and the interest accrued. I see the end of tunnel and I realize how I can properly spend and that's not spend so much and enjoy myself so much. I realize, with a dual income, we can probably bite at things and probably spend and manage. She does. She was also born in to money. Not born into money, but her parents worked really hard and gave her a better life. So she has a good education and a good job with it, too. So, I have fun now. I used to worry about it after school but now I realize, just don't worry about it, it's all a state of mind. Money is a state of mind, how you treat it. We're looking for a place now. It's not really dreaming, it's almost into fruition. She wants to move downtown. I don't want to move downtown. It's too expensive, blah, blah, blah, so yeah, we're having fun looking. She has bigger eyes than I do, really. I just would like a place and just paying for something instead of renting.

Narrative 37 (Man, Vancouver)

Today, it could still be in the past, my today, because everything has just been downhill for the last five years. My wife has been sick. It doesn't really help. She's on disability now and she's legally blind, and I lost my job about a month ago so I just got a new one, so I'm basically starting from the bottom up again. I've got two kids, a 10-year-old and a seven-year-old. If it wasn't for her parents and my parents helping us out, I don't think we'd be around right now. I'd probably be out of Vancouver. When I lost my job I said, if I don't find anything in Vancouver, I'm going to have to pack my bags and go somewhere else. My father did that when he left Europe. When he came to Canada, he came with a suitcase and some money and that's it. So far, everything else is doing good, so hopefully it will get better, and that's it. The future, I hope with my wife's condition … It's not going to get really better but right now, it's all stable. She's a fighter, she wants to see her kids get married. And who knows, with this new company I'm working for, the future there is … It's a great company to work for and go on from there. I'm renting right now. I can't afford to buy a place. I've got a company car but I have to always bring it back. Then I have to bring my vehicle back. But hopefully, in a few more months, maybe a year down the road … and if they want me to stay on, or else I'm going to have to start moving on. I'll take a couple of courses. But so far, I'm pretty happy. I do mechanics on the side. It's just that I've never put my head down to it. I want to upgrade my licence. I want to get my Class 1, so in case something, I'll just get on the road and start driving again. Right now, that's what I'm doing now, but I'm doing it local. So, hopefully, if everything goes right with this company, I can stay with this company as long as possible and move up into sales. No, I've never owned a house, I've always rented. I would like a lot and I get it day-by-day. I told my wife, you don't know what's going to happen tomorrow. I can be a millionaire tomorrow or I can be bankrupt. So far, since my wife's condition, we live day-by-day. We don't really think of what's going to happen tomorrow, and so far we've been doing okay. You have your worries and your embarrassments, this and that. You want to take your kids out or you want to do something, but hey, when we have the money, then we do it.

Background and Research Methods

Background

Sub-prime lending is a small, but growing, market in Canada. While sub-prime loans imply higher risk for lenders, major banks are publicly indicating their interest in this market. More importantly, as sub-prime lending has had a fast and early growth in the United States, Canada is not only a target for American sub-prime lending firms but some of the major American players already operate in Canada. Public Interest Advocacy Centre (PICA) is not aware of any independent, consumer-centered study, or review on this market at the current time, perhaps due to the fact that, although a widely identified opportunity issue by the financial sector, it is an emerging issue for consumers. Therefore, PICA has undertaken a study of this issue from a consumer perspective to explore the implications to Canadians who use, or plan to use, these financial products.

The research is focused on the financial sub-prime lending market in Canada. This is a sector of the supply-side consumer lending industry that targets consumers with damaged, weak or less than prime credit histories, that uses such past performance by debtors as an indication of potential risks involved in a new lending transaction with such consumers. Sub-prime borrowers generally pay higher than the prime rate of interest for a variety of products, from mortgages, car loans, lines of credit, payday loans or cash advances.

This research is intended investigate the nature of the market for sub-prime lending, by describing who are main participants in this market, the size of the market, the range of products that constitute the sub-prime lending market in Canada – and terms and conditions of these loans – and by identifying the market issues are associated with success and failures in the market from the standpoint of both lenders and borrowers, as well as other stakeholders, such as governments. The study will provide a picture of how this market works, with particular emphasis on flagging symptoms or actual instances of market failure that may have consequences for stakeholders. However, the study will not attempt to evolve a comprehensive framework of policy solutions to address the identified risks at this time.

The methodology involves primary and secondary research. The primary research consists of determining who is involved in the sub-prime lending market in Canada and conducting interviews with key stakeholders in the financial sector to determine the characteristics of the market. This is supplemented by substantial secondary research that looks at this emerging market, its operation and the differentiation between sub-prime lending versus prime lending markets.

This information will be of benefit to both provincial and federal levels of government involved in financial services, customs and consumer protection, the financial services sector itself, credit counselling agencies who assist individuals dealing with debt issues, consumer groups and anti-poverty organizations. The research will be distributed widely through PIAC's website and various national media outlets with a specific interest in consumers and financial services, to public interest and consumer groups, and submitted to federal and provincial government policy-makers, interested elected officials and industry stakeholder groups.

As part of this research, PIAC engaged Environics Research Group to conduct qualitative research consisting of facilitated focus group interaction with Canadian consumers of sub-prime lending services.

Methodology

The qualitative component of the research consisted of seven focus discussion groups conducted in Toronto (3 groups), Edmonton (2 groups) and Vancouver (2 groups) with consumers of sub-prime lending services.

A qualitative group method called the Intensive/Interaction Workshop Group Method was employed in these discussion groups. This method is similar in many ways to the traditional focus group and is a qualitative group approach. The key difference between the two approaches is that, with the use of the workshop approach, participants who may not be skilled at sharing their thoughts, beliefs and values in a public setting are helped by the research process to do so in a comfortable way. This approach improves the depth of the research findings and allows each participant to share to the best of his/her ability.

In the workshop approach, participants are periodically given paired or individual tasks on which they work for a short time. After the pairs have completed their task, they then return to the discussion table to share their ideas, including the similarities and differences of their thought processes. This approach allows participants to quickly come to grips with various aspects of their own ideas and issues related to the research topics, which in turn makes it easier for them to discuss and present views and conclusions within the sessions. (Please see Appendix for further detail.)

Schedule of groups		
Date	**Location**	**Segment**
November 21, 12:00pm	Toronto	Single-income households
November 21, 5:30pm	Toronto	Women
November 21, 8:00pm	Toronto	Men
November 27, 5:30pm	Edmonton	Women
November 27, 8:00pm	Edmonton	Men
November 29, 5:30pm	Vancouver	Women
November 29, 8:00pm	Vancouver	Men

Recruitment criteria

- Participants in the single-income households are all employed full-time or part-time, and are the only income earner in the household. Four men and four women were recruited for this group.
- All participants in the remaining groups report using a sub-prime lender for their borrowing and cheque-cashing needs and indicated that they had borrowed money in the past six months from a sub-prime lender.
- At least two recruits in each group currently hold a mortgage.
- No participants work in, or live in households where another person works in marketing research, marketing, public relations, advertising, the media, or the banking and financial industries.

Eight participants were recruited for each group with an expectation that a maximum of six would participate. All groups were videotaped and recorded. Each session lasted approximately two hours.
An incentive of $60.00 was provided to all those recruited on the date of the focus groups.

Both groups were moderated by Sally Preiner, Senior Consultant, Qualitative Innovation, Environics Research Group. All qualitative research work was conducted in accordance with the professional standards established by the Marketing Research and Intelligence Association (MRIA) (previously the Professional Market Research Society and the Canadian Association of Market Research Organizations), as well as applicable federal privacy legislation (PIPEDA).

Statement of limitations

The objectives of this research initiative are exploratory and therefore best addressed qualitatively. Qualitative research provides insight into the range of opinions held within a population, rather than the weights of the opinions held, as would be measured in a quantitative study. The results of this type of research should be viewed as indicative rather than projectable. The intent of this research is to provide insights into the range of issues and opinions, and not the weight of those issues.