Report to
Rapport au:

Community and Protective Services Committee
Comité des services communautaires et de protection
19 September 2019 / 19 septembre 2019

and Council
et au Conseil
25 September 2019 / 25 septembre 2019

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Ward: CITY WIDE / À L’ÉCHELLE DE LA VILLE
File Number: ACS2019-EPS-GEN-0012

SUBJECT: Licensing and Regulation of Payday Loan Establishments (Licensing By-law 2002-189, as amended)

OBJET: Délivrance de permis et réglementation concernant les établissements de prêt sur salaire (Règlement sur les permis 2002-189, dans sa version modifiée)
REPORT RECOMMENDATIONS

That Community and Protective Services Committee recommend that Council approve:

1. An amendment to the City’s Licensing By-law (By-law 2002-189, as amended) to establish regulations for the licensing and regulating of payday loan establishments by the addition of a new schedule No. 34, as well as minor administrative amendments relating to necessary definitions, administrative provisions, licensing and related fees, and expiry date, all in the general form as set out in Document 1 and as described in this report; and
2. That the payday loan establishment licensing regulations set out in Recommendation 1 be conditional upon the coming into full force of related proposed zoning and land use amendments for payday loan establishments, as proposed in Report ACS2019-PIE-EDP-0035.

RECOMMANDATIONS DU RAPPORT

Que le Comité des service communautaires et de protection recommande au Conseil d’approuver :

1. Une modification du Règlement sur les permis de la Ville (Règlement sur les permis 2002-189, dans sa version modifiée) de façon à encadrer la délivrance de permis et la réglementation des établissements de prêt sur salaire par l’ajout de l’annexe 34 et de modifications mineures à caractère administratif qui ont trait aux définitions nécessaires, aux dispositions administratives, aux permis et aux frais connexes, ainsi qu’à la date d’expiration, dans la forme générale du document 1 et de la façon décrite dans le présent rapport; 
2. Que la réglementation sur la délivrance de permis aux établissements de prêt sur salaire mentionnée dans la recommandation 1 soit conditionnelle à l’entrée en vigueur des modifications de zonage et d’utilisation du sol proposées pour les établissements de prêt sur salaire, comme indiqué dans le rapport ACS2019-PIE-EDP-0035.

EXECUTIVE SUMMARY

Assumptions and Analysis

In 2018, Ontario Bill 59 (Putting Consumers First Act, 2017) amended provincial legislation for payday loans to enhance consumer protections and to give municipalities additional tools to address local issues associated with payday loan establishments. As a result of those amendments, City Council in 2018 directed the Planning, Infrastructure and Economic Development department (PIED) and the Emergency and Protective Services department (EPS) to begin separate reviews of payday loan establishments and report back to their respective Committees, as follows:
WHEREAS payday loan establishments are currently licensed and regulated by the Province of Ontario under the *Payday Loans Act, 2008*; and

WHEREAS there are currently 55 payday loan establishments licensed by the Province of Ontario in the City of Ottawa and includes areas of significant geographic concentration; and

WHEREAS section 154.1 of the *Municipal Act, 2001*, authorizes municipalities to define the area in which a payday loan establishment may or may not operate and limit the number of payday loan establishments in any defined area in which they are permitted, effective January 1, 2018; and

THEREFORE BE IT RESOLVED that Council direct the General Manager of Planning, Infrastructure and Economic Development to examine options to establish a cap on the number of payday loan establishments, detail measures to reduce concentration, and bring forward amendments to the comprehensive zoning by-law 2008-250 and report back to Planning Committee; and

BE IT FURTHER RESOLVED that Council direct the General Manager of Emergency and Protective Services to analyze the effectiveness of a licensing regime, in light of the proposed zoning strategy and taking into account that payday loan establishments are currently licensed by the Province, and to report the findings to Community and Protective Services Committee. (MOTION NO. 67/5)

Payday loan establishments are already licensed by the Province of Ontario under the *Payday Loans Act, 2008* (as amended), which establishes a provincial payday loan licensing regime, sets out application requirements, and prescribes regulations for payday loan agreements, borrowing rates and other consumer protection requirements such as provision of information to the prospective borrower (as described further in Document 2). Payday loans are of small value and are required to be re-paid within 14 days. Payday loan lenders offer cash flow to those who often have limited financial options, as described further in this report. There are currently 54 provincially-licensed payday loan establishments in Ottawa, a reduction from 59 establishments in 2017.

The EPS department recommends the establishment of a minimal municipal licensing regime to: (1) support the proposed zoning and land use restrictions proposed by the PIED department in Report ACS2019-PIE-EDP-0035, and (2) to complement the existing provincial licensing regime by adding requirements for the provision of additional information to borrowers not found in the provincial legislation. A joint implementation process is recommended that will bring forward a zoning amendment concurrent with the proposed minimal licensing regime, as further described below.
Public Consultation/Input

Notification and public consultation were undertaken by both PIED and EPS departments regarding the individual minor zoning amendment and licensing reviews, respectively. The EPS department’s public and stakeholder consultations included the posting of a summary of the potential municipal licensing requirements on the City’s Public Engagement web site, and providing notice of the licensing review to key stakeholders such as individual established payday loan businesses, the Association of Community Organizations for Reform Now (ACORN), the Provincial registrar of Payday Loans (under the Ministry of Government and Consumer Services) and the Canadian Consumer Finance Association (CCFA). In addition, EPS staff met with ACORN and received feedback from CCFA and a manager of a local Money Mart establishment.

Comments received from the public were, in the majority, in favour of this proposed municipal licensing regime. There were a few suggestions or comments from the public and ACORN about adding more restrictive requirements or numerical limits to the licensing regulations. Comments from payday loan representatives noted caution on duplication of regulation with the provincial rules and the need to continue to allow changes in ownership. Further detail of input received is provided in Document 3.

BACKGROUND

Motion

In 2018, the province of Ontario introduced amendments to the Municipal Act, 2001 and the Payday Loans Act, 2008 to allow municipalities to establish licensing provisions to limit the locations of payday loan establishments. In consideration of these changes and given concerns regarding the payday loans industry, City Council on April 11, 2018, directed staff in the Emergency and Protective Services department (EPS), by MOTION 67/5 (Part 2), to analyze the effectiveness of a municipal licensing regime considering the proposed zoning strategy for payday loan establishments and taking into account that payday loan establishments are currently licensed by the Province. Council instructed EPS staff to report the findings to the Community and Protective Services Committee.

What is a payday loan?

Pursuant to the Payday Loans Act, 2008, a payday loan is a short-term, small value loan (up to $1,500) in exchange for a future payment, typically intended to be repaid by the borrower on the next pay cheque. The payday loan is unsecured and does not
include a margin loan, pawnbroking, a line of credit or a credit card. The cost of a loan in Ontario is currently limited by legislation to $15 per $100 (for example, $45 interest accrues during the two-week period for a $300 loan).

Other options beyond typical chartered bank loans are credit unions and installment loans. Some credit union services are available with interest rates closer to credit card annual percentages to assist those potential borrowers with lower credit ratings. Sometimes mistaken for payday loans, certain financial services also offer longer term, larger installment loans for those with limited credit ranging from $500-$15,000.

**Legislation**

Federal legislation was amended in 2007 to exempt payday lending from the unauthorized maximum rates regulated by the *Criminal Code of Canada*. The amended regulations in *Bill C-26, An Act to Amend the Criminal Code (criminal interest rate)* defined and set general maximum loan and timeline limits for payday loans but left the operational regulation of payday lenders to individual provinces to regulate. Provincial regulation for payday loans varies in respect of fees, interest rates and consumer protection regulations. The provinces of Quebec and Newfoundland/Labrador require short term lenders to comply with the federal maximum loan rates, instead of higher payday loan rates implemented by the other provinces. In Ontario, the *Payday Loans Act, 2008* provides a complete licensing regime for payday loan establishments.

**Ottawa Situation**

In June 2017, EPS staff submitted an Information Previously Discussed (IPD) report to the Community and Protective Services Committee on Payday Loan Establishments, ACS2017-EPS-GEN-0005, which outlined the history of payday loans and the then regulatory framework, and provided an overview of municipal approaches, issues related to the industry, the provincial licensing regime, and the status of the 59 payday loan locations in Ottawa at that time. There are currently 54 provincially-licensed payday loan establishments in Ottawa, according to recent information available on the Ministry of Government and Consumer Services website.

Existing payday loan establishment locations are in urban areas of the City, with most along arterial or major collector roads with easy pedestrian, vehicular and public transit access. There are several payday loan locations in Wards 8, 12 and 14, representing 42 per cent of the numbers city-wide. Currently, under the City’s Zoning By-law a payday loan establishment is permitted in most commercial zoning designations.
Further to Council direction, staff in the Planning, Infrastructure and Economic Development department have completed their minor zoning amendment review to establish land use regulations addressing the quantity (proliferation) and location of payday loan establishments, as set out in PIED Report ACS2019-PIE-EDP-0035. The focus of the proposed zoning and land use regulations is on reducing the clustering and visibility impacts of payday loan establishments by recommending minimum separation distance requirements between payday loan establishments and other vulnerable land uses, limiting zones where the use is permitted and having other restrictions to reduce their visibility such as prohibiting these establishments in single use commercial buildings and in mixed-use commercial/residential buildings.

A zoning approach in isolation would not be effective without a complementary minimal licensing approach to proactively monitor and enforce the new regulations. A joint implementation process is recommended by PIED and EPS that will bring forward zoning amendments (as set out in Report ACS2019-PIE-EDP-0035) together with a complementary licensing regime for enforcement purposes.

**DISCUSSION**

**Municipal Overview**

On January 1, 2018, provincial legislative changes took effect on the *Municipal Act, 2001*, which allowed municipalities to define an area of the municipality in which a payday loan establishment may or may not operate and limit the number of payday loan establishments in any defined area. Following these amendments, four Cities in Ontario amended their licensing by-laws to regulate and limit the number of payday loan establishments. The Cities of Hamilton, Belleville, Kingston and Kitchener have created licensing regimes that restrict the number of provincially registered payday loan establishments in a defined area, either by Ward or a specific area. Existing locations are permitted to remain despite the locational restrictions. The City of London has taken a limited approach that monitors provincially approved payday loan locations and requires the use to provide additional information to clients including other loan rates and credit counselling links.

Most of the municipalities that regulate payday loan establishments also require payday loan establishments to post other loan rate comparisons beyond what the province requires and other financial consumer information within the premise including the display of material on credit counselling.
The City of Toronto implemented interim licensing regulations that requires proof of provincial license and restricts the number of payday loan establishments to the existing locations. As of May 1, 2018, only the existing number of establishments overall in the City and within each specific ward on that date are permitted to remain, and with no locations within 500m of the Woodbine racetrack. Toronto staff have just begun the public consultation stage of a new review to determine whether these interim licensing regulations will be permanent.

Provincial Licensing

Payday lenders must be licensed by the Province of Ontario under the Payday Loans Act, 2008, which includes procedures for the application process such as an examination of the applicant’s criminal history and financial history as well as that of associated persons and entities to the prospective payday loan establishment. The Act further restricts lending rates, and prescribes obligations for consumer protection and borrowers’ rights, and provides for an inspection and enforcement regime with offences for non-compliance. Further detail is found in Document 2.

Through the years, consumer protection amendments were passed to assist payday borrowers such as prohibiting rollover loans from the same lender, lowering the lending rate from $21 per 14-day cycle to $15, restricting aggressive collection behavior by lenders, more loan rate information and allowing extended loan options. The number of lenders has decreased since 2013. Based on information obtained from the provincial ministry of Government and Consumer Services, the total number of payday loan establishments in Ontario has declined from 1313 in 2013 to 763 in 2019.

Studies

There are numerous research articles and studies completed in North America providing opinions on the payday loan industry. One common theme found in the reviews is that these payday loan providers can display predatory behavior, often leading borrowers into a debt-cycle. Payday borrowers tend to have poor credit records or none, and little or no access to conventional credit sources or desirable alternatives, or borrowers would pursue those lower cost options.¹

¹ An Assessment of Payday Lending: Markets and Regulatory Responses by Finn Poschmann, President and Chief Executive Officer, Atlantic Provinces Economic Council, October 2016
Although the borrowing rates for payday loans are much higher than traditional lenders, a few articles also note that this industry offers an important cashflow to high-risk borrowers. Payday lenders justify higher fees by suggesting that their costs are higher and they are in a business that comes at a higher risk because they do not do a credit check and the loan is unsecured.\(^2\) A Conference Board of Canada review stated that the licensed payday loans industry provides a necessary service for cash-strapped Canadians who lack access to alternate sources of credit in times of need.\(^3\) Many of the concerns with this industry are more focussed on the terms, conditions, and price of these loans. Some of the articles note that clients may turn to unlicensed on-line lenders that are less likely to comply with regulations. It was also noted that legislators should focus as well on borrower education and stronger regulation of the industry.\(^4\)

**Recommendations**

*Recommendation 1 – New Licensing Regime:*

As payday loan establishments are already licensed and regulated by the province, staff are recommending a minimal approach to the proposed licensing regime that supports the proposed zoning restrictions. Both existing and new payday loan establishments wishing to operate in Ottawa will have to apply to obtain a municipal licence. However, staff recommend that the municipal licensing regime not duplicate the regulations already found in the *Payday Loans Act, 2008*. As noted above and in Document 2, the provincial licensing regime already provides for application requirements, financial regulations and consumer protection requirements. The province’s inspection staff already handle these responsibilities under the *Payday Loans Act, 2008*. As a result, staff are recommending municipal licensing provisions to support the monitoring and enforcement of the zoning approach recommended by the PIED (Report [ACS2019-PIE-EDP-0035](#)) and to require the provision of information to borrowers that is not currently

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\(^2\) Payday Loans: A Financial Product with Broader Implications for Vulnerable Consumers by Christine Saulnier, PhD Director, Canadian Centre for Policy Alternatives - Nova Scotia, January 2008

\(^3\) Filling the Gap – Canada’s Payday Lenders by Sabrina Bond of The Conference Board of Canada for the Canadian Consumer Finance Association, November 2016; used by City of Toronto staff in their review

\(^4\) Short-Term Emergency Lending: Examining Usury Law in the United States and Canada By Jessie Bellan & Aiden Talai – Western Journal of Legal Studies, July 2012
required in a visible location in the provincial legislation and related regulations, as set out in the draft licensing schedule found in Document 1.

**Zoning and by-law compliance check:** The proposed amendment to the *Zoning By-law, 2008-250*, as amended, recommends tools to limit concentration of payday loan establishments, restricting them to particular zones and having the uses be situated in fully commercial buildings with multiple tenants. These measures will ensure that urban areas with currently high concentration of payday locations will have a limited opportunity for new payday loans to establish.

An explicit cap (or upper limit) on the number of payday loans establishments is not recommended, as the planning regulations will accomplish the desired effect of limiting increases in concentrated areas without being punitive. Potential reductions in financial options may impact borrowers who use this service. Evidence shows that unregulated online lenders grow in volume quickly when traditional payday lenders are more restrained.5

Furthermore, from a review of other municipal licensing programs, it is apparent that their licensing cap systems do not have a common formula for capping other than based on wards or sectors. This method may have inconsistent density for locations as each ward or sector has different populations. The proposed licensing regime will complement the zoning strategy by ensuring that locations of existing and new payday loan operators are reviewed for compliance with zoning and land use regulations as part of the licensing approvals, which would include how the location conforms to use provisions in the zone and the related performance standards such as setbacks to other payday loan locations.

As part of license application and issuance process, the Chief License Inspector will conduct a zoning compliance review of both existing and new locations to verify if payday loan locations either conform or have legal non-conforming rights with the new zoning regulations. Beyond the necessary zoning review, By-Law and Regulatory Services staff will conduct other reviews to determine whether a location conforms with City by-laws such as the *Building By-law* and the *Property Standards By-law*.

**Provision of information on consumer protection resources:** Staff recommend that payday loan establishments provide additional consumer protection information to

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5 An Assessment of Payday Lending: Markets and Regulatory Responses by Finn Poschmann, President and Chief Executive Officer, Atlantic Provinces Economic Council, October 2016
clients in addition to the provincial regulations in order to assist and inform potential borrowers in their loan decision. The Province already requires payday loan establishments to post comparisons to credit card advances and also requires lenders to show the cost of borrowing as an annual percentage rate in loan advertising and agreements. Staff have determined that the posting of comparison annual rates between payday loan rates and chartered bank rates may not be helpful for consumers as this is not an adequate comparison. Credit card rates are a better comparison with payday loans because people use these advances typically for short-term emergency lending rather than for longer durations associated with secured loans.

As a result, the new licensing regime will require that the payday loan establishment post information on site, visible to all customers, on credit counselling agencies and federal and provincial web sites that provide consumer protection advice to borrows. The provincial site from Consumer Protection Ontario (“Payday loan: your rights”) and the federal site from Financial Consumer Agency of Canada (“Payday Loans”) provide accurate and accessible information on the process, rates, comparisons and options relating to payday loans and where potential borrowers can seek assistance for financial concerns. The Chief License Inspector would prescribe the format of this required bilingual informational poster and provide it to the applicant, as set out in Document 1, to ensure the information is accessible and legible to all consumers.

**Other Licensing Requirements:** Finally, the new licensing schedule will require proof of the location having a valid provincial license under the *Payday Loans Act, 2008*, the requirement to post the City license when approved and the need for insurance similar to other businesses regulated under the *Licensing By-law*. Although the province requires a criminal records check (CRC) from the applicant/licensee, the proposed licensing schedule will require a CRC from the applicant/licensee and the payday loan establishment manager to ensure greater public safety and consumer protection and to allow the Chief License Inspector the opportunity to review the CRC’s findings as part of the license approval process. The Emergency and Protective Services department will also provide consumer protection information about payday loans on the City’s consumer protection website page. Similar to other licensing categories, payday loans establishments will be required to provide any additional information to the Chief License Inspector if he/she deems it necessary to verify compliance with the by-law and will be subject to inspections. Offences will be created for non-compliance with the licensing regime.
Fees:

Provincial licensing fees are $750 for each main office and $990 for associated branch offices. For cities in Ontario, the initial license fee for payday loan establishments ranges from $300 to $1,113 (including zoning verification fee), with the renewal fees ranging from $150 to $796.

The time involved by City staff will be extensive to receive an application, verify zoning, review history of work orders, deal with potential service requests, and conduct an annual inspection to ensure that the required poster is on site. The proposed licensing and other fees are intended to be cost recoverable under the BLRS budget and will not impact the overall approved budget for the department. The recommended fee is $550 for the initial approval and for yearly renewals. The required financial information poster has a fee of $20 for the applicant.

Recommendation 2 – Coordinated Licensing/Planning (Zoning) Approaches:

As noted above, staff’s recommendation is to put into place a minimal licensing regime to support and enforce the proposed zoning and land use regulations, which address the location of payday loans and prevent their clustering. Staff do not recommend a duplication at the municipal level of processes and regulations that already exist under the Payday Loans Act, 2008. As a result, staff recommend that the licensing regime proposed in Document 1 be conditional on, and not be implemented until, the coming into force of the proposed zoning and planning restrictions to address location and clustering of payday loan establishments recommended in Report ACS2019-PIE-EDP-0035.

RURAL IMPLICATIONS

There are no rural implications associated with this committee report, as the by-law will apply city-wide.

CONSULTATION

Notice of this licensing review was carried out in accordance with the City’s Public Engagement Policy. Information providing details on this review was provided on the public engagement page of the City’s web site for a period of four weeks. In addition, an email notice was sent directing key stakeholders to the web site information, which included those in the community and the payday loans industry. A reference to the review in the City’s July 5th Public Service Announcement was completed. There were a few suggestions or comments from the public (five responses) and ACORN about
adding more restrictive requirements or numerical limits to the licensing regulations. Comments from payday loan representatives noted caution on duplication of regulation with the provincial rules and the need to continue to allow changes in ownership or relocation. Feedback from the public engagement process can be found in Document 3.

COMMENTS BY THE WARD COUNCILLOR(S)

Not applicable as this is a City-wide report.

ADVISORY COMMITTEE(S) COMMENTS

No advisory committees were consulted in preparation of this report.

LEGAL IMPLICATIONS

There are no legal impediments to Committee and Council’s approval of the recommendations of this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

FINANCIAL IMPLICATIONS

The proposed $550 annual licensing fee and $20 poster fee do not significantly impact the overall Business Licensing revenue budget in By-law and Regulatory Services. Any required adjustments to revenue are reflected in the annual Operating Budget for By-law and Regulatory Services.

ACCESSIBILITY IMPACTS

There are no specific accessibility impacts associated with the recommendations in this report.

ENVIRONMENTAL IMPLICATIONS

N/A

TECHNOLOGY IMPLICATIONS

N/A
TERM OF COUNCIL PRIORITIES

The recommendations of this report support the 2014-2018 Term of Council Priority of Healthy and Caring Communities (HC): Help all residents and visitors enjoy a good quality of life, economic prosperity and a sense of community well-being by providing healthy, safe, secure, accessible and inclusive places and services.

SUPPORTING DOCUMENTATION

Document 1-Proposed Licensing Amendment (DRAFT BY-LAW)

Document 2-Table showing provincial regulations

Document 3-Public Consultation Feedback

DISPOSITION

Upon approval, Emergency and Projective Services together with the City Clerk and Solicitor’s Office will prepare the by-law for enactment by Council once the complementary zoning and location restrictions proposed in Report ACS2019-PIE-EDP-0035 come into full force and effect. If the zoning and location restrictions proposed by PIED are appealed to the Local Planning Authority Tribunal, the coming into force and implementation of this licensing schedule will be delayed until the planning appeal is concluded.