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

<u>RESPONSES TO INFORMATION REQUESTS (December 14, 2007)</u>

TO: **THE CASH STORE INC. and ASSISTIVE FINANCIAL CORP.**

FROM: **CANADIAN PAYDAY LOAN ASSOCIATION**

Question IR-1: Please refer to Part I, Pre-Filed Evidence of the CPLA, p. 3.

(a) It is noted that the industry has grown to an estimated 1,251 payday loan outlets across the country. Please indicate the source of this data.

Response IR-1: (a) An industry survey was performed in-house. During early September, 2007, an employee searched the yellow pages, internet and performed follow-up telephone calls.

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Question IR-2: Please refer to Part I, Pre-Filed Evidence of the CPLA, p. 5.

(a) It is noted that the CPLA has 23 member companies, representing approximately 501 stores and that one of the CPLA's members operates 5 outlets in Nova Scotia. Please confirm the name of this member.

(b) Do any other CPLA members operate outlets in Nova Scotia?

Response IR-2: (a) Money Mart.

(b) No.

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Question IR-3: Please refer to Part I, Pre-Filed Evidence of the CPLA, p. 12.

(a) You have stated that the Provincial Government has decided to charge an annual license fee of $3,500 per outlet. However, the Service Nova Scotia Discussion Paper dated June 2007 suggests an annual licence fee of $3,000 per outlet. Please verify the source of your information.

(b) Please indicate if these new costs are taken into account in the analysis conducted in the Deloitte & Touche submission and the Gould submission.

(c) Please discuss the impact on these conclusions if licensing fees are not taken into consideration.

Response IR-3:

(a) The reference to an annual license fee of $3500.00 per outlet was an error in the Pre-Filed Evidence. The statement should have referred to a license fee of $3,000.00 per outlet.

(b) The new costs are not taken into account in the analysis conducted in the Deloitte & Touche submission and the Gould submission.

(c) The conclusions in the Deloitte & Touche submission and the Gould submission with respect to the cost to offer a payday loan are lower than the actual cost because the licensing fees are not taken into consideration.

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Question IR-4: Please refer to Part I, Pre-Filed Evidence of the CPLA, pp. 24-25.

(a) The CPLA previous recommended a maximum charge of $20.00 per $100.00 borrowed. However, it is noted that at the time of this recommendation, the CPLA had no information as to the regulatory costs, such as licencing fees and bonding requirements, that would be added to the industry's cost structure or the regulatory time-frames over which specific maximum rates would remain in effect under provincial regimes. Please identify any other factors that would affect the reliability of this figure, e.g. elimination of rollovers by CPLA members and others in the industry, inflation, etc.

Response IR-4: (a) Inflationary increases to operating costs may affect the recommendation.

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Question IR-5: Please refer to Appendix A of the Pre-Filed Evidence of the CPLA.

(a) Was there any special assessment members were asked to contribute to?

(b) Please provide the annual membership fees.

Response IR-5: (a) Yes.

(b) Regular membership fee is $1000.00 per store per year. Founding membership fee is $2,475.00 per store per year.

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Question IR-6: Please refer to Appendix E of Pre-Filed Evidence of the CPLA.

(a) Cash Money is listed as a member company. Please clarify whether Cash Money is a current member of the CPLA.

(b) If Cash Money is no longer a member of the CPLA, please provide the current store and company membership count of the CPLA.

Response IR-6: (a) Cash Money is no longer a CPLA member.

(b) 23 companies, 507 stores.

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Question IR-7: Please refer to Part II, Pollara Report.

(a) Satisfaction of payday loan customers in Nova Scotia is quite high. Nova Scotians' understanding of the payday transaction is also quite high. Do you agree that this data is an indication that the Nova Scotia market should be able to dictate the cost of borrowing on payday loans.

Response IR-7: (a) The CPLA agrees that the data is an indication that the Nova Scotia market should be able to dictate the cost of borrowing on payday loans.

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Question IR-8: Please refer to Part III, Ernst & Young Report.

(a) Please provide a blank form of the detailed questionnaire

Response IR-8: (a) Please see attachment from the Ernst and Young report.

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Question IR-9: Please refer to Part III, Ernst & Young Report, p. 6.

(a) It is indicated that adjustments were made to the broker and insurance models to ensure the cost calculation was comparable across these different models. Please provide the worksheets regarding these adjustments and explain in detail how they were made and the assumptions used.

Response IR-9: (a) The CPLA did not receive the worksheets regarding adjustments made to the broker and insurance models.

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Question IR-10: Please refer to Part III, Ernst & Young Report, p. 36.

(a) In reference to the Ernst & Young Report at p.36 that there is a 15:1 ratio of repeat to first-time customers, the CPLA accepts this conclusion. This is from a 2004 report that included rollovers. Please advise whether and how this ratio remains accurate in light of the fact that CPLA members have since banned rollovers.

Response IR-10: (a) The CPLA does not have any current or updated reports regarding the ratio of repeat to first time customers.

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Question IR-11: Please refer to Part IV, Deloitte & Touche Reports.

(a) The reports indicate that the average loan size in Nova Scotia is $202.74 as compared to $268.99 in Manitoba. The Pollara Report, however, shows average loans are higher in Nova Scotia. Please reconcile the Deloitte & Touche Reports with the Pollara Report.

Response IR-11: (a) Differences in the average loans size are a factor of respondents included in the respective reports. The Deloitte Report indicates that the average loan size in Nova Scotia based on the respondents is $202.74.

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Question IR-12: Please refer to Part IV, Deloitte & Touche Reports, p. 9.

(a) With respect to the reference to bad debts in the Table on p. 9, please advise of the exact amounts reported by each store providing information as well as the year in which these losses occurred.

Response IR-12: (a) Declined due to confidentiality reasons.

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Question IR-13: Please refer to Part V, Lawrence I. Gould Report, p. 16.

(a) It is noted that "Table 9 provides three measures of profitability for the Financial Post Canadian Bank Index." Please indicate the rationale for the use of the Financial Post Canadian Bank Index to determine reasonable return.

(b) Is there an index that would more accurately reflect the higher risk taken on by the payday loan sector? If so, please identify and provide.

Response IR-13: (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.

In addition, 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.

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Question IR-14: Please refer to Part V, Lawrence I. Gould Report, p 20.

(a) Please provide financial calculations and documents upon which recommendations are based.

(b) Please confirm for the various data sources relied upon which of these sources are based on an environment where a majority of payday lenders provided rollovers.

Response IR-14: (a) Professor Gould relied primarily on the E & Y Report and my analysis of the publicly available data for Dollar Financial Corp. and Rentcash Inc. as described in my report. Professor Gould considered the Deloitte Report as a factor in judging how costs had changed after the publication of the E & Y Report.

(b) The Ernst & Young Report treated rollovers, extensions and re-writes as being equivalent in their study, but they were aware that some companies had adopted a policy of banning rollovers. Professor Gould's analyses of Money Mart and Rentcash Inc. considered the impact of the elimination of rollovers. Professor Gould noted in his report (page 17) that this had resulted in sharply increased expenses and declining revenues for Rentcash Inc. The Deloitte Report reflects the current environment, but it did not provide any information on rollover loans.

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Question IR-15: Please refer to Part V, Lawrence I. Gould Report, p. 21.

(a) Mr. Gould recommends that the Board set the maximum fee for payday lending in the range of $20-$23 per $100 of payday loan. He states that a fee of $23 would allow smaller companies to operate in Nova Scotia, allowing the forces of competition to operate more fully. Please reconcile this statement with the Deloitte & Touche Reports, which indicate the cost to operate smaller companies is $26.87 per $100.

Response IR-15: (a) As indicated in the response to IR-14 (a) Professor Gould relied primarily on the E & Y Report and his analysis of the publicly available data for Dollar Financial Corp. and Rentcash Inc. Professor Gould used the Deloitte Report as an additional factor in judging how costs had changed after the publication of the E & Y Report, along with the analysis of the Dollar Financial Corp. and Rentcash Inc. data, because it did have current information. The Deloitte Report indicated that costs had increased. However, the sample size was too small for Professor Gould to use as the basis for a recommendation.

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Question IR-16: Please refer to Part V, Lawrence I. Gould Report, Table 8.

(a) Please provide an analysis of impact if Moneymart operated with no revenues from lines of business other than payday loans.

Response IR-16:

(a) The question is unclear. Any analysis would depend on assumptions about fixed and variable costs. Generally, if Money Mart lost its revenues from all lines of business other than payday loans, the impact would be a decrease in profitability.

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