

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-1: Reference the Pre-Filed Evidence of the CPLA, page 4 of 26

Reference is made to payday lenders offering a range of financial products including “consumer loans”. Please provide details of this product as provided by CPLA members in Nova Scotia and how such loans are distinguished from payday loans.

Response IR-1: CPLA members provide income tax refunds to consumers in Nova Scotia. Consumers have their personal tax returns completed and if eligible for a refund, receive the refund in cash. Fees for this service are prescribed by Revenue Canada.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-2: Reference the Pre-Filed Evidence of the CPLA, page 6 of 26

Please file copies of any submissions made to the jurisdictions identified in this reference; namely: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia.

Response IR-2: Please see attachment.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

**Question IR-3: Reference the Pre-Filed Evidence of the CPLA, page 11 of 26
(Security)**

**Please confirm if any CPLA members are taking any payment
commitments by direct payment from employers.**

**Response IR-3: The question is unclear. Knowledge of specific business
practises by CPLA members is not within the mandate of the
Association. However, if the question means to ask if CPLA
member companies can receive a direct payment from a
customer's employer, point six of the CPLA Code of Best
Business Practises states that Members companies are
prohibited from taking an assignment of wages.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-4: Reference the Pre-Filed Evidence of the CPLA, page 12, of 26

It is stated the “provincial government has decided to charge an annual license fee of \$3,500.00 per outlet.” Section 6 of the Regulations Respecting Payday Lenders approved by Cabinet and posted for use by participants in this hearing establishes a license fee of \$3,000.00 per outlet.

Please advise of the impact of this new figure on the CPLA’s views in relation to setting maximum charges.

Response IR-4: The reference to an annual license fee of \$3500.00 per outlet on page 12 of the Pre-Filed Evidence of the CPLA was in error. The reference should have been to an annual license fee of \$3,000.00 per outlet.

It is the view of the CPLA that the license fee will add between \$1.00 and \$1.53 to the cost of providing the loan. This is determined on the basis of the Deloitte Touche study which determined the average number of loans per store per year of the participants in this study was 1952 loans and the evidence of Rentcash in hearings before the Manitoba Public Utilities Board indicating they grant an average of 3000 loans per store per year.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-5: Reference the Pre-Filed Evidence of the CPLA, page 14 of 26

It is stated “93% of the Halifax metro area outlets are located in neighbourhoods with average annual household incomes of \$35,000.00 and greater. Two thirds are located in areas with average annual household incomes higher than \$45,000.00.”

Please advise who generated the information on household income described above and shown in Appendix G.

Response IR-5: The Stats Can income distribution data by province can be referenced by Statistics Canada Catalogue no. 63-224, source: Small Area and Administrative Data Division, Annual Estimates for Census Families and Individuals (survey 4105) and CANSIM table 111-0041.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-6: Reference the Pre-Filed Evidence of the CPLA, page 15 of 26

- (a) Please advise why Pollara surveyed homes in both Nova Scotia and New Brunswick for the purposes of this hearing.
- (b) What does the margin of error for the Pollara report indicate respecting the validity of the results?
- (c) Can statistically valid data be extracted from the Pollara report with respect to Nova Scotia payday loan customers?

Response IR-6:

- (a) Pollara used customer data from CPLA member companies to complete its surveys across Canada – including in Atlantic Canada. Pollara requested a large initial sample of customers to ensure the survey would be representative of a random sample. Because of the relative small size of New Brunswick and Nova Scotia, Pollara recommended that a large sample size of 400 responses be drawn between the two provinces. 400 responses from New Brunswick and Nova Scotia provide a far more representative sample than what is usually gathered from this region in national surveys.
- (b) A margin of error of +/-4.9% represents a survey that is truly random and representative of the views of payday loan customers in Nova Scotia and New Brunswick. Compared to many other surveys including this same region, the margin of error is considered to be very good.

- (c) **All the data contained in the quantitative report is statistically relevant and accurate to within 4.9%, 19 times out of 20.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-7: Reference the Pre-Filed Evidence of the CPLA, page 18 of 26

The evidence states “customers clearly understand the costs in terms of their payday loan. This understanding is on par with their understanding of the costs and terms of their mortgage, credit cards and bank fees.”

Please advise how this conclusion was reached.

Response IR-7: Pollara asked the question, “thinking about the various financial products that you hold, do you know the approximate amount that you pay for all fees, including administration fees and interest charges?” Respondents answered very similarly to each of the four options – all within the margin of error – allowing us to make the determination we did.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-8: Reference the Pre-Filed Evidence of the CPLA, pages 23-24 of 26

In relation to the maximum costs of credit to be charged in respect of a payday loan, it is stated "the CPLA publicly took the position that a maximum charge of \$20.00 per \$100.00 borrowed would be appropriate (see Appendix 1)."

The evidence goes on to state that at "the time of the recommendation the CPLA had no information as to the regulatory costs, such as licensing fees and bonding requirements...".

- (a) Now that the Nova Scotia regulations have been approved by Cabinet, does the CPLA maintain its recommendation?
- (b) If not, what does the CPLA now recommend and on what basis is this recommendation made?
- (c) Does the CPLA have any recommendations on how to address the various cost components now set out in Section 18 of the regulations?

Response IR-8:

- (a) The CPLA supports the recommendation of Professor Gould set out at page 21 of his evidence.
- (b) Refer to answer provided on question 8(a).

- (c) **The CPLA's recommendations on appropriate fees and charges are included in its original submission at pages 23 – 26.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-9: Reference the Annual Report of the Office of the Ethics and Integrity Commissioner / 2006-2007

- (a) How has the CPLA ensured independence and arms length operation of the compliance commissioner?
- (b) Of the 164 complaints referred to at page 7 of the report how many originated in Nova Scotia?
- (c) Of the 87 complaints which were deemed to warrant further investigation, how many originated in Nova Scotia?
- (d) Of the 16 instances where a Notice of Determination was issued, how many originated in Nova Scotia?
- (e) Is the "mystery shopper" program referred to in the report utilized in Nova Scotia? If so, what results have been obtained?

Response IR-9:

- (a) The Office maintains its independence and arms length operation in a few different ways. No member company is permitted to speak directly with the Commissioner outside of responding to the Notices of Determination or Sanction. This also includes members of the Board of Directors for the CPLA, aside from the President. The President and the Commissioner only discuss budgetary and personnel issues as it pertains to the running of the Compliance Office.
- (b) None of the 164 complaints originated from Nova Scotia.

- (c) **None of the 87 complaints deemed to warrant further investigation originated in Nova Scotia.**
- (d) **No Notices of Determination were issued in Nova Scotia.**
- (e) **The mystery shopper program is utilized across Canada. No member stores in Nova Scotia were found to be non-compliant with the Code of Best Business Practices.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-10: Reference the Pollara Report - General

- (a) Please indicate who managed the survey and focus group and the authors of the survey and focus group.
- (b) Please describe the methodology utilized in designing the survey instrument and executing the survey.
- (c) Please describe what, if any, participation from the CPLA was received in the design of the survey instrument and the interpretation of the results.
- (d) Please provide the stated objectives of the survey.
- (e) Please file a copy of the complete survey instrument used.
- (f) Please provide a copy of the moderators guide followed in undertaking the two focus groups.
- (g) Please comment on what, if any, input into the design of the moderator guide was received from the CPLA.
- (h) Please describe what, if any, input was received in the preparation of draft final reports from the CPLA.

Response IR-10:

- (a) The survey was managed and authored by Michael Marzolini, Chairman of Pollara.
- (b) Pollara reviewed questionnaires used by another polling firm for previous quantitative surveys for the CPLA. Pollara spoke

with the CPLA to determine its broad objectives and then designed a questionnaire in keeping with the professional standards of The Market Research Industry Association, which regularly audits its members' methodology, and of which POLLARA is a Gold Seal Member. Pollara requested customer records from CPLA member stores in New Brunswick and Nova Scotia and randomly contacted these customers to ensure results consistent with geographic and market distribution).

- (c) **CPLA was consulted on the design of the questionnaire – the normal procedure used for all of Pollara's clients - however the final design and approval of the statistical integrity of the questionnaire was done by Pollara. Interpretation of the results was conducted by Pollara.**
- (d) **The objective of the survey was to obtain the first-ever statistically relevant data on the attitudes and opinions of payday loan customers in Nova Scotia and New Brunswick for submission to the Nova Scotia Utilities and Review Board and eventually a similar body in New Brunswick as part of an evidence package in a rate setting exercise.**
- (e) **Attached.**
- (f) **Attached.**
- (g) **CPLA was consulted on the design of the moderator's guide – the normal procedure used for all of Pollara's clients - however the final design and approval of the moderator's guide was done by Pollara.**
- (h) **The CPLA may have asked for additional detail and explanation in some areas – as is normal for Pollara's clients - however the Interpretation of the results and preparation of the final report were conducted by Pollara.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-11: Reference the Pollara Report, page 2 of 17

- (a) Of the 41% of respondents who have no post-secondary education, what percentage would have less than a Grade 12 education?**
- (b) How was it determined that the respondents would expect to pay, on average, \$28.04 for interest and administration fees to borrow \$100.00 for two weeks?**

Response IR-11:

- (a) The CPLA may have asked for additional detail and explanation in some areas – as is normal with Pollara’s clients - however the Interpretation of the results and preparation of the final report were conducted by Pollara.**
- (b) Respondents were asked to give a dollar figure – with no cents – that they believed they would pay for a \$100 loan for two weeks. These answers were then combined and an average of the answers was presented.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-12: Reference the Pollara Report, page 3 of 17

Why is a difference of 7% between customers' awareness of payday loan costs as compared with credit card costs not considered significant?

Response IR-12: The answers received on the awareness of the approximate amount that customers paid in fees for payday loans and credit companies were within the margin of error – indicating that customers have a comparable knowledge. Pollara believes that it is a significant finding that customers have relatively high levels of understanding for what they pay for their home mortgage, credit card, bank account and payday loan.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-13: Reference the Pollara Report, page 4 of 17

How is the term “necessities” defined in this context?

**Response IR-13: The term “necessities” was not defined for respondents.
Presumably, the respondents interpreted “necessities” as
whatever was necessary for them.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-14: Reference the Pollara Report, page 8 of 17

What explanation is available for payday loans having received the lowest satisfaction scores of all financial services and products identified?

Response IR-14: A mean score of 6.1 is considered neutral, border lining on positive. As a quantitative survey instrument, the direct explanation for why payday loans rated below other financial products is that respondents rated other financial products higher than a payday loan.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-15: Reference the Pollara Report–Customer Perceptions of Payday Loans, page 2 of 10

- (a) How many people participated in the focus group?
- (b) How were participants chosen?
- (c) Did the participants come from all parts of Nova Scotia?
- (d) Is the focus group representative of the payday loan customers in Nova Scotia?
- (e) How was the validity and credibility of the responses for participants assessed?

Response IR-15:

- (a) 10 respondents participated in the focus group.
- (b) Focus group respondents were recruited randomly by telephone, from the survey sample.
- (c) The focus groups were conducted in Halifax; therefore the participants were based in Halifax and surrounding areas.
- (d) Focus groups findings are not statistically relevant – they are designed to drill down on quantitative answers to give further meaning and direction to “why” respondents answered the way they did in quantitative surveys.

- (e) **All responses received by focus group participants – payday loan customers – were determined to be “valid” and “credible”.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-16: Reference the Ernst & Young Report, page 6 of 59

**Why are advances against tax refunds said to be “in effect”
secured loans?**

**Response IR-16: In effect, a tax refund is an amount owed by the Government
of Canada. As such it represents the same security as the
pledge of a Government of Canada bond.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-17: Reference the Ernst & Young Report, page 20 of 59

How did the sample of the companies responding to the survey circulated of Ernst & Young satisfy the criteria of being representative of the population?

Response IR-17: The criteria were to obtain responses from at least 15 companies representing at least one-third of the industry revenues. The survey group of 19 companies with \$830 million in revenues exceeded the minimum requirement.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-18: Reference the Ernst & Young Report, page 23 of 59

- (a) Is it known whether the 14 respondent stores are representative of the payday loan business in Nova Scotia?**
- (b) Can the results of a national survey such as the Ernst & Young Report be utilized when determining matters within the UARB's jurisdiction in Nova Scotia?**

Response IR-18:

- (a) The identity of the 14 stores was not disclosed. Consequently, it is not possible to determine whether these stores are or are not representative of the payday loan business in Nova Scotia.**
- (b) Yes. The national survey provides useful information on the payday loan industry that can assist the Board in determining how to regulate the companies under its jurisdiction.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-19: Reference the Ernst & Young Report, page 26 of 59

- (a) Why is it stated “banks are the closest analogue to payday lenders among the industries listed above”?**
- (b) Does the CPLA consider a 15% rate of return on equity to be reasonable for payday lenders?**

Response IR-19:

- (a) Although banks are very different from payday loan companies, they are both part of the financial sector. Payday loan companies share more similarities with banks than the other industries for which averages are available.**
- (b) No. Both the Ernst & Young Report and the Deloitte Report stated that this was a conservative assumption.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-20: Reference the Ernst & Young Report, page 41 of 59

It is stated:

“Figure 7 demonstrates the diversity of experience within the industry with respect to the proportion of first-time customers as a percentage of the total customer case. While many companies rely largely on repeat business, there are some companies that have high or very high proportions of first-time customers. These businesses are likely to be new or rapidly expanding businesses.

- (a) How would CPLA's recommendations on maximum cost of credit impact on new business?**
- (b) On rapidly expanding business?**

Response IR-20:

- (a) and (b) The recommendation on the maximum fee is a single rate that blends the cost of first time and repeat customers. As such it reflects a fair rate for all companies.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-21: Reference the Ernst & Young Report, page 45 of 59

CPLA's recommendations on the maximum cost of credit appear to reflect the results of Ernst & Young's average unweighted cost of providing payday loans for the industry as a whole.

- (a) Does CPLA prefer the average unweighted cost method? Is so, why?**

Response IR-21:

- (a) Yes. The weighted average does not adequately reflect the cost structure of the small and medium size payday loan companies.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-22: Reference Part IV – Deloitte Touche Report, 2007,
Page 1 of 12 from CPLA

- (a) Can five respondents be considered a representative sample of the Manitoba market?
- (b) Can the results of this survey be considered representative of the Nova Scotia market?

Response IR-22:

- (a) As stated on page 2 of the Deloitte Touche report, "It should be noted that as not all payday lenders responded to the survey that the results may not be representative of the industry as a whole."
- (b) No, they cannot for the same reason as the response above in (a).

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-23: Reference Deloitte Touche Report 2007, Page 8 of 12

- (a) Was cost analysis limited to Manitoba store specific information and reporting or based upon national average per store cost analysis for multi-outlet respondents?
- (b) Given further maturity in the payday loan industry since the EY study (2004 to 2007), would Deloitte have expected decrease in costs of operation over the period? If not, why not?
- (c) How does the source of capital used for payday lending, which has been identified as varying greatly, impact the cost per transaction findings?
- (d) Please advise and provide any information supporting the variance in bad debt figures reported.

Response IR-23:

- (a) For multi-outlet respondents, only costs associated with Manitoba operations were included in the calculations.
- (b) Deloitte performed the study without any expectation of an increase or decrease in costs as Deloitte does not have the detailed information utilized to prepare the E&Y report. In addition, the E&Y report was on a National basis, not Manitoba specific.

(c) Based on sensitivity analysis, the cost per \$100 loans when cost of capital (COC) is at:

- **13.6% is \$0.68**
- **15% is \$0.73**
- **20% is \$0.97**
- **25% is \$1.21**

Deloitte used 13.6%, consistent with the E&Y Report which varies from the highest COC considered of 25% by \$0.53 per loan.

(d) Based on discussions with participants, the variance may be due to different credit and collection policies.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

**Question IR-24: Reference Deloitte Touche Report 2007, Section 2.0
Background and Purpose of Report/Introduction Letter**

**Given the response level to the report, please detail any
procedures used to confirm whether any content of the report
is statistically valid and representative of the industry in
Manitoba?**

Response IR-24: Refer to answer to IR-22 (a).

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD**IN THE MATTER OF: THE CONSUMER PROTECTION ACT****IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans****RESPONSES TO INFORMATION REQUESTS (December 14, 2007)**

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

**Question IR-25: Reference Deloitte Touche Report Section, 3.2/5.2
Operating Cost of Pay Day Loans**

- (a) Without identifying the participants, please provide the amounts and relative weightings of each line for the multi line business
- (b) Please discuss what if any other process could have been utilized to allocate operating costs to payday loans
- (c) Without identifying the participants, please provide a schedule which details the operating costs, by each participant, the amounts allocated to payday loans, and other supporting calculations used to determine the average operating cost per \$100 and the average operating cost per \$100 of loan of \$20.95. Please indicate all adjustments made discreetly to each for the adjustments set out in section 3.2.2
- (d) Please file a table recalculating the average operating cost per \$100 and the average operating cost per \$100 loan for each participant based on allocated operating costs incorporating both the payday loan and cheque cashing business lines.
- (e) Please provide the breakdown of revenue by business line determined for each participant.

- (f) Please provide the supporting calculations for the operating cost per loan based on \$volume per store in support of the data points included in the chart at section 5.2.

Response IR-25:

- (a) Specific amounts cannot be disclosed due to confidentiality reasons. Weightings for revenues by business line are as follows:

	#1	#2	#3	#4	#5
Payday Lending	81.17%	93.00%	87.03%	94.88%	68.94%
Cheque Cashing	18.33%	3.50%	11.42%	5.12%	28.11%
Money Transfers	0.14%	3.50%	0.12%	0.00%	1.13%
Tax Preparation/discounting	0.09%	0.00%	0.00%	0.00%	0.00%
Money Orders	0.00%	0.00%	0.84%	0.00%	0.79%
Other (Please Identify)	0.27%	0.00%	0.59%	0.00%	1.03%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

- (b) Based on information available and discussions with respondents, no other reasonable method to allocate costs to the payday lending portion of the business was identified. Potential suggestions included:

- tracking hours spent by employees in various business lines
- standard costing

Deloitte agreed with respondents that these methods may be plausible in theory, but that the information to calculate these methods is not readily tracked and available.

- (c) Deloitte declines to respond to this question due to confidentiality reasons. Deloitte's letter of August 27, 2007 to each potential respondent states, "Information from individual respondents will not be shared with the Association or disclosed in the report." Even without specifically identifying respondents by company name, including dollar values and the types of adjustments provides sufficient data to accurately identify respondents. In addition, individual company data was not provided to Deloitte's client, the CPLA, therefore, it will not be shared with any other party.

- (d) **Declined due to confidentiality reasons. Additionally, information would need to be obtained from certain respondents in order to accurately perform this calculation (specifically, Deloitte would require an allocation or method for allocation, of costs related to cheque cashing).**
- (e) **Refer to response above for a).**
- (f) **Deloitte cannot show the calculation for each respondent due to confidentiality reasons. Note that the volume per store is calculated as a simple average (i.e., if the respondent had operating costs of \$15 per loan and 3 stores with total volume of \$1.2M, the graph shows that respondent as \$15 per loan at \$400k volume).**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-26: Reference Deloitte Touche Report, Section 3.3 Cost of Loan Capital

- (a) Please provide supporting calculations in support of each component of the weighted average cost of capital ("WACC") calculation of 14%, including capital structure, cost of debt and cost of equity
- (b) Please explain why a range of WACC was not utilized and how 14% was determined and is in your view a conservative estimate
- (c) Please provide a table detailing the range of WACC for each of the companies which participated, utilizing the debt and equity returns used in the 14% WACC cited and the varied actual capital structures of each participant.

Response IR-26:

- (a) See response to IR-33.
- (b) The range was not used because of its relative significance in comparison to overall costs (as seen above in Deloitte's response to IR-23(c). 14% was used to be consistent with the E&Y Report for comparability (13.6% used by E&Y) and is conservative because of the risks associated with the industry.

- (c) **Deloitte's calculation [as seen above in (a)] did not consider the WACC for each respondent individually. The calculation is based off average loan term, average loan size, and a WACC assumption. WACC's cannot be accurately provided for each respondent without obtaining or estimating their individual cost of capital. As each company would have certain similar risks and opportunities, each would also have several different factors impacting their cost of capital. Therefore, precisely estimating a cost of capital based on the survey responses is not possible. Therefore, separate WACC's were not calculated.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-27: Reference Deloitte Touche Report, Section 3.5, Bad Debt Costs

- (a) Based on your discussions, what portion of loans in default greater than 90 days were ultimately collected
- (b) Please provide a schedule with the detailed calculations in support of the total bad debt costs by component, given the formula provided on page 7.

Response IR-27:

- (a) As a result of the nature of the responses received, Deloitte cannot disclose particulars of loans in default for specific periods of time without breaching confidentiality. An aggregated number for loans in default is set out in the table in the answer to (b) below.
- (b) Based on four usable responses:

Debts that went into default	\$965,300
Amount of these default loans not collected	237,859
Non-collected amounts as a % of default loans	24.6%
Bad debts – principal amount	237,859
Bad debt principal as % of total volume	3.5%
Operating costs allocated to bad debt (bad debt principal % multiplied by total operating costs)	57,508
Supplementary capital cost allocated to bad debt	1,759
Total bad debts costs	297,126

Total loans excluding bad debt ("good loans")	6,583,316
Total bad debt costs per \$100 of good loans	\$4.51

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

**Question IR-28: Reference Deloitte Touche Report, Section 3.2.2 Payments to
Affiliate Companies, page 5 of 12**

**Please provide details of all adjustments made to operating
expenses for payments of management fees, royalties etc
which were not cited in your report including the rationale for
each adjustment made?**

**Response IR-28: All adjustments and instances are described within Section
3.2.2 of the Deloitte Report.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-29: Reference Deloitte Touche Report, Section 3.2.2, Payments to Owners, Page 5 of 12

Please provide details of the adjustments made to operating expenses to adjust payments to owners to fair market value including a definition of what was considered to be fair market value for the adjustments made.

Response IR-29: Deloitte's analysis included several components. Firstly, a preliminary calculation of 'salary per hour' for each manager/owner was examined. Secondly, Deloitte discussed with each manager/owner regarding the level of service provided in comparison to any staff employed, and made our own comparison of service provided compared to other respondents. Lastly, Deloitte considered the geographical location of the company in Manitoba. Based on professional judgment, no significant adjustments were necessary.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD**IN THE MATTER OF: THE CONSUMER PROTECTION ACT****IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans****RESPONSES TO INFORMATION REQUESTS (December 14, 2007)**

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-30: Reference Deloitte Touche Report, Section 4.0, Discussion of Survey Results:

The Report indicates that the data collected from the survey results were reviewed and analyzed in detail, however not audited. Could you please describe the review and other analysis undertaken to obtain comfort that the responses were reasonable and could be utilized for the purposes of this study

Response IR-30: Deloitte examined the data received to identify abnormalities. This process included:

- Side by side comparison of the respondent's results
- Vertical analyses
- Ratio analyses
- Comparison of specific statistics to the E&Y Report and industry norms

Deloitte also held telephone conversations with respondents who did not provide audited financial statements regarding the status of any software used to track loans (off-the-shelve products vs. custom programs), their understanding of the question in the survey, and the certification of any external accountant who prepares the statements, among other items. Specific tests as would normally be performed as part of an audit engagement or review engagement were not performed

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

**Question IR-31: Reference Deloitte Touche Report, Section 4.1, Product line
Activity, Page 9 of 12**

**Without identifying the respondents, please provide details of
number of loans, dollar volumes, loan defaults, etc in support
of the aggregate information presented in your table on page
9**

**Response IR-31: Information contained in Section 4.1 of the Deloitte report is
as detailed as can be provided without breaching promises of
confidentiality.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

**IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans**

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-32: Reference Deloitte Touche Report, Section 4.1, Breakdown of Fees, Page 10 of 12

Please provide a detail of the breakdown of all fees charged by each participant and Deloitte's description and understanding of the fees?

Response IR-32: Declined due to confidentiality reasons.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-33: Reference Deloitte Touche Report, Section 5.1, Page 11 of 12

Please provide details in support of all figures presented in the table.

Response IR-33:

Total operating costs of respondents	\$2,481,604
Operating costs allocated to payday lending portion of business	2,166,036
Adjusted operating costs	(516,861)
Net payday loan operating costs	1,649,174
Total volume of loans issued	7,873,053
Operating cost per \$100 loan	\$20.95
14% assumption	14%
Average length of loan (in days)	\$17.72
Average loan size of respondents	269
Cost of capital for average size loan [avg. loan size X 14% X (17.72/365)]	1.83
Cost of capital for \$100 loan [(100/avg. loan size) X Cost for avg. loan]	\$0.68
14% assumption	14%
Supplementary capital	421,764
Cost of supplementary capital	59,047
Cost of supplementary capital per \$100 loan	\$0.75
Cost of Bad Debts per \$100 loan supported in answer to IR-27	\$4.51
TOTAL	\$26.89

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-34: Reference L. Gould Report 2007, Pages 9, 10

- (a) To what extent should the Board consider the varied capital structures of enterprises in the determination of what would be an equitable rate to charge to the public for payday loans?
- (b) Please comment on your view of the state of the competitive market for payday loans in Nova Scotia?

Response IR-34:

- (a) The proportions of debt and equity in the capital structure of a company will affect the cost of providing payday loans. Equity capital costs substantially more than debt capital in part due to the tax deductibility of interest payments in determining income tax. This is a factor that should be taken into account in setting the maximum allowable fee for payday loans. However, the cost of capital is a very small component of total costs, so the Board may choose to impute a capital structure other than the capital structure actually employed by each company.
- (b) The market for payday loans in Nova Scotia consists of at least nine different companies, including the stores of three large chains. There are no barriers to entry and entry costs are low. Companies differentiate their product through geographic location, hours and quality of service, and credit risk, with small companies able to compete with the large chains.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD**IN THE MATTER OF: THE CONSUMER PROTECTION ACT****IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans****RESPONSES TO INFORMATION REQUESTS (December 14, 2007)**

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-35: Reference L. Gould Report 2007, General

- (a) Please elaborate on what is meant by a fair rate of return if smaller payday loan companies were required to charge a fee in the range of 23 to 27 dollars
- (b) Please provide the low return implicit in your recommended fee Range of \$20.00 to \$23.00.
- (c) Please discuss whether a notional or actual capital structure should be utilized in setting an appropriate weighted average cost of capital
- (d) Should the weighted average cost of capital vary depending on the size of the enterprise?
- (e) Please provide your view on what equity risk premium should be incorporated in a weighted average cost of capital calculation.
- (f) Please provide a suggested variable fee structure which illustrates your proposition that different fee structures could produce the same revenue as the fee per \$100 of payday loans, consistent with your recommended fee range.
- (g) Please explain how setting a maximum fee for payday loans at \$23.00 per \$100 of loan would result in entry of new companies in the Nova Scotia market.

Response IR-35:

- (a) **A fair rate of return is defined as a company's cost of capital. Assume that all companies have the same cost of capital, but different cost structures. Any companies with a cost structure greater than that assumed in the Board's maximum allowable fee will be unable to earn a fair rate of return, that is, earn their cost of capital.**
- (b) **The recommended fee range of \$20 to \$23 is based on cost structures, not rates of return. The estimates in both the Ernest & Young Report and the Deloitte Report used a constant cost of capital across all firms.**
- (c) **Please see the response to IR-34 (a).**
- (d) **Yes. In general, size is inversely correlated with the weighted average cost of capital.**
- (e) **I did not estimate the cost of capital. The cost of capital was estimated in the Ernst & Young Report and the Deloitte Report.**
- (f) **I do not recommend a variable fee structure. However, I will provide an illustration of how it could be done.**

The concept is similar to rate design in public utility regulation. First, the required level of aggregate rates to cover total costs is determined. Second, a structure of rates is set to apportion the total costs among customers and categories of service.

For simplicity assume three loans of \$200, \$300 and \$400 totalling \$900. Further assume that \$180 is needed to cover total costs. One way to achieve this is by setting the fee at \$20 per \$100 of loan value, which would set fees at \$40, \$60, and \$80 for the three loans. However, the same revenue could be achieved by many different fee structures. For one example, consider the fee structure:

25% of the first \$200 of loan principal + 10% of the loan principal above \$200

This would set fees at \$50, \$60 and \$70 for the three loans. The cost per \$100 is higher for the smaller loans, but it produces the same \$180 required to cover total costs.

- (g) **My assumption was that new companies entering the market would be small companies.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD**IN THE MATTER OF: THE CONSUMER PROTECTION ACT****IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans****RESPONSES TO INFORMATION REQUESTS (December 14, 2007)****TO: NSUARB****FROM: CANADIAN PAYDAY LOAN ASSOCIATION**

Question IR-36: Reference L. Gould Report 2007, Page 4 of 32

With reference to the payday loan product, the statement is made "it is not designed to be a form of revolving credit". Please explain this statement.

Response IR-36: Revolving credit allows the borrower to use funds up to a pre-approved credit limit over the period of the credit agreement. The borrower pays interest on the funds used, but there is no fixed repayment schedule, subject to any minimum payment requirement. Therefore, there may be a loan balance outstanding for a long period.

Payday loans are designed to meet unexpected cash needs on an occasional use basis. It is a short-term loan, typically one or two weeks, which must be repaid in full.

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loans

RESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB
FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-37: Reference L. Gould Report 2007, Page 5 of 32

- (a) The statement is made “there is no meaning to annualizing the cost of a one or two week loan, or compounding it to an annual figure as an effective annual return”. Please explain why these calculations are not applicable to payday loan products.
- (b) What methodology for cost of credit valuation is appropriate to apply to loan fees so as to allow comparisons between payday loans and other short term borrowing options? Explain other appropriate valuation measures available for this purpose.

Response IR-37:

- (a) Consider an individual who wants to borrow \$300 for one year given the following options:
- 3.0 % quarterly interest, paid annually
 - 1.1% monthly interest, paid annually
 - 12.0 % interest: calculated monthly, paid monthly
 - 12.0 % interest: calculated semi-annually, paid monthly

There is information provided to the borrower by annualizing the first two options to 12.0% and 13.2% for comparison. There is also information provided in calculating an effective annual return for the second two options to compare 12.68% and 12.36%. The information is useful because it facilitates

the comparison of loans of the same term with interest quoted in different ways.

Annualizing the cost or compounding the cost to an effective annual return is not a correct application for a \$300 payday loan with a one or two week term.

- (b) The simplest and best method to compare payday loans with other short term borrowing options is to use the dollar cost. A borrower knows the exact dollar cost of a two week \$300 payday loan when the post-dated cheque or pre-authorized debit is made out. This can easily be compared to the dollar cost of any other short-term borrowing option.**

2007

NSUARB-PD-07-001

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: THE CONSUMER PROTECTION ACT

IN THE MATTER OF: a Hearing respecting certain aspects of the
Consumer Protection Act relating to payday loansRESPONSES TO INFORMATION REQUESTS (December 14, 2007)

TO: NSUARB

FROM: CANADIAN PAYDAY LOAN ASSOCIATION

Question IR-38: Reference L. Gould Report 2007, Page 30 of 32

- (a) With respect to profitability shown in Table 9 for the Canadian bank index, please explain why such comparison is appropriate to payday lenders.
- (b) Are differences in profitability measures due to size of banks versus size of payday loan companies?
- (c) Are there any other factors or differences which support or negate use of the Canadian bank profitability index as a measure for consideration respecting Nova Scotia payday lenders?
- (d) If banks and/or credit unions enter the Nova Scotia market under the newly regulated model in this province, or these institutions enter the market in other Canadian jurisdictions, would the author expect them to be able to provide services at a lower cost than existing payday lenders? If so, why?

Response IR-38:

- (a) Assessing the profitability of the Canadian payday loan industry is constrained by data availability. The only publicly available information is from Rentcash Inc. and Dollar Financial Corp. Furthermore, Dollar Financial Corp. is a U.S. company with only limited information on its Canadian operations. Both companies require adjustments to isolate payday lending operations. This was done in Table 8 and Table 10.

Choosing an industry for comparison with the Canadian payday loan companies is also constrained by data availability. No index of small loan companies is available, and banks are the closest of the available industries.

- (b) As a risk variable, size is inversely correlated with risk, so on that dimension, payday loan companies would be riskier.**
- (c) There are many other differences between banks and payday lenders. For example, banks loans are different in type and borrower. The Canadian Bank Index was selected on the basis that it was the closest industry index to payday lending that was available.**
- (d) The role that banks and credit unions might play in providing payday lending services was raised in the Review of Maximum Charges for Payday Loans before the Public Utilities Board of Manitoba, but I have seen no evidence to indicate that this will actually occur. There was no participation by banks or credit unions in that hearing and, to the best of my knowledge, they have not participated in this proceeding. On that basis I do not expect banks or credit unions to provide services similar to payday lenders at a lower cost.**