



Financial Consumer  
Agency of Canada

Agence de la consommation  
en matière financière du Canada

MORTGAGES AND LOANS

# PAYDAY LOANS: AN EXPENSIVE WAY TO BORROW



Financial Consumer  
Agency of Canada

IT PAYS TO KNOW.

Canada 

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## About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

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# WHAT IS A PAYDAY LOAN?

A payday loan (sometimes called a payday advance) is a short-term loan that you promise to pay back from your next paycheck, usually within 14 days. Generally, you are able to borrow between 30 and 50 percent of your take-home pay. **Payday loans are very expensive compared to other ways of borrowing money.**

# HOW DO PAYDAY LOANS WORK?

Before giving you a payday loan, a lender usually wants proof that you have a regular income, a bank account and a permanent address.

You will need to sign a loan agreement that shows how much your loan will cost (including interest and fees), and the date that the loan is due. **Read this document carefully before signing it.**

When you apply for a payday loan, many lenders may require you to:

- provide a post-dated cheque for the total loan amount including fees, or
- sign a form that allows the lender to take the money directly from your bank account when the loan comes due. This is called a pre-authorized debit.

Other lenders may require you to return to their location to repay the loan directly.

# HOW MUCH DO PAYDAY LOANS COST COMPARED TO OTHER FORMS OF CREDIT?

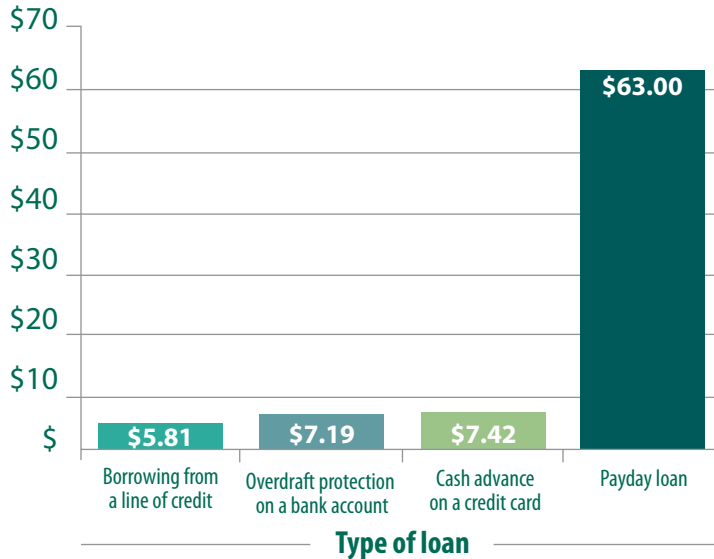
Payday loans are much more expensive than other forms of credit.

For example, borrowing \$100 for two weeks can cost anywhere from \$17 (in Manitoba) to \$25 (in Nova Scotia) as of January 2012. **A \$17 fee on a two-week, \$100 loan is equivalent to paying 442% annually, and a \$25 fee is equivalent to paying 650% annually.** In provinces and territories that don't regulate how much payday lenders can charge, the cost can be even higher.

Payday lenders may ask you to take your loan in the form of a prepaid card. This can make the loan even more expensive because you may be charged additional fees to activate and use the card.

## Payday loan cost vs. other ways of borrowing

Based on a \$300 loan taken for 14 days



The costs shown in this example are for illustration purposes only. Calculations of costs are based on the following assumptions:

- a payday loan costs \$21 per \$100
- a line of credit includes a \$5 administration fee plus 7% annual interest on the borrowed amount
- overdraft protection includes a \$5 fee plus 19% annual interest on the borrowed amount
- a cash advance on a credit card includes a \$5 fee plus 21% annual interest on the borrowed amount.

### Some alternatives to payday loans

**Line of credit** — This is a loan offered by a financial institution that allows you to withdraw cash whenever you want, up to a certain credit limit. You are charged interest on the amount until you pay it back in full.

**Overdraft protection** — This allows you to withdraw money from your bank account even if your balance is zero. You pay interest on the money you've taken out from the day you take it until you pay it back in full.

**Cash advance on a credit card** — When you get cash from an automated bank machine (ABM) or bank using your credit card, this is a cash advance. There is no interest-free period on this type of loan, but the rates are still much lower than payday loans.

Contact your financial institution before taking out a payday loan to see if you are eligible for any of these other forms of credit.

# WHAT HAPPENS IF I CAN'T PAY A PAYDAY LOAN BACK ON TIME?

If you are unable to pay your loan back on time, you may be charged additional fees:

- A payday lender may charge you a **penalty** if your cheque or pre-authorized debit is returned to them (for example, due to non-sufficient funds). Some provinces have set limits on how high this fee can be, ranging from \$20 to \$50. In provinces and territories where this fee is not regulated, it may be much higher.
- Your financial institution may charge you **an additional fee** if there wasn't enough money in your account when the payday lender tried to cash your cheque or make a withdrawal from your account.
- **Interest** will continue to accumulate on the total amount you owe.

Payday loans are different from other forms of credit because paying them back on time will not improve your credit score.

## **These extra charges will make your loan even more difficult to pay off.**

- If you don't pay the loan back on time, the payday lender will try to collect the balance. The lender might call your friends, relatives or employer to find out how to get in touch with you.
- If the payday lender is unsuccessful in collecting the loan, it will probably pass the loan on to a collection agency. If you are unable to pay when the collection agency tries to collect the loan, **your credit score could fall**. A damaged credit score can make it even harder to get credit in the future.
- A collection agency or the lender can sue you for the debt. If it is successful in court, it **can seize your property or take money automatically from your paycheque**. Taking your money automatically from your paycheque is called wage garnishment.

# THINGS TO CONSIDER BEFORE APPLYING FOR A PAYDAY LOAN

- Do you really need this money? Is there any way that you can manage until your next payday and avoid taking out this loan? For example, could you call your creditor and ask for additional time to pay your bill, or put off some purchases until after you get paid?
- Have you considered **cheaper alternatives** to the payday loan, such as those listed on page 3, borrowing money from friends, or getting a pay advance from your employer?
- Do you understand the total cost of the loan, including all interest and fees, and how much you will be charged if you don't pay it back on time? **Read the loan agreement carefully before signing it.** Keep a copy for yourself so that you have something to refer to if there is any problem with the loan.
- Are you sure that you will be able to pay the loan back on time from your next paycheque? **If not, taking a payday loan will make your financial situation worse.** Don't forget that you will still need to pay all of your normal expenses from your next paycheque, and you'll have less money once you pay the fees for the payday loan.
- Are you regularly having trouble making ends meet? **If so, a payday loan will not solve your problems.** Consider booking an appointment with a credit counselling organization. Credit counsellors can help you deal with your debt and talk to your creditors for you.

**CONSIDER THIS EXAMPLE:**

**YOU NEED  
\$300  
FOR CAR REPAIRS**



You bring your photo ID, bank account information and proof of your income to a payday lender and get a **\$300 LOAN FOR TWO WEEKS**. IT COSTS YOU **\$63** IN INTEREST AND CHARGES.

**YOU NOW OWE \$363**

You write a post-dated cheque to be cashable right after your next payday for this amount, or you sign a form that says the lender can automatically withdraw the money from your account when the loan is due.

**EXAMPLE:**

This example is for illustration purposes only. Some provinces regulate the maximum borrowing cost for payday loans, the maximum penalty for a loan default, the maximum penalty for a payment returned (for example, due to non-sufficient funds), and the maximum interest that can be charged on overdue balances. See the chart on page 7 for more information.

If your cheque bounces when your loan is due, you're charged a **\$40 PENALTY**

**YOU NOW OWE \$403**

Interest accumulates on all the money you owe at **60% annually** until you're able to pay it back.

**SIX MONTHS LATER**, if you still haven't paid the loan, **you will owe a total of \$523.90**

As the amount you owe grows, it becomes more difficult to pay it off.

**WHAT HAPPENS NOW?**

**THE LENDER CAN SELL YOUR LOAN TO A COLLECTION AGENCY.**  
This can hurt your credit score.

**THE LENDER OR COLLECTION AGENCY CAN SUE YOU FOR THE MONEY YOU OWE.**  
If it is successful in court, it can automatically take a percentage of your paycheque ("garnish" your wages) or seize your property.

If you are able to pay back the full amount when the loan comes due, **YOU'VE PAID A TOTAL OF \$63 FOR YOUR LOAN.**

This is equivalent to **21% IN INTEREST** and **FEES OVER TWO WEEKS**, or **546% ON A YEARLY BASIS.**



# KNOW YOUR RIGHTS IF YOU APPLY FOR A PAYDAY LOAN

If you decide to get a payday loan, many provinces have regulations that give you certain rights. There are differences across the country, but most provinces have established:

- the **maximum cost of borrowing** for payday loans
- the **maximum penalty** that can be charged if you default on a loan or if your cheque or pre-authorized debit is returned to the payday lender (for example, due to non-sufficient funds or a stop payment)
- a **“cool off” period** during which you can **cancel the loan with no explanation** and not pay any fees at all.

## Payday lending regulations by province (as of January 2012)

Province	Maximum cost of borrowing for a \$100, 2-week payday loan	“Cool-off” period to cancel the payday loan	Maximum penalty for a returned cheque or pre-authorized debit
<b>British Columbia</b>	\$23	<b>Next business day</b>	\$20
<b>Alberta</b>	\$23	<b>2 business days</b>	\$25
<b>Saskatchewan</b>	\$23	<b>Next business day</b>	\$50
<b>Manitoba</b>	\$17	<b>48 hours, excluding Sundays and holidays</b>	\$20
<b>Ontario</b>	\$21	<b>2 business days</b>	
<b>Québec</b>		<b>2 days</b>	
<b>New Brunswick</b>		<b>48 hours, excluding Sundays and holidays</b>	\$40 (default penalty)
<b>Nova Scotia</b>	\$25	<b>Next business day</b>	\$40 (default penalty)

## KNOW YOUR RIGHTS IF YOU APPLY FOR A PAYDAY LOAN (CONTINUED)

- Your **right to information** is guaranteed in all provinces and territories. Payday lenders usually have to provide you with the total cost of your loan in clear language so that you can make an informed decision.
- In British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick, and Nova Scotia payday lenders are **not allowed to roll over** payday loans. This means a lender cannot extend or renew your payday loan, charging you additional interest and fees in the process.
- In British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia, payday lenders **cannot ask you to sign a form that transfers your wages directly to them**. If a payday lender asks you to do this in one of these provinces, contact your provincial or territorial consumer protection office.
- What a payday lender can do when trying to **collect a loan** is regulated in many provinces. When they can contact you, how often and what tactics they can use to get you to pay are defined by law in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia.

# FOR MORE INFORMATION OR TO MAKE A COMPLAINT

To get more information about what rules apply to payday lenders where you live, or to make a complaint about a payday lending company, call your provincial or territorial consumer protection office:

## **British Columbia**

Consumer Protection BC  
1-888-564-9963  
[www.consumerprotectionbc.ca](http://www.consumerprotectionbc.ca)

## **Alberta**

Service Alberta  
1-877-427-4088  
[www.servicealberta.ca/  
Consumer\\_Info.cfm](http://www.servicealberta.ca/Consumer_Info.cfm)

## **Saskatchewan**

Saskatchewan Consumer  
Protection Branch  
1-877-880-5550  
[www.justice.gov.sk.ca/cpb](http://www.justice.gov.sk.ca/cpb)

## **Manitoba**

Manitoba Consumer  
Protection Office  
1-800-782-0067  
[www.gov.mb.ca/fs/cca/cpo/](http://www.gov.mb.ca/fs/cca/cpo/)

## **Ontario**

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

## **Québec**

Office de la protection  
du consommateur  
1-888-672-2556  
[www.opc.gouv.qc.ca/](http://www.opc.gouv.qc.ca/)

## **Newfoundland and Labrador**

Service NL  
1-877-968-2600  
[www.gs.gov.nl.ca/  
consumers.html](http://www.gs.gov.nl.ca/consumers.html)

## **New Brunswick**

New Brunswick Consumer Affairs  
506-453-2659  
[www.gnb.ca/0062/rentalsman/](http://www.gnb.ca/0062/rentalsman/)

## **Prince Edward Island**

Prince Edward Island  
Consumer Services  
902-386-4580  
[www.gov.pe.ca/jps](http://www.gov.pe.ca/jps)

## **Nova Scotia**

Nova Scotia Consumer Awareness  
1-800-670-4357  
[www.gov.ns.ca/snsmr/access/  
individuals/consumer-  
awareness.asp](http://www.gov.ns.ca/snsmr/access/individuals/consumer-awareness.asp)

## **Yukon**

Yukon Consumer Services  
867-667-5111  
[www.community.gov.yk.ca/  
consumer/](http://www.community.gov.yk.ca/consumer/)

## **Northwest Territories**

Northwest Territories  
Consumer Affairs  
867-873-7125  
[www.maca.gov.nt.ca/  
operations/consumer\\_](http://www.maca.gov.nt.ca/operations/consumer_affairs/)  
[affairs/](http://www.maca.gov.nt.ca/operations/consumer_affairs/)

## **Nunavut**

Nunavut Consumer Affairs  
1-866-223-8139  
[http://cgs.gov.nu.ca/en/  
consumer-affairs](http://cgs.gov.nu.ca/en/consumer-affairs)

