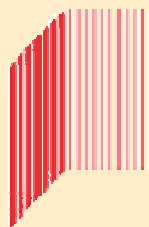


Understanding Consumers of Canada's Payday Loans Industry

Prepared for



Canadian Association of
Community Financial
Service Providers

L'association canadienne
des fournisseurs de services
financiers communautaires

June 9, 2005

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Background and Methodology

- The CACFS commissioned Environics Research Group to research public opinion regarding consumer awareness, attitudes and usage of short-term credit products
- 2000 telephone interviews were conducted between February 1 and March 7, 2005
 - 1000 with a random sample of Canadians in the general population
 - 1000 with recent users of payday loans (lists provided by CACFS members)
- Neither CACFS nor any of its members were disclosed as the research sponsors

Key Research Findings

Payday Loan users are educated Canadians who know what they are paying for and appreciate the convenience and flexibility of the loans to help them with unexpected emergencies

- While Canadians in general will turn to family members, a line of credit or a credit card to borrow money, the majority of Payday Loan Users will first think to turn to a Payday Loan Provider.
- The most often cited reason by Payday Loans Users for using Payday loans instead of another source of financing is that it was a “quick and easy process” (49%). A further 15% cite the “convenient location”.
- Payday loan users do have other options available to them. Only 21% cited “no other alternative source for borrowing” as a reason for why they took a payday loan, and many report having bank accounts (96%), overdraft protection (41%), and major credit cards (41%). Some even have personal loans (27%), and lines of credit (18%).
- The main reason for needing a payday loan was for “emergency cash to pay for necessities (36%), or to “help out with an unexpected expense like a car or household repair (24%). Only 4% cited “to buy something I wanted”.



Key Research Findings

Few Canadians have used a payday loan service, and many recognize they don't know much about it:

- 5% of Canadians have used a Payday loan service
 - Men (6%) are just as likely as women (4%)
 - Those with household incomes above \$60,000 are almost as likely as those with incomes below \$40,000 (5% vs. 7%)
 - Younger Canadians are more likely than older Canadians (7% among 18-29 vs. 3% among 50+)
 - Families with children aged less than 11 years are more likely (9%)
- Payday Loan service providers are regionally oriented
 - Canadians in BC (10%) and Manitoba/Saskatchewan (11%) are more likely to have ever used a payday loan service
 - Canadians in Ontario (3%) are less likely to have ever used a payday loan
- Two-thirds (64%) of Quebecers think that legislation should be changed to permit payday loan providers to operate in their province



Key Research Findings (Cont'd)

Payday Loan Users have much more favourable impressions than ill-informed Canadians do:

- Just 11% of Canadians think favourably of the Payday loan industry compared to 59% of Payday Loan Users
 - 30% of Canadians report unfavourable opinions, but fully 25% did not know enough about the industry to feel comfortable providing a rating
- Nine-in-ten (90%) of Payday Loan Users believe that the Payday Loan Industry is a better option for fast and convenient loans than pawnbrokers or title loans compared to two-thirds (67%) of Canadians
- Nearly all (95%) Payday Loan Users believe that since banks do not provide short-term loans for small amounts, the service should be available elsewhere, compared to two thirds (67%) of Canadians
- Three-quarters (72%) of Payday Loan Users feel that considering they offer short-term loans without credit checks or collateral, most payday loan providers charge reasonable fees for the services they provide. This compares to just 30% of Canadians who agree. Almost as many (27%) could not give an opinion.



Key Research Findings

Payday Loan Users are happy with their experiences:

- 59% of Payday Loan Users are satisfied with Payday Loan services overall
 - 32% describe themselves as being 'completely satisfied'; only 9% say they are 'completely dissatisfied'
 - Females are more likely to be satisfied than males (65% vs. 52%)
- Payday Loans users are satisfied with all elements of the customer experience:
 - 92% are satisfied with the way they were treated by the customer service representative
 - 87% are satisfied with the overall customer service experience
 - 69% are satisfied with their understanding of the terms and when payment on the cash advance was due
 - 51% are satisfied with the total cost of the cash advance, with only 9.9% saying they are completely dissatisfied. 25% hold neutral opinions.
- The average Payday Loan User expects to pay \$43.60 in interest and administrative fees in order to borrow \$250 for 2 weeks (\$17.44/ \$100)



Implications for CACFS

- From these research findings it is clear that Payday Loan Users feel the Payday Loan Industry is providing a valuable service
- Payday Loan Users have a clear understanding of the terms and conditions for the loans they have taken, and feel that these are fair for the services that are provided. Furthermore, Users have a very high opinion of the customer service treatment they have received.
- Many Canadians do not appreciate the niche service the Payday Loan Industry is providing and have hostile or neutral views of the industry that isn't matched by Users' actual experiences.
- CACFS must focus on increasing awareness amongst Canadians that Payday Loan Providers are offering a service that no other financial services company offers, and that the people who use this service are comfortable with the fees being charged.

Sample Profiles

Demographics

- Demographically, it is clear that payday loan users are normal Canadian families, although slightly younger and many with children.

| | Payday Loan Users (n=1000) | General Population (n=1000) |
|----------------------|-------------------------------|--------------------------------|
| | % | % |
| Gender: | | |
| Male | 47 | 48 |
| Female | 53 | 52 |
| Average Age | 39 | 45 |
| Marital Status: | | |
| Married or Partnered | 49 | 55 |
| Single | 35 | 25 |
| Divorced or Widowed | 15 | 19 |
| Dependent Children: | | |
| Yes | 47 | 32 |
| No | 53 | 68 |

Demographics (Cont'd)

- Most Payday Loan Users are working and are represented in all occupational categories.

| | Payday Loan Users (n=1000) | General Population (n=1000) |
|------------------------------|-------------------------------|--------------------------------|
| | % | % |
| Employment Status: | | |
| Currently employed full-time | 68 | 46 |
| Currently employed part-time | 8 | 7 |
| Self-employed | 2 | 9 |
| Currently unemployed | 7 | 4 |
| Retired | 5 | 21 |
| A homemaker | 2 | 4 |
| A student | 2 | 6 |
| Occupation: | | |
| Service/Sales/Clerical | 27 | 31 |
| Skilled trade/Technical | 24 | 21 |
| Professional/Executive | 14 | 28 |
| Managerial/Supervisory | 12 | 8 |
| Manual Labour | 11 | 11 |
| Other | 11 | — |

Demographics (Cont'd)

- Payday Loan users have post-secondary education and include many high-income earning families amongst their customers.

| | Payday Loan Users (n=1000) | General Population (n=1000) |
|-------------------------------|-------------------------------|--------------------------------|
| | % | % |
| Education: | | |
| Less than high school | 14 | 15 |
| High school grad | 20 | 26 |
| Vocational/Technical school | 43 | 25 |
| University/Post-Grad | 21 | 32 |
| Household Income: | | |
| Less than \$35,000 | 49 | 27 |
| Between \$35,000 and \$50,000 | 19 | 16 |
| Between \$50,000 and \$75,000 | 16 | 20 |
| Over \$75,000 | 9 | 22 |
| Don't Know/refused | 6 | 14 |
| Average Income: | \$41,376 | \$56,400 |
| Own or Rent Home: | | |
| Own | 21 | 63 |
| Rent | 76 | 31 |

Demographics (Cont'd)

- Since the industry has been established longer in the West, more Payday Loan Users live in Western Provinces than in the East. Payday Loan services are currently not available in Quebec.

| | Payday Loan Users (n=1000) | General Population (n=1000) |
|------------------------------------|-------------------------------|--------------------------------|
| | % | % |
| Region: | | |
| BC | 24 | 13 |
| AB | 18 | 10 |
| MB/SK | 9 | 7 |
| ON | 40 | 39 |
| PQ | — | 24 |
| ATL | 9 | 8 |
| Federal Election Party Preference: | | |
| The Liberal Party | 32 | — |
| The New Democratic Party | 17 | — |
| The Conservative Party | 15 | — |
| Green Party | 6 | — |
| Other Party | 4 | — |
| Don't know | 26 | — |

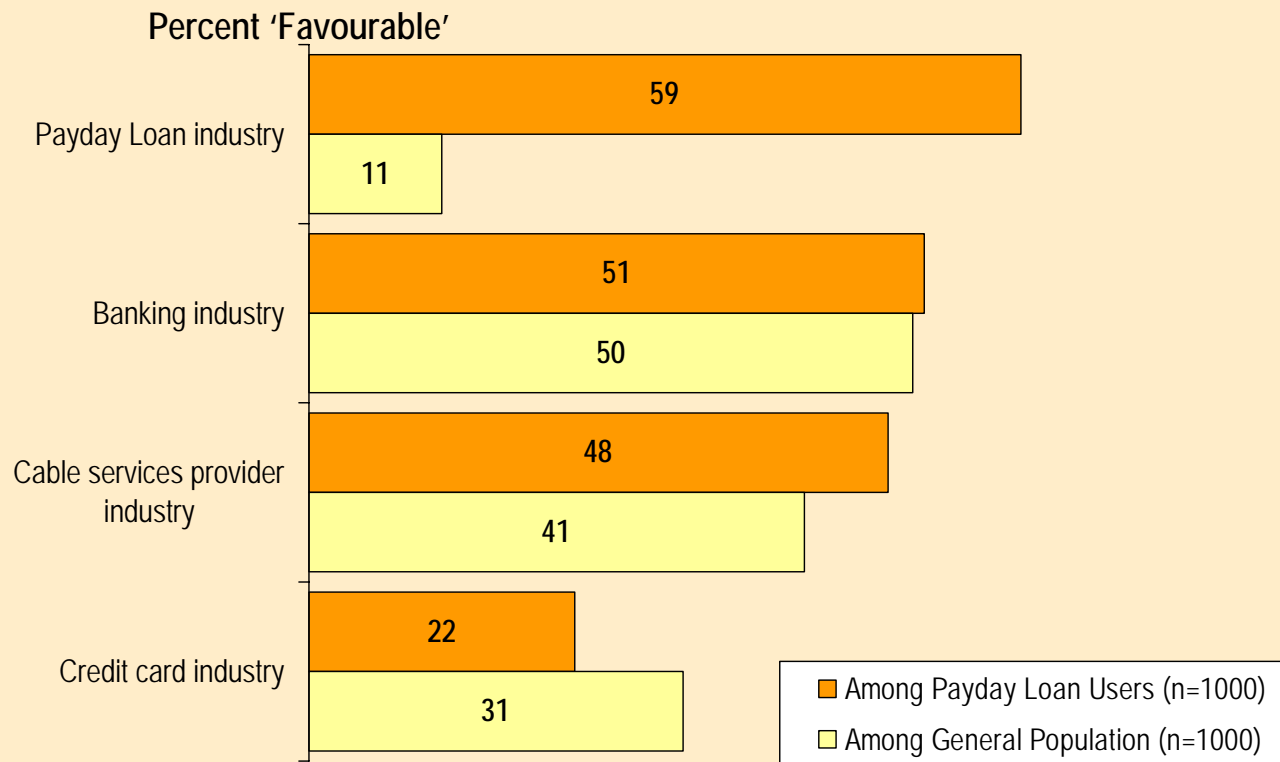


Perceptions and Attitudes Towards the Payday Loan Industry:

Payday Loan Users Compared with the General Population



In terms of how fairly they treat customers and are good community citizens, do you have a favourable, unfavourable or neutral opinion about the...



- Canadians hold dramatically less favourable views of the payday loans industry than do those who have actually used the services
- Payday Loan users have less favourable views of the credit card industry than do Canadians as a whole.
- Payday Loan users and Canadians hold similar views regarding the banking industry and cable industry.

Industry Ratings

In terms of how fairly they treat customers and are good community citizens, do you have a favourable, unfavourable or neutral opinion about the...

Percent 'Favourable + Neutral'

Among Payday
Loan Users

84

Among General
Population

45

Favourable + Neutral

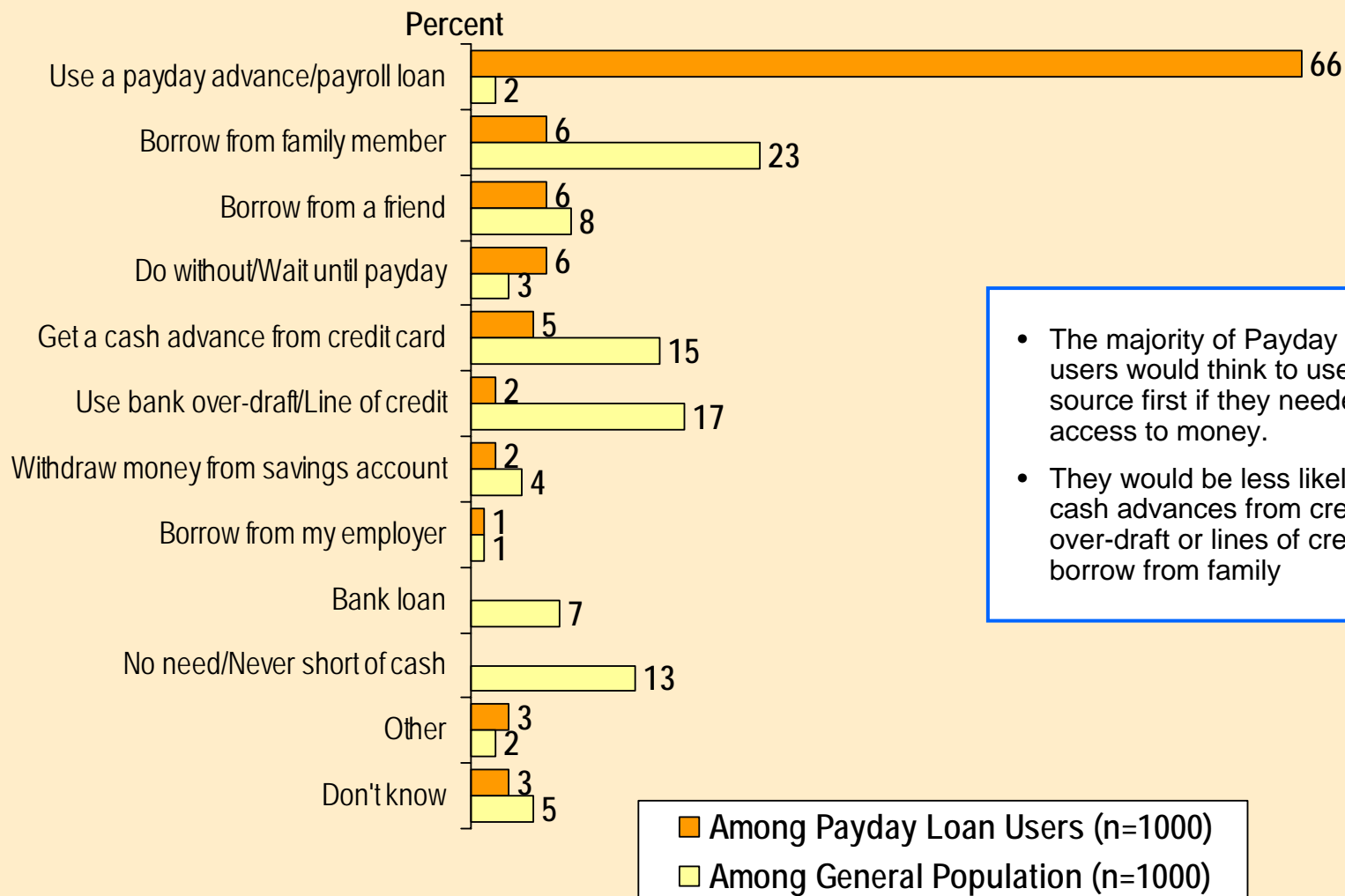
- Nearly twice as many users as Canadians hold a positive or neutral view of the payday loan industry.
- Fully 25 percent of Canadians have no clear view on the payday loan industry.
- Only 30 percent of Canadians report an unfavourable view of the payday loan industry. However, this is double the 15% of payday loan users who share an unfavourable view of the industry.

| | Payday Loan Users | General Population |
|--------------|----------------------|-----------------------|
| Favourable | 59% | 11% |
| Neutral | 25% | 34% |
| Unfavourable | 15% | 30% |
| Don't Know | 1% | 25% |



Main Source of Funds if Needed

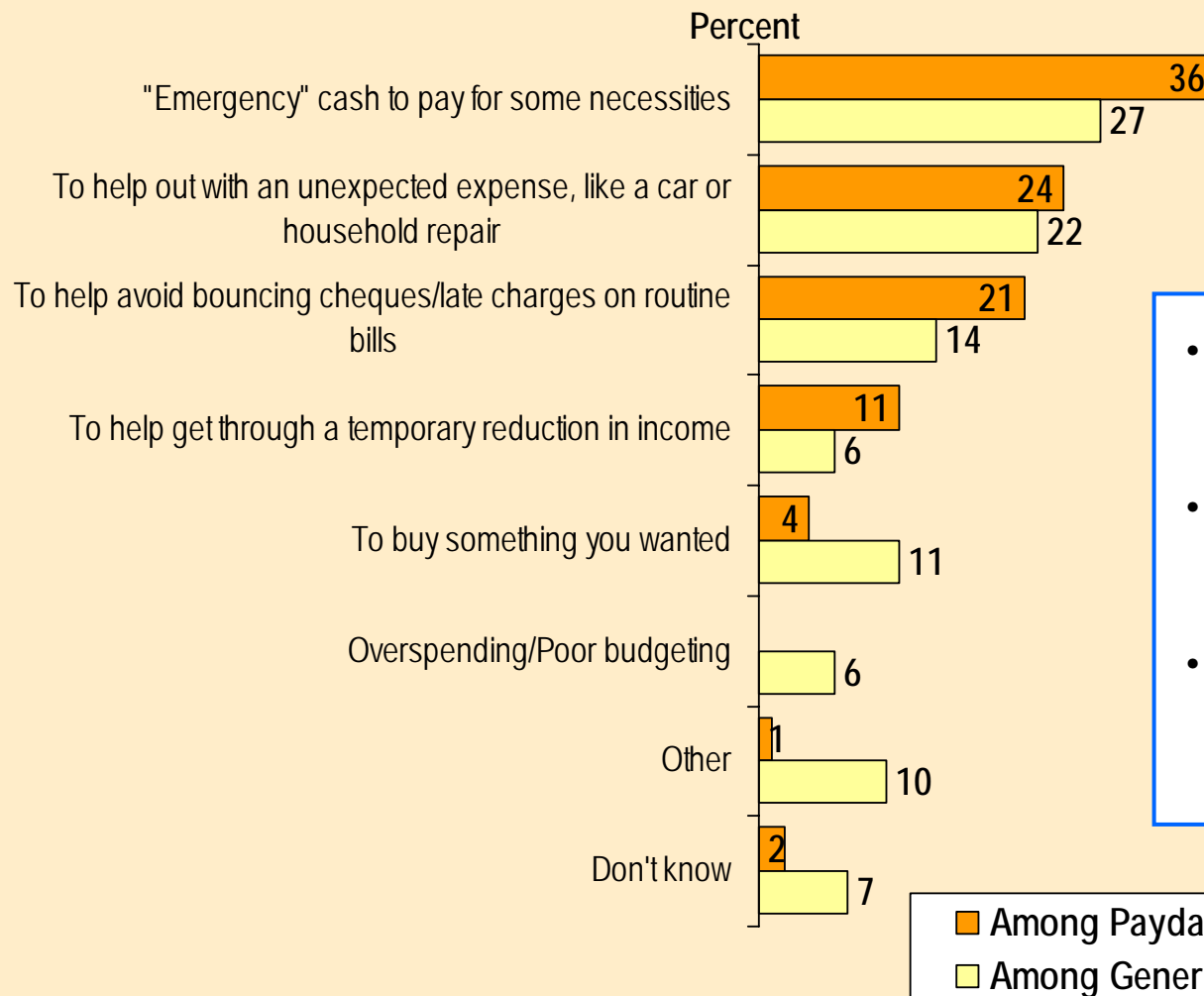
If you needed, say \$250 a few days before your next payday, what would you do? (First Mention)



- The majority of Payday Loan users would think to use that source first if they needed quick access to money.
- They would be less likely to use cash advances from credit cards, over-draft or lines of credit, or to borrow from family

Reasons for Needing a Payday Loan

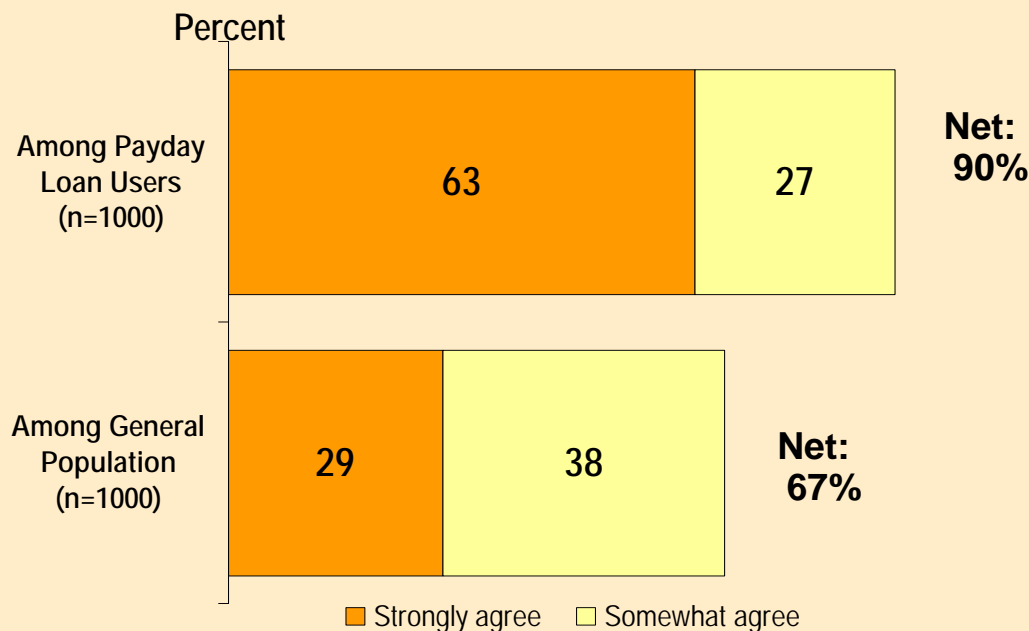
Which of the following is the main reason for why [you needed/you think others needed] a payday loan?



- Payday Loans users and Canadians have a fairly similar understanding of why users take payday loans.
- However, Canadians are more likely to assume they are needed for discretionary spending or poor budgeting.
- Payday Loan users are more likely to say they use them for emergency purchases or to help with unexpected expenses.

Attitudes Towards Payday Loans

Payday loans are a better option for people who need a fast and convenient loan than pawnbrokers or title loans

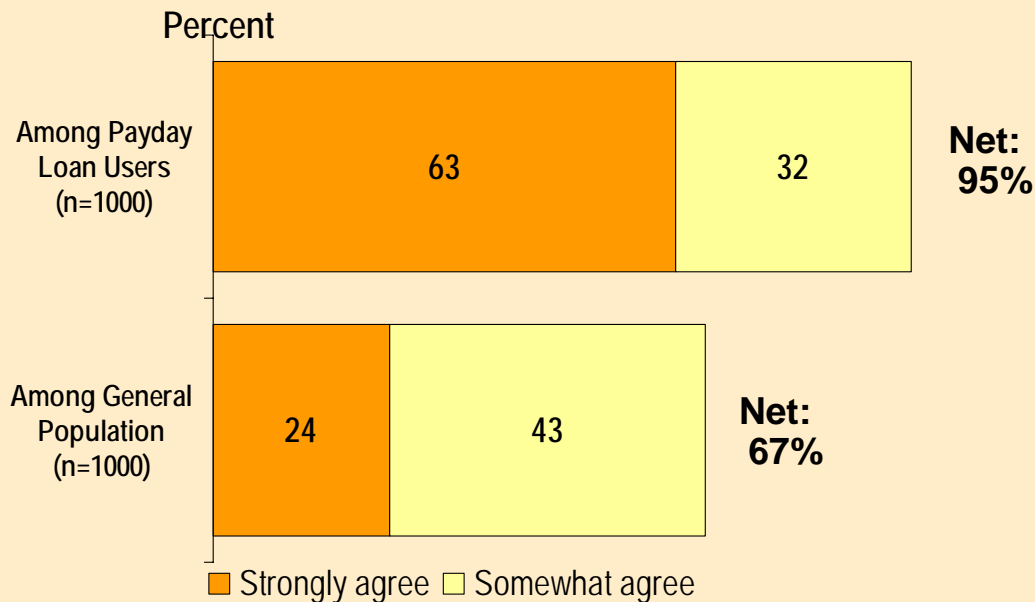


- Payday Loan users are significantly more likely to agree that payday loans are a better option for those who need a fast and convenient loan than pawnbrokers or title loans.
- Even though they are not currently available there, 76% in Quebec agree that payday loans are a better option than pawnbrokers or title loans.

| | Payday Loan Users | General Population |
|-------------------|-------------------|--------------------|
| Strongly agree | 63% | 29% |
| Somewhat agree | 27% | 38% |
| Somewhat disagree | 4% | 8% |
| Strongly disagree | 3% | 11% |
| Don't Know | 3% | 15% |

Attitudes Towards Payday Loans

Since the large banks can't or won't provide short-term loans for small amounts, Canadians who need or want these services should have the option of obtaining them from payday loan providers



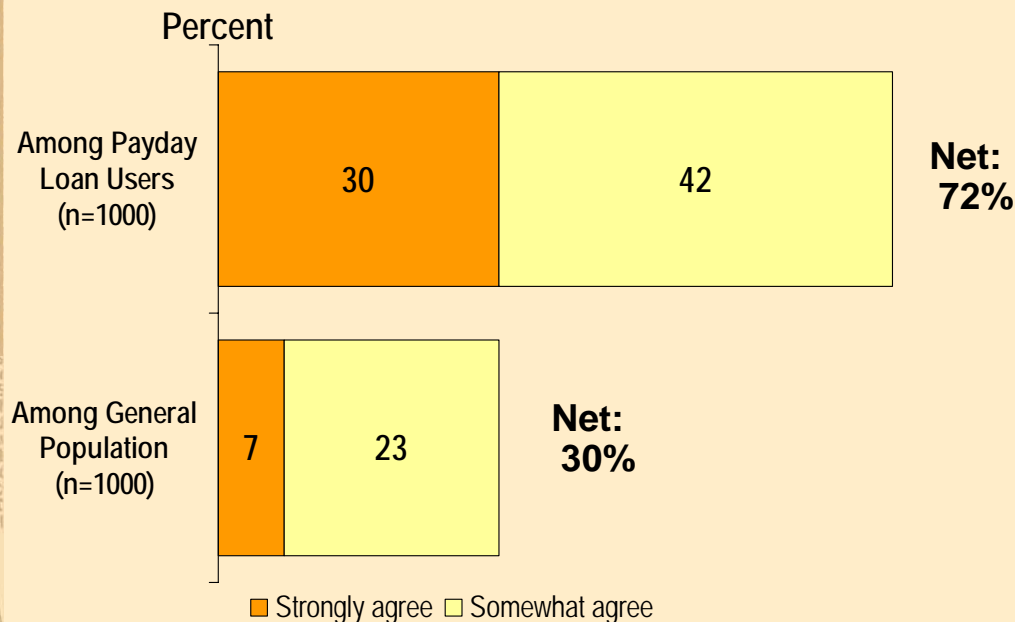
- A majority of both Canadians and Payday Loan users recognize that since large banks don't provide short term loans for small amounts, Canadians who need these services should have access to them.
- Agreement is near universal among Payday Loan users.

| | Payday Loan Users | General Population |
|-------------------|-------------------|--------------------|
| Strongly agree | 63% | 24% |
| Somewhat agree | 32% | 43% |
| Somewhat disagree | 2% | 12% |
| Strongly disagree | 2% | 14% |
| Don't Know | 1% | 7% |



Attitudes Towards Payday Loans

Considering that they offer short-term loans without requiring credit checks or collateral, most payday loan service providers charge reasonable fees for the services they provide

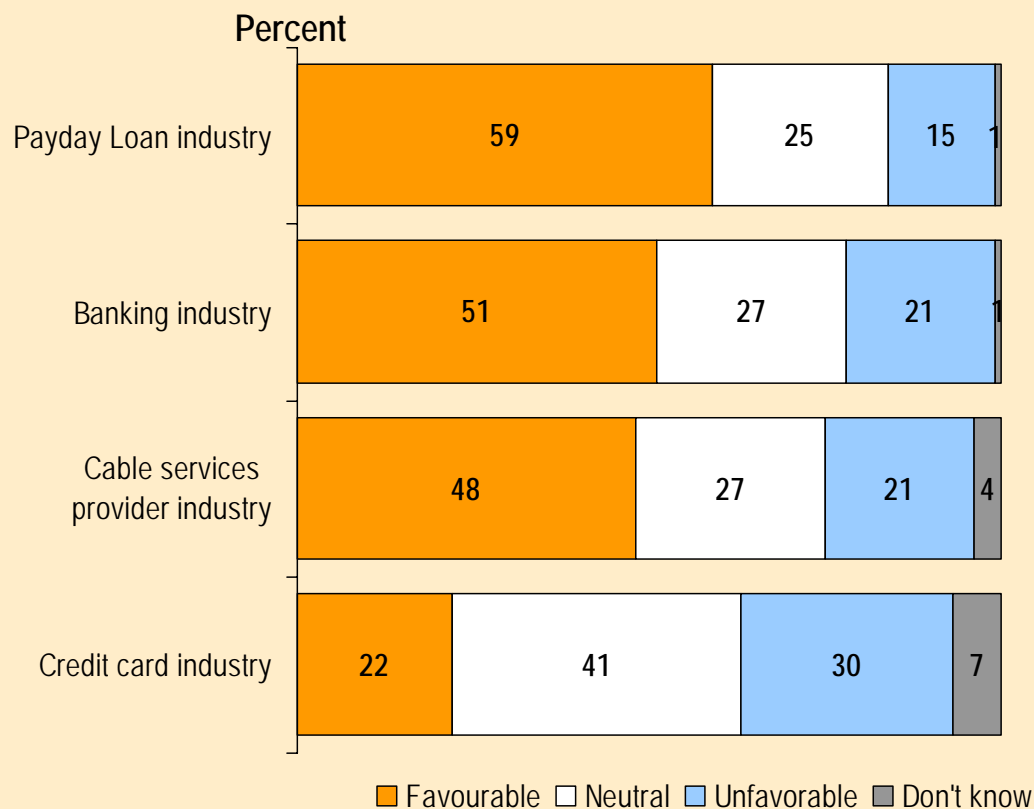


- Few Canadians agree that the fees charged for payday loans are reasonable given the short-term nature of the loans and lack of credit checks or collateral required.
- However, more than a quarter of Canadians do not know enough to offer an opinion.
- Three-quarters of Payday Loan users agree that the fees are reasonable.

| | Payday Loan Users | General Population |
|-------------------|-------------------|--------------------|
| Strongly agree | 30% | 7% |
| Somewhat agree | 42% | 23% |
| Somewhat disagree | 14% | 18% |
| Strongly disagree | 13% | 25% |
| Don't Know | 1% | 27% |

Detailed Findings: Payday Loan Users

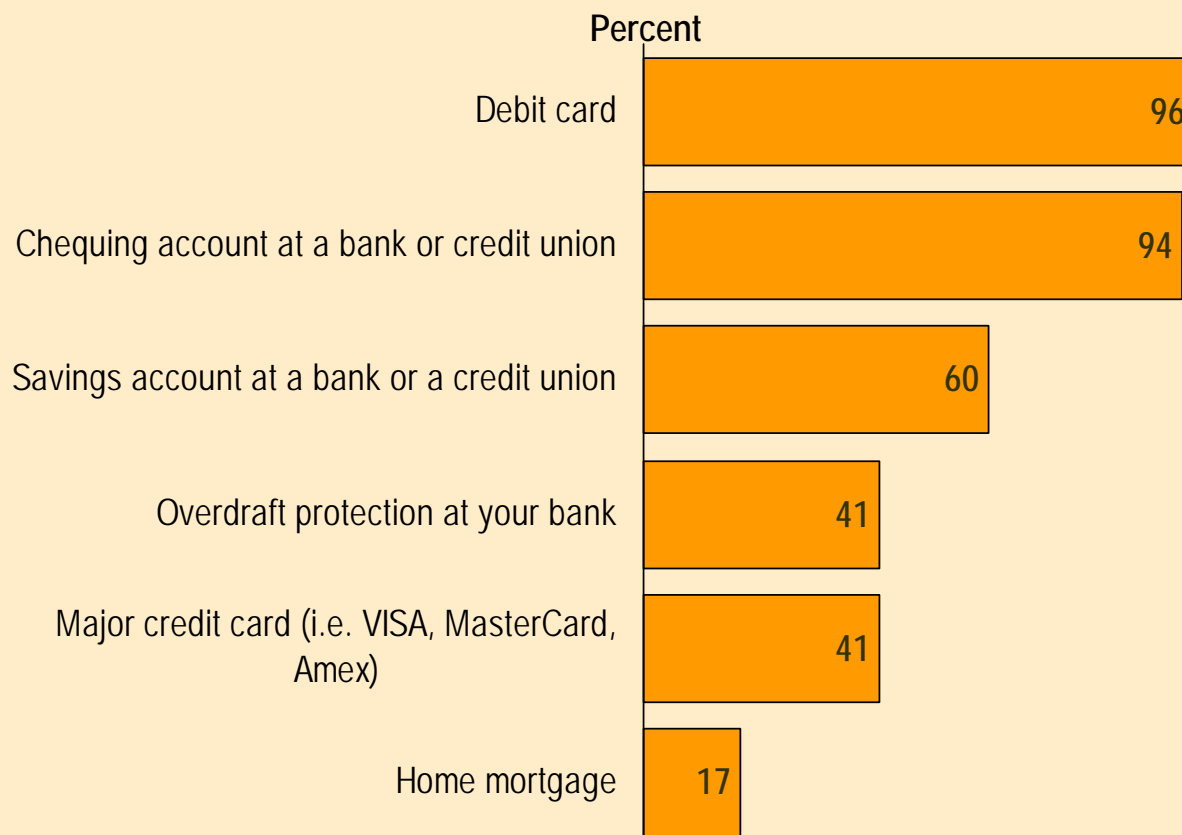
In terms of how fairly they treat customers and are good community citizens, do you have a favourable, unfavourable or neutral opinion of... Base: Payday Loan Users (n=1000)



- Older respondents, lower income respondents and those who express satisfaction with their Payday Loan experience all report more favourable views of all four sectors.
- Younger respondents, those with higher incomes/education, and those dissatisfied with their last Payday Loan experience are more critical.

Which of the following financial products or services do you currently have?

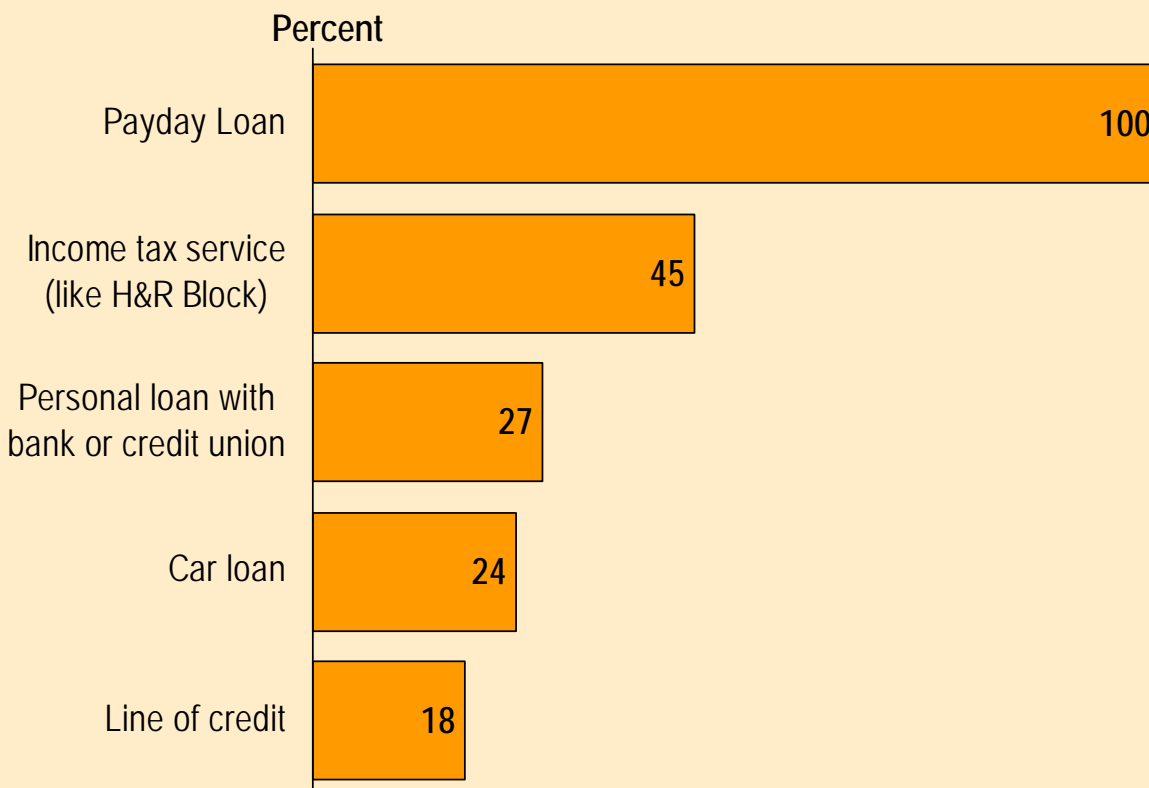
Base: Payday Loan Users (n=1000)



- Usage of debit cards and chequing accounts is near universal, cutting across all demographic groups.
- Those with lower incomes and education are less likely to have all of the lower incidence products.

Which of the following financial products or services have you had or used in the past year?

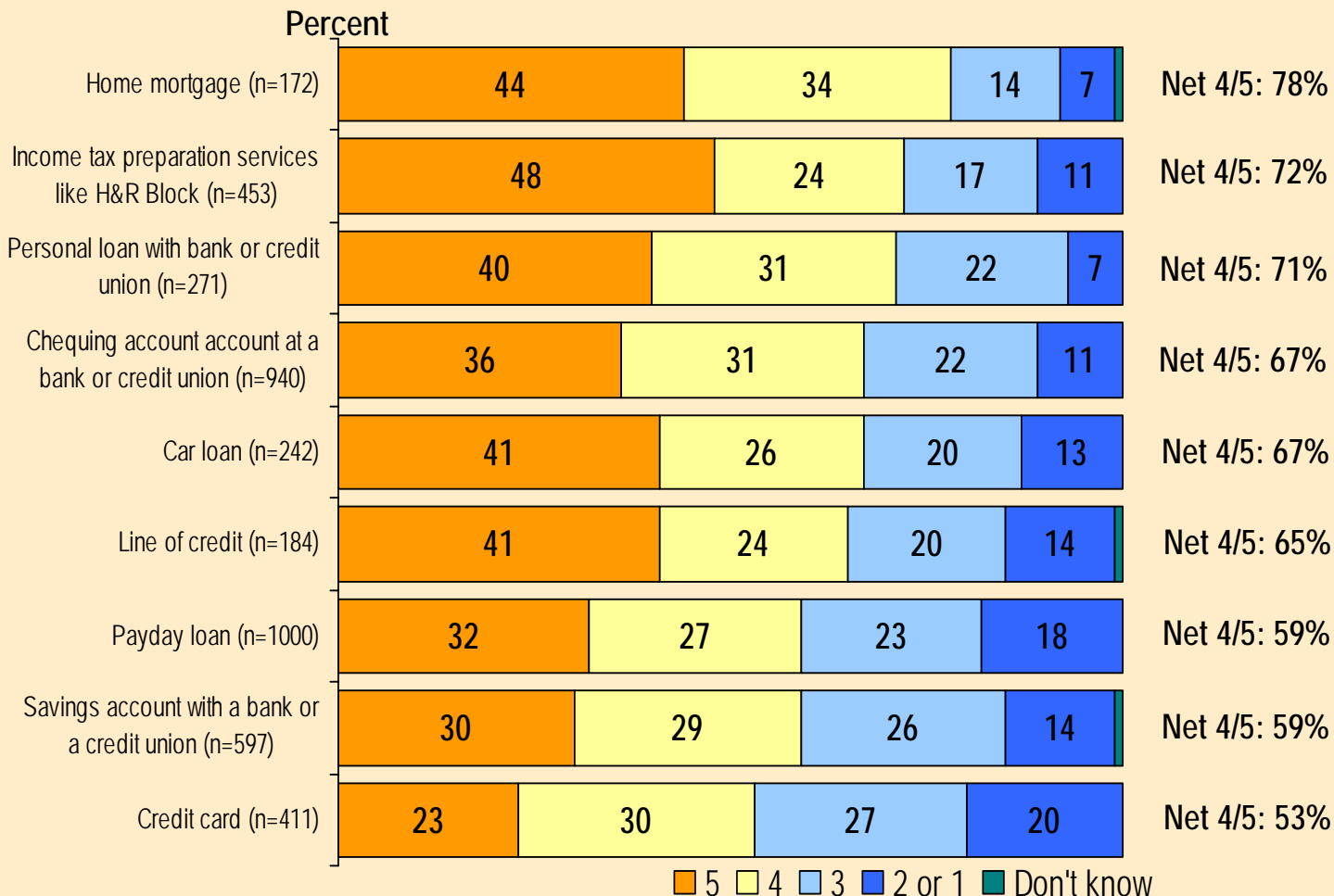
Base: Payday Loan Users (n=1000)



- Higher educated/income respondents are more likely to have personal loans, car loans. They are only slightly more likely to have lines of credit, and are less likely to use income tax services.
- Those with mortgages are more likely to have personal loans (47%), car loans (34%), and lines of credit (28%), but are less likely to use income tax services (38%).

Overall Satisfaction With Financial Products and Services

Base: Payday Loan Users using these products and services

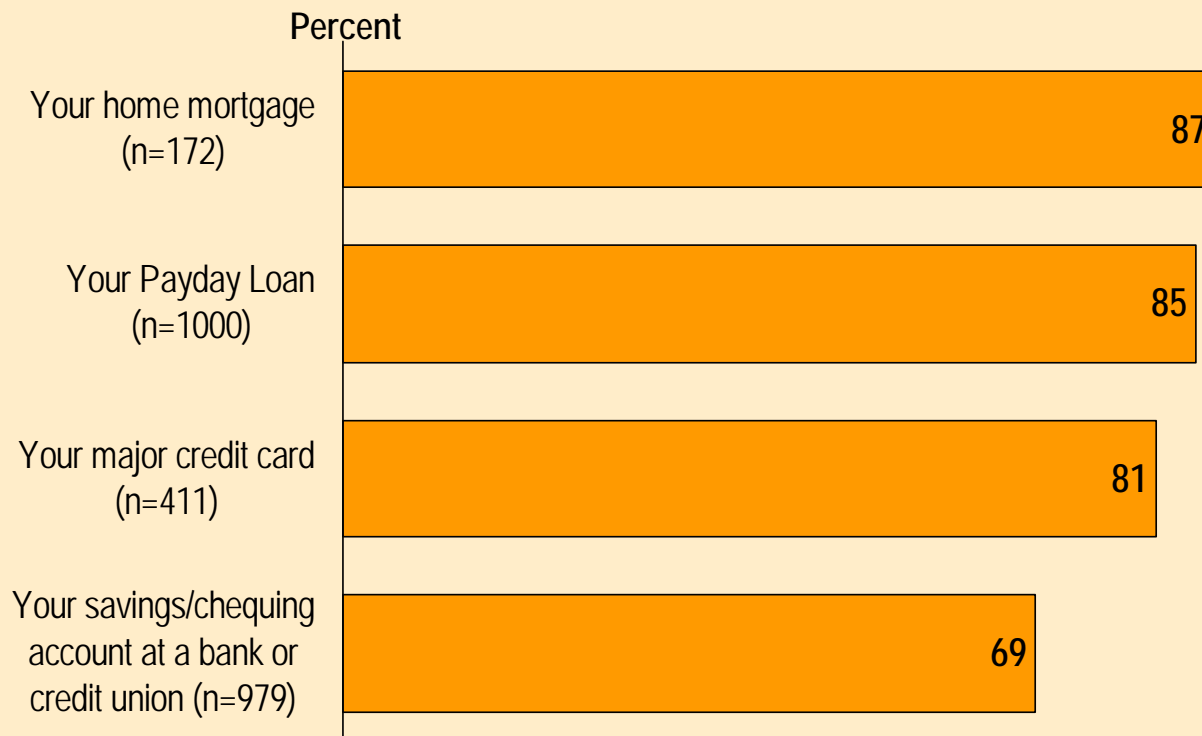


*1 to 5 scale, where 1 is "completely dissatisfied" and 5 is "completely satisfied."

- Satisfaction scores are highly correlated. Those who are satisfied with their recent payday loan experience are more likely to be satisfied with all other services.

Are you aware of the exact amounts of your administration fees and interest paid for transactions or loans from:

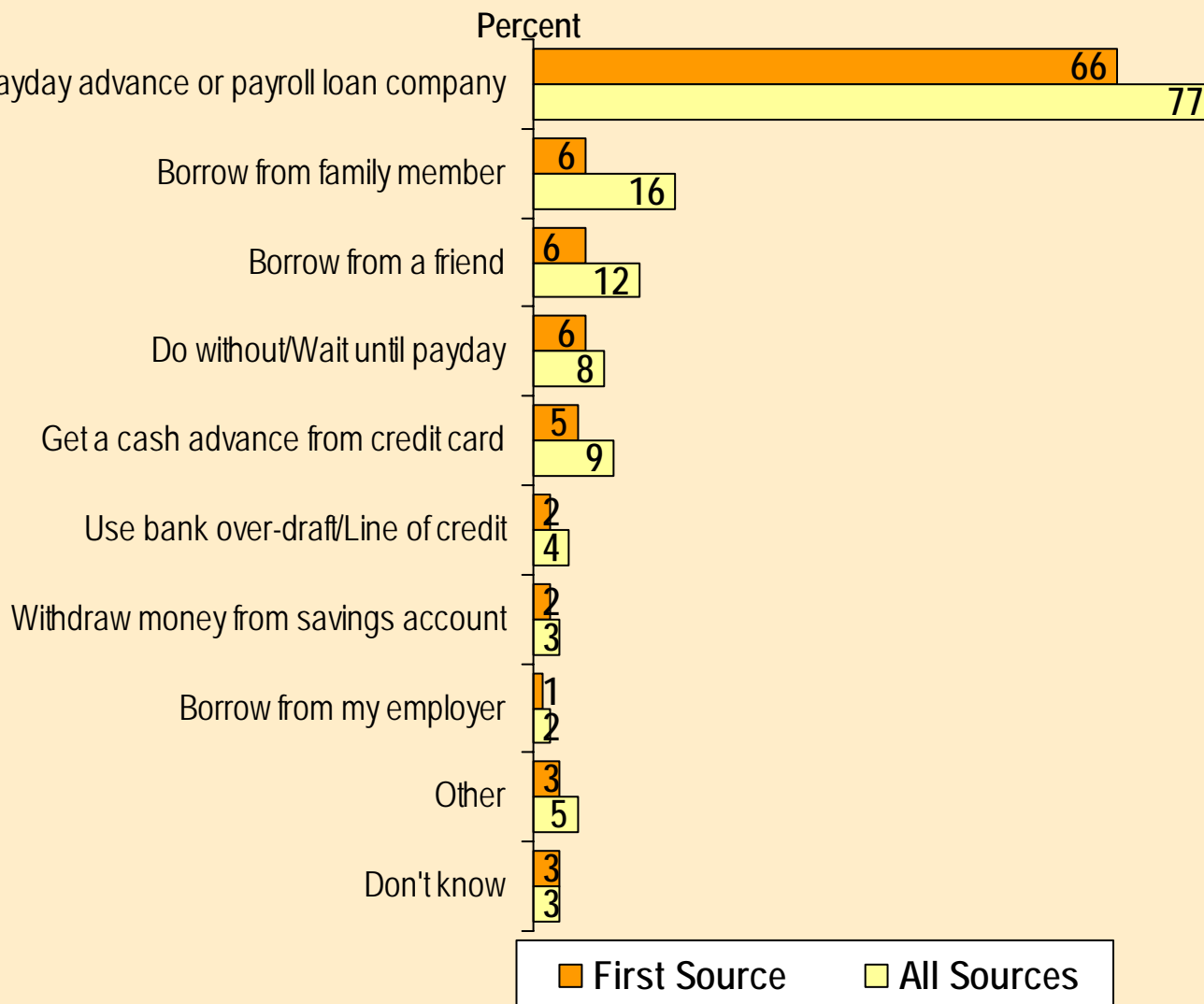
Base: Payday Loan Users Who Use These Products and Services



- Very little variation in awareness of fees on payday loans by demographic breaks (age, income, education).

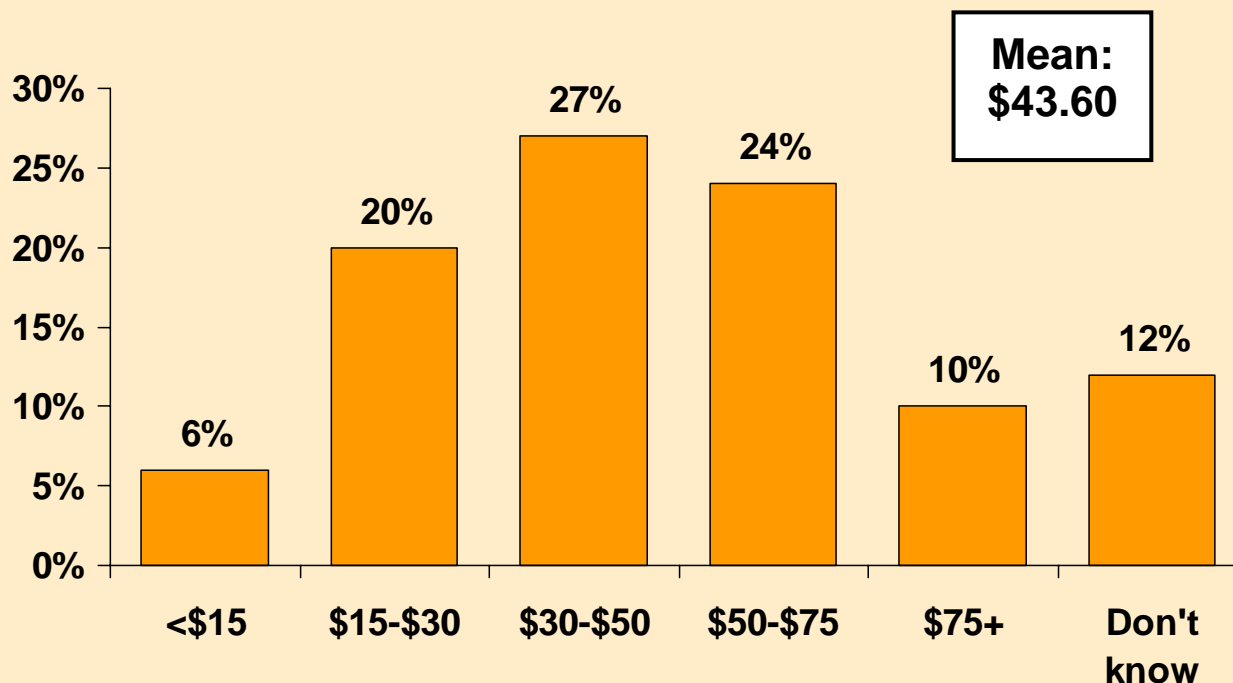
If you needed, say \$250 a few days before your next payday, what would you do? (multiple response)

Base: Payday Loan Users Who Use These Products and Services



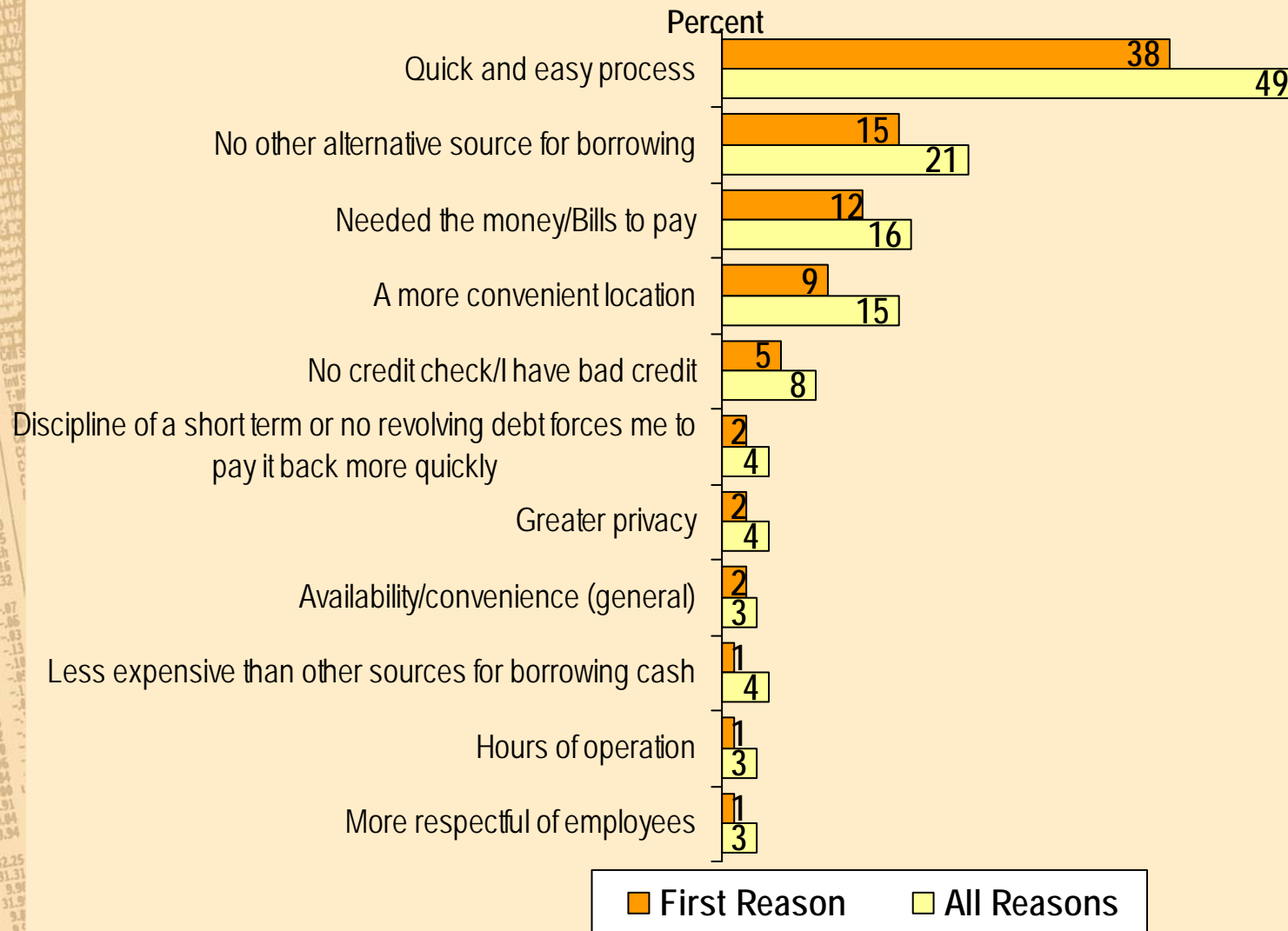
*Note: Responses with fewer than 1% mentions not shown.

If you found yourself in a situation where you needed to borrow \$250 for 2 weeks, how much in total would you expect to pay in terms of interest and administrative fees?
Base: Payday Loan Users (n=1000)



- Those who are satisfied with their most recent payday loan expect to pay less than those who were dissatisfied (\$42.00 vs. \$46.70)

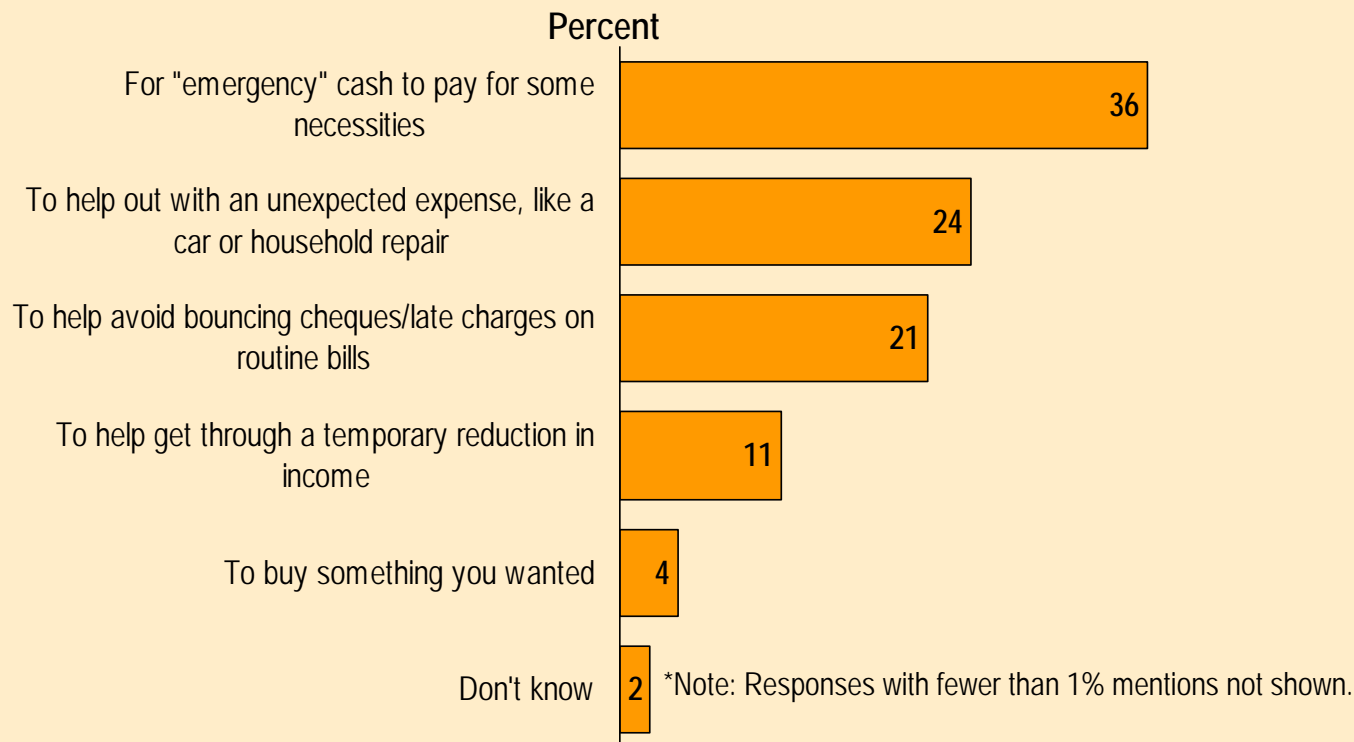
What was the most important reason you chose to obtain a payday advance in the past year rather than use another source of financing? Base: Payday Loan Users (n=1000)



*Note: Responses with 2% or fewer mentions not shown.

Which of the following was the main reason why you needed a payday loan?

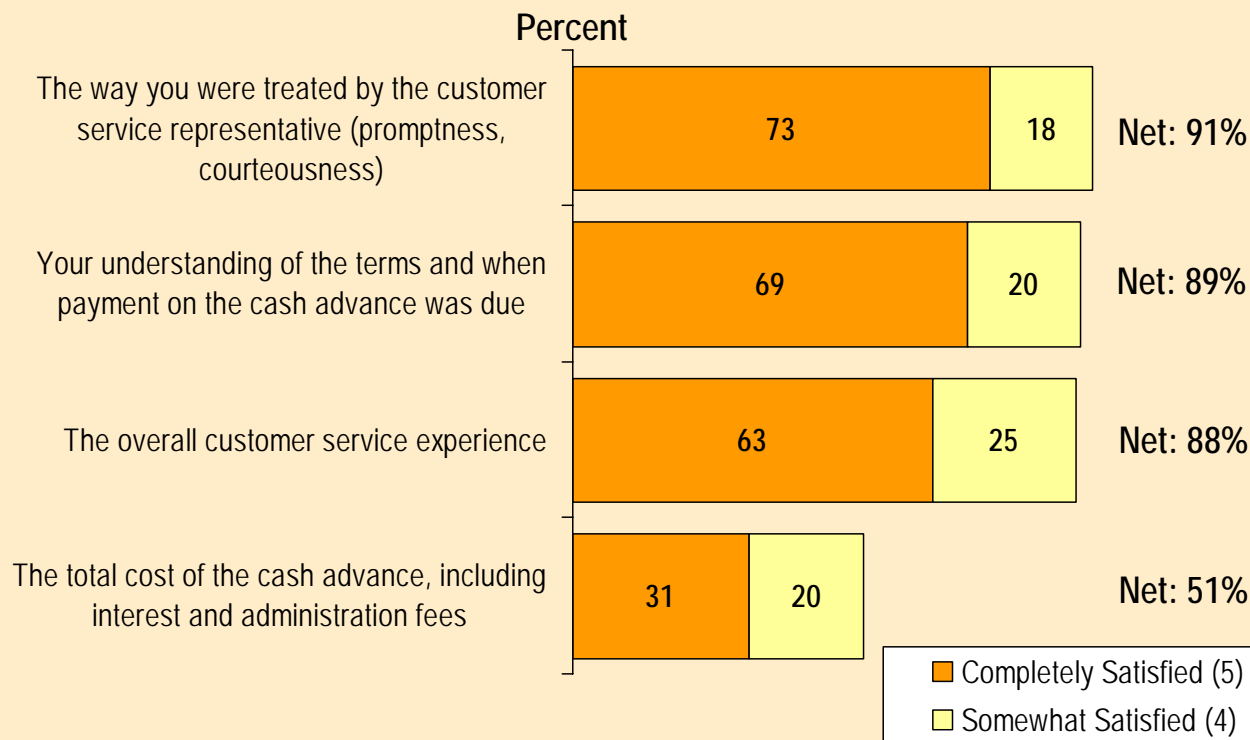
Base: Payday Loan Users (n=1000)



- Those with lower incomes/education are more likely to cite needing 'emergency' cash for necessities.
- Higher income/education respondents are more likely to cite needing help with unexpected expenses like car or household repairs.

Thinking about the cash advance you last received, how satisfied were you with...?

Base: Payday Loan Users (n=1000)

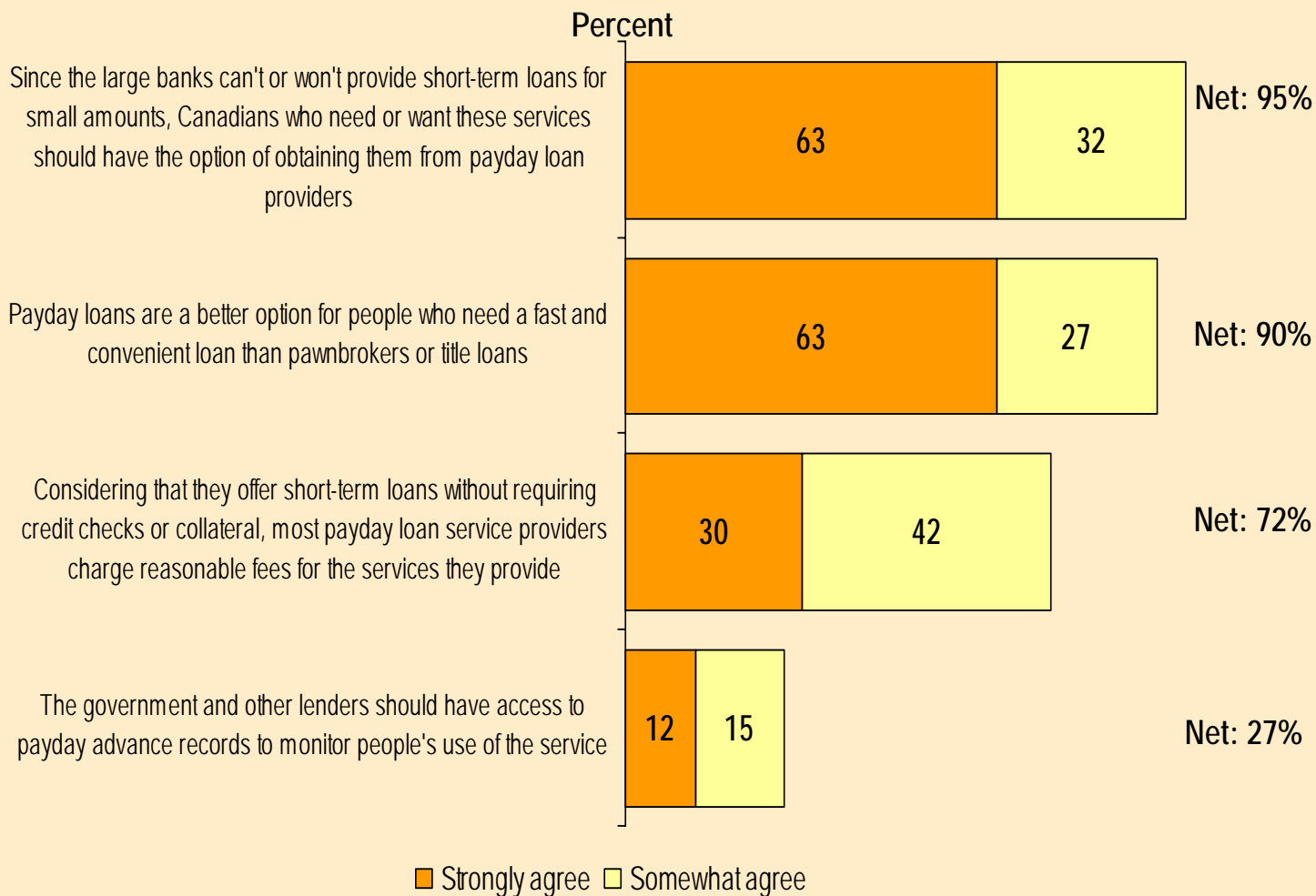


*1 to 5 scale, where 1 is "completely dissatisfied" and 5 is "completely satisfied."

- Satisfaction is generally higher among women, lower income/education users, and among older users.

Attitudes Towards Payday Loans

Base: Payday Loan Users (n=1000)

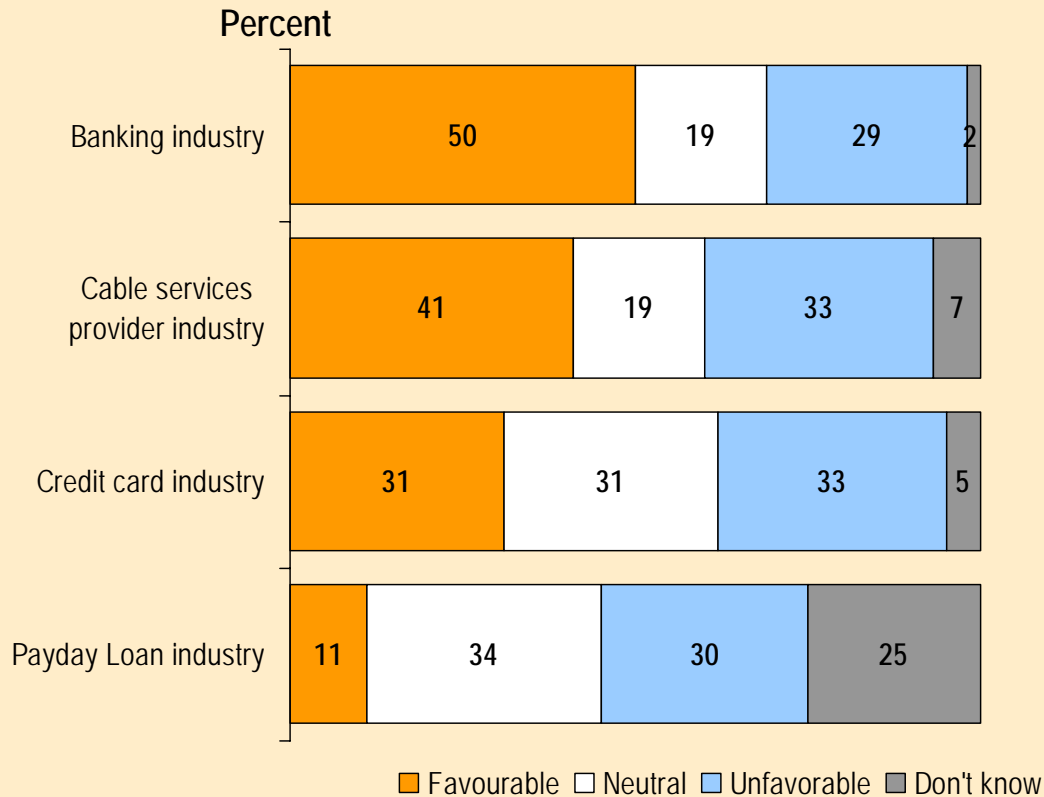


Detailed Findings:

General Population

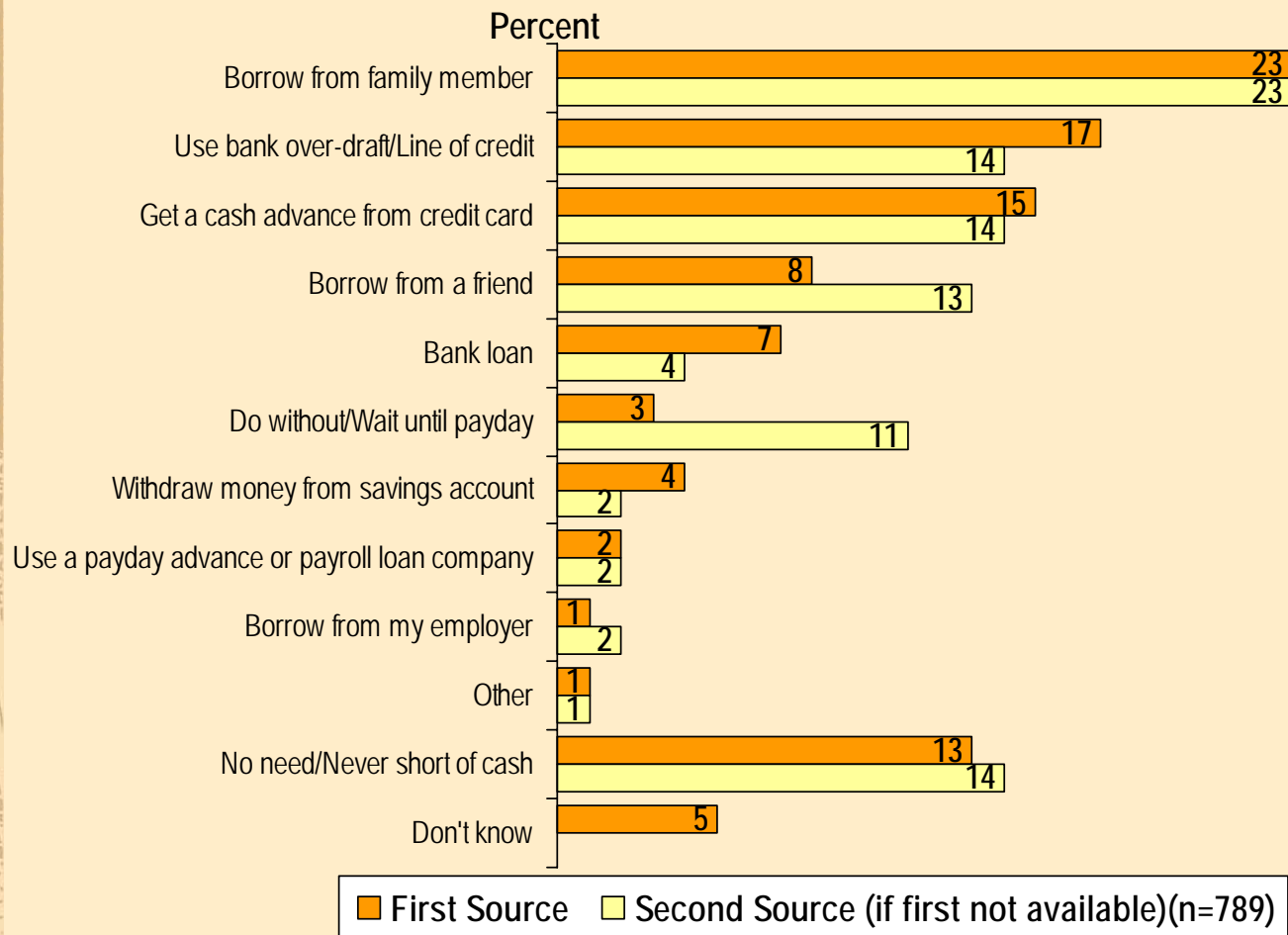
In terms of how fairly they treat customers and are good community citizens, do you have a favourable, unfavourable or neutral opinion about the...

Base: All Canadians (n=1000)



- Favourability for most services is higher among men, older Canadians, and those with lower incomes and education levels.
- Favourability for the payday loans industry is higher among those who tend to be the population from which their primary users is drawn.

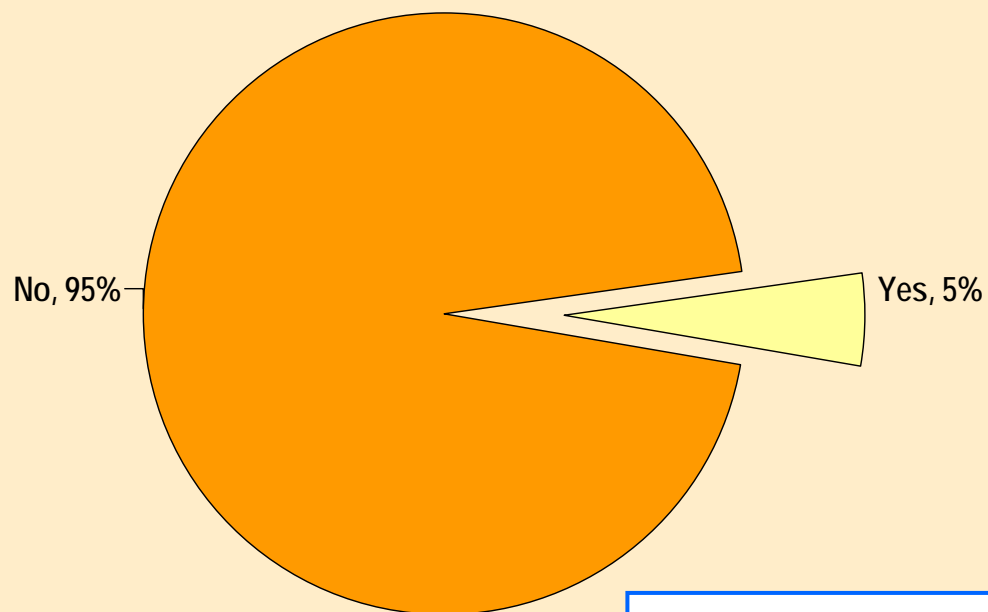
If you needed, say \$250 a few days before your next payday, what would you do? (multiple response)



- Lower income Canadians would be more likely to borrow from family members, while higher income Canadians would make use of over-draft services/lines of credit or withdraw savings

Have you ever taken a Payday Loan?

Base: All Canadians (n=1000)

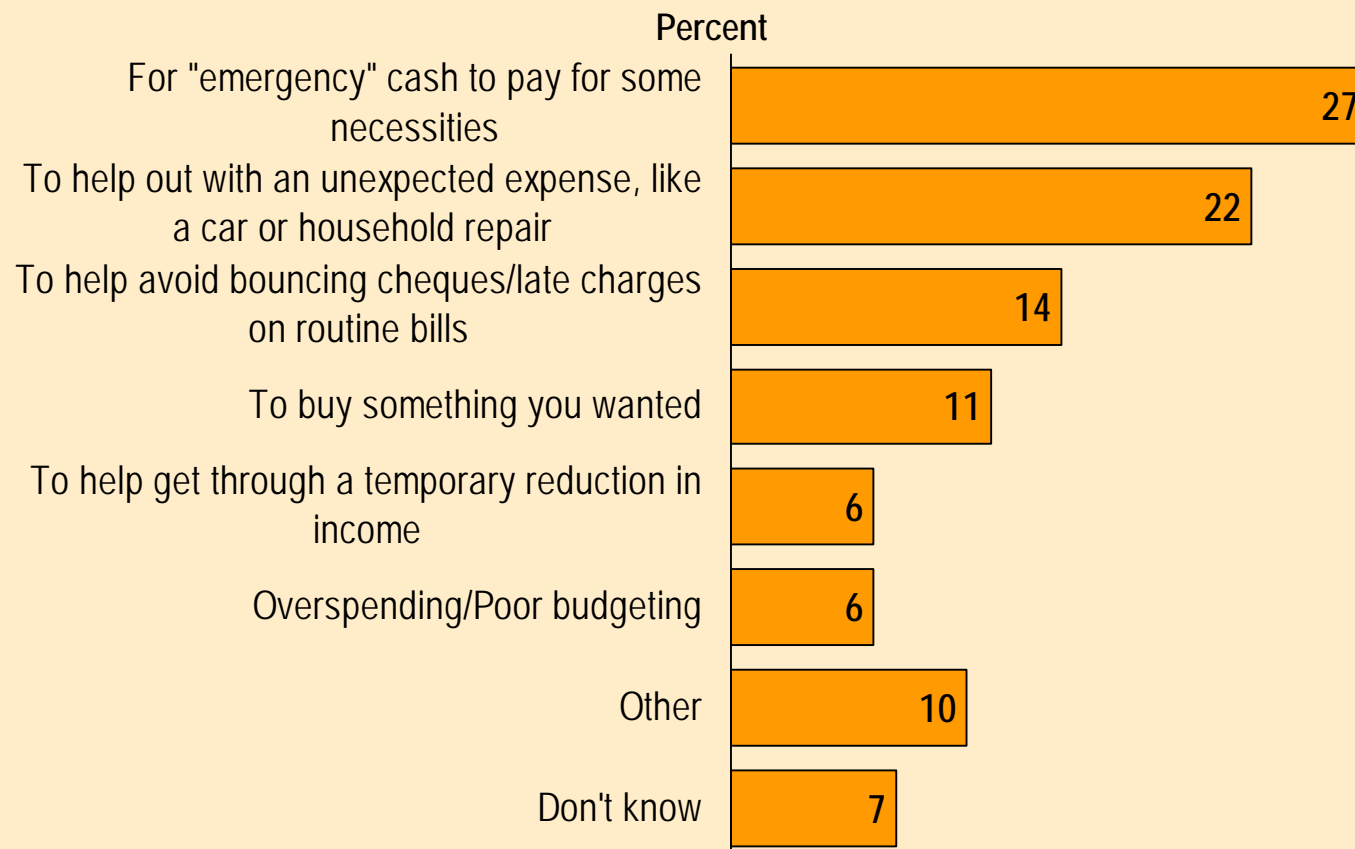


Payday Loans are more likely to have been used by Canadians...:

- Living in B.C. (10%)
- With kids aged 0-11 years (9%)
- Aged 18-29 (7%)

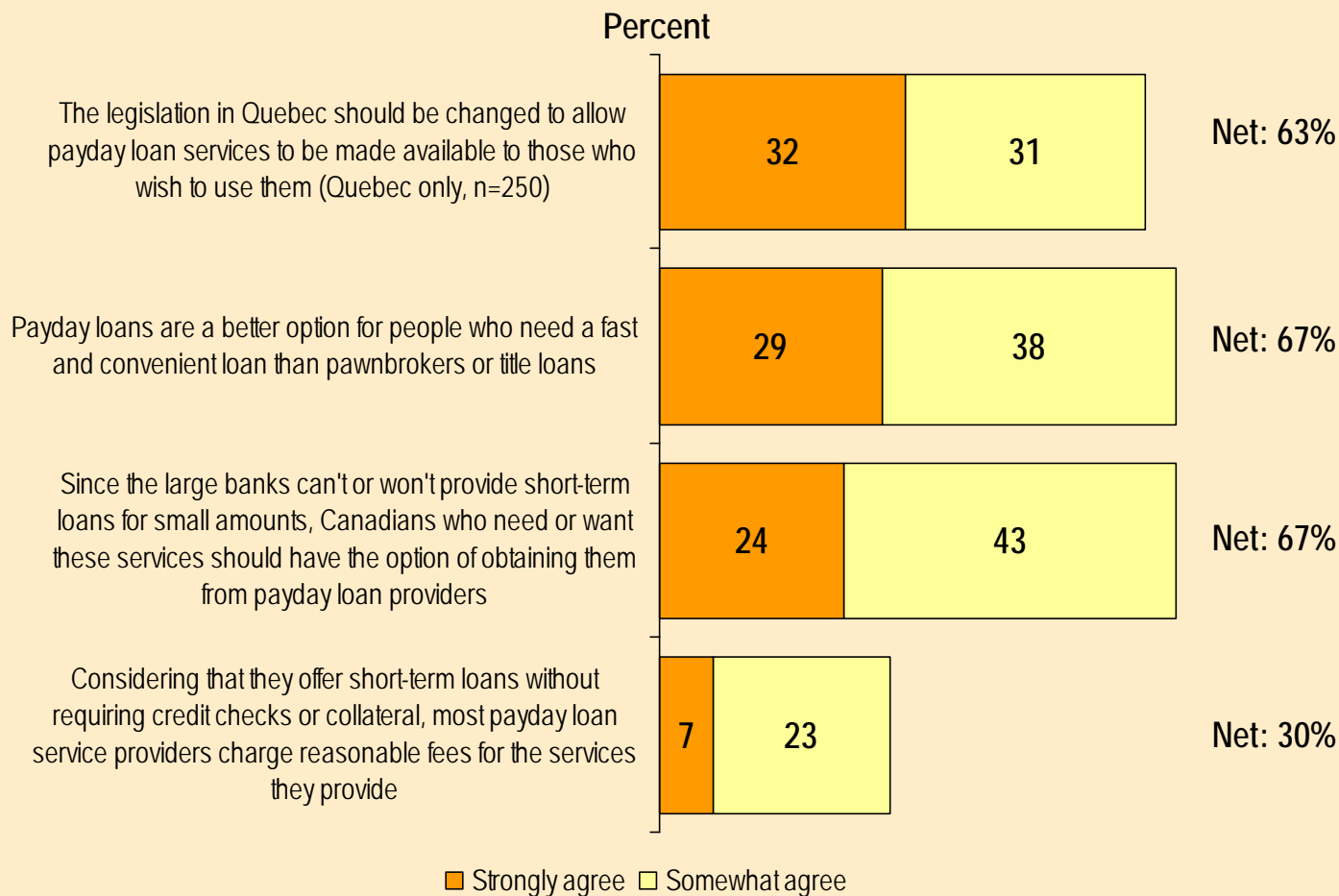
Which of the following reasons do you think is the main reason for why most people take a payday loan?

Base: All Canadians (n=1000)



Attitudes Towards Payday Loans

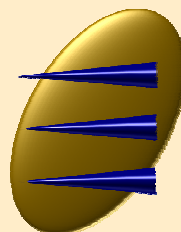
Base: General Population (n=1000)



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ENVIRONICS

33 Bloor St. E., Suite 900

Phone: 416.920.9010

Fax: 416.920.3299

[www . environics.net](http://www.environics.net)



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