

## WHAT ARE PAYDAY LOANS?

### PAYDAY LOANS ARE TYPICALLY:

- Short term loans (2 weeks or less)
- Determined based on your net pay until your next payday
- Have very high interest rates, fees, and charges



## CONSIDER CHEAPER ALTERNATIVES TO PAYDAY LOANS

### PAYDAY LOANS SHOULD BE A LAST RESORT

Try Approaching:	Try Asking For:
Family / Friends	Personal loan
Bank or credit union	Line of credit
	Overdraft protection
Credit card company	Cash advance
Your billing companies	Extension on your bill payment due dates
Your employer	Pay advance
	Cash instead of vacation
Financial Advisor	Options they may have to address your specific financial situation
Accredited Credit Counselor	
Licensed Insolvency Trustee	

## IF YOU MUST TAKE OUT A PAYDAY LOAN

### MAKE SURE YOU:

- Borrow from a licensed lender
- Borrow the least amount possible
- Know the total cost of your loan and ask questions to clarify any confusion
- Read the loan agreement before signing
- Keep a copy of your loan agreement



## KNOWLEDGE IS POWER. KNOW YOUR RIGHTS.

### WHAT IS THE LAW IN ONTARIO? THE PAYDAY LOANS ACT, 2018



### YOUR PROTECTIONS:

	You can't be charged more than \$15 for every \$100 you borrow
	You can't be sold or offered any products or services in connection with a payday loan
	You have 2 business days to cancel a payday loan agreement and give back the loan without paying a penalty or giving a reason
	You can't get a second payday loan from the same lender until you repay the first loan (i.e. NO rollover loans)

### PAYDAY LENDERS MUST:

✓ Have a provincial license	
✓ NOT lend more than 50% of your net income per loan	
✓ Never ask for or accept loan repayment by automatically deducting from your paycheck (i.e. NO assignment of wages)	
✓ State on the first page of the agreement: <ul style="list-style-type: none"> <li>✓ The amount borrowed</li> <li>✓ The length of the loan</li> <li>✓ The cost to borrow</li> </ul>	
✓ Display a poster and provide a flyer explaining the cost of a loan over time	
✓ Display the loan cost as an Annual Percentage Rate (APR) <i>*NOTE: see reverse to learn more</i>	

*NOTE: this pamphlet contains general financial information and is NOT intended as legal advice.*

## PAYDAY LOANS ARE HARD TO REPAY. HERE'S WHY.

### THE DURATION OF THE LOAN AFFECTS THE COST



### Consider this example:

Suppose you need \$100 for a medical emergency. Lender A says it will cost \$15 for a 2-week loan. Lender B says it will cost \$21 for a 1-month loan. Which \$100 loan is cheaper?

<b>Lender A: \$15 per \$100 for 2 weeks = 391% APR*</b>		\$15	\$15
		2-week period	2-week period
<b>Lender B: \$21 per \$100 for 1 month = 252% APR*</b>		\$21	
		1-month period (4 weeks)	

*\*NOTE: see reverse for more about APR.*

Lender B is *cheaper* because the loan term is *longer*. The shorter the term, the more expensive the loan will be.



### THE TIME CONSTRAINTS ARE UNREALISTIC

Illusion	Reality
Payday lenders want you to think you can reasonably repay your loan within 2 weeks	Payday loans are designed to distort your perception of time and to profit from late payments & repeat borrowing
<b>How Payday Lenders Trick You &amp; Make Money</b>	
1.	The standard time frame to calculate interest for <b>non-payday loans</b> is <b>1 year</b> .
2.	In contrast: the time frame to calculate interest for <b>payday loans</b> is <b>2 weeks</b> . This means you have to come up with the money to repay payday loans <b>26x faster</b> than you would for non-payday loans (1 year = 52 weeks = 26 two-week time periods).
3.	Payday lenders want you to <b>incorrectly assume</b> that payday loans are calculated and repaid over 1 year (since 1 year is the standard time frame non-payday lenders use) rather than <b>2 weeks</b> .
4.	Payday lenders know <b>2 weeks is too short</b> : they expect to <b>profit from late payments</b> (via interest on the loan) <b>and repeat borrowing. This is how they run their business and trap you in debt.</b> For you: quick money = quick debt. For them: late payments and repeat loans = more profits.

## HOW TO CALCULATE THE INTEREST RATE FOR A PAYDAY LOAN



**INTEREST** is the cost of your loan. Interest includes all fees and charges EXCEPT NSF or insurance charges.

### “ANNUAL PERCENTAGE RATE” (APR)

is the interest rate you pay on a loan per year. Knowing how to calculate APR will let you compare interest rates for different types of loans, so you can pick the cheapest option available to you.

#### How to calculate APR:

$$\frac{\$ \text{ charge (interest)}}{\$ \text{ loan amount (principal)}} \times \frac{365 \text{ days in a year}}{\# \text{ days your loan is for}} \times \frac{100 \text{ (to turn the value into a \%)}}{=} = \text{APR (\%)}$$

#### A simpler *but less accurate* calculation will give you an *approximate* APR:

$$\frac{\$ \text{ cost per } \$100 \text{ borrowed}}{\$100} \times \frac{\text{maximum \# of loans you could fit in a month}}{12 \text{ months in a year}} \approx \text{APR (\%)}$$

#### Consider this example:

Suppose you need \$300 to repair your car. The payday lender says a 2-week loan will cost \$15 for every \$100 you borrow. What is the interest rate?



#### Using the proper APR calculation:

$$\frac{\$45 \text{ charge (\$15 per } \$100 \text{ borrowed)}}{\$300 \text{ loan}} \times \frac{365 \text{ days in a year}}{14 \text{ day loan}} \times \frac{100 \text{ (to turn the value into a \%)}}{=} = 391\% \text{ APR}$$

#### Using the *approximate* calculation:

$$\frac{\$15 \text{ (cost per } \$100 \text{ borrowed)}}{\$100} \times \frac{2 \text{ (maximum \# of 2-week loans you could fit in a month)}}{12 \text{ months in a year}} \approx 360\% \text{ APR}$$

*NOTE: the approximate calculation is intended to give you a quicker way to determine the APR and is NOT intended to replace the proper calculation.*

## RESOURCES TO HELP YOU

### CONTACT YOUR CONSUMER AFFAIRS OFFICE:

**Alberta:** 1-877-427-4088  
[www.servicealberta.ca/payday-loans.cfm](http://www.servicealberta.ca/payday-loans.cfm)

**British Columbia:** 1-888-564-9963  
[www.consumerprotectionbc.ca](http://www.consumerprotectionbc.ca)

**Manitoba:** 1-800-782-0067  
<http://www.gov.mb.ca/consumerinfo/initiatives/money-matters/payday-loan-regulations.html>

**New Brunswick:** 1-866-933-2222  
<http://fcnb.ca/what-is-a-payday-loan.html>

**Newfoundland and Labrador:** 1-877-968-2600  
[https://www.servicenl.gov.nl.ca/consumer/consumer\\_affairs/index.html](https://www.servicenl.gov.nl.ca/consumer/consumer_affairs/index.html)

**Northwest Territories:** 867-767-9161 ext 21022  
[www.maca.gov.nt.ca/en/services/consumer-affairs](http://www.maca.gov.nt.ca/en/services/consumer-affairs)

**Nova Scotia:** 1-800-670-4357  
[www.novascotia.ca/sns/access/individuals/consumer-awareness/consumer-loans-credit/payday-loans.asp](http://www.novascotia.ca/sns/access/individuals/consumer-awareness/consumer-loans-credit/payday-loans.asp)

**Nunavut:** 1-866-223-8139  
[www.gov.nu.ca/community-and-government-services/information/consumer-affairs](http://www.gov.nu.ca/community-and-government-services/information/consumer-affairs)

**Ontario:** 1-800-889-9768  
[www.sse.gov.on.ca/mcs/en/](http://www.sse.gov.on.ca/mcs/en/)

**Prince Edward Island:** 902-368-4580  
[www.princeedwardisland.ca/en/information/justice-and-public-safety/payday-loans-consumer-rights-and-responsibilities](http://www.princeedwardisland.ca/en/information/justice-and-public-safety/payday-loans-consumer-rights-and-responsibilities)

**Quebec:** 1-888-672-2556  
[www.opc.gouv.qc.ca/en/consumer/](http://www.opc.gouv.qc.ca/en/consumer/)

**Saskatchewan:** 306-787-6700  
<http://fcaa.gov.sk.ca/consumers-investors-pension-plan-members/consumers/payday-loan-borrowers>

**Yukon:** 867-667-5111  
[www.community.gov.yk.ca/consumer/cp.html](http://www.community.gov.yk.ca/consumer/cp.html)

# PIAC

PUBLIC INTEREST ADVOCACY CENTRE  
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

BEFORE YOU GET  
A PAYDAY LOAN  
WHAT YOU  
NEED TO KNOW