Written Submission to the Consultation on Lowering the Criminal Rate of Interest

By: The Canadian Lenders Association

ABOUT THE CANADIAN LENDERS ASSOCIATION

On behalf of over 250 companies in the business of lending, the Canadian Lenders Association (CLA) is pleased to respond to the government's consultation, *Consultation on Fighting Predatory Lending*.

The CLA is a not-for-profit association representing companies in Canada's lending and fintech space. We support the growth of bank and non-bank companies across the spectrum of lending. Our members are committed to servicing the needs of Canadian borrowers, and supporting consumer advocacy and transparency. The CLA's members are as varied as the customers they serve, from traditional financial institutions serving prime Canadians, to fintech and alternative lenders serving non-prime Canadians.

Open access to credit is a key principle of our organization because it is crucial to Canada's lending ecosystem.

The CLA does not admit any payday lenders into our membership. Unlike payday lenders, who charge interest as high as 600%, our member companies all comply with the existing *Criminal Code* maximum allowable rate of interest of 60% effective rate (or 47% APR, the more common metric in lending markets). The CLA believes that all members should work to improve the lives of borrowers by reporting customer payments to credit reporting agencies and, in doing so, helping customers graduate to prime lending.

With over $186 billion in consumer credit balances, the non-prime consumer segment is a significant contributor to the lifeblood of the Canadian economy; they also represent the segment of the population that most relies on sources of alternative credit, given their inability to qualify at major financial institutions who focus largely on servicing prime consumers.

We appreciate the opportunity to provide our members' perspective on the government's consultation on potential changes to the maximum allowable rate of interest. Our goal with this submission is to highlight the many unintended consequences that lowering the maximum allowable rate of interest under the *Criminal Code* would have on the Canadian financial system, and how it would affect access to regulated mainstream credit for millions of hardworking Canadian families.

BACKGROUND

In Canada, over 8 million Canadians are considered non-prime, based on their credit score, as defined by the primary credit reporting agencies (TransUnion and Equifax). Generally, this means they have a lower credit score that would make it difficult for them to access credit from traditional financial institutions. These Canadians make up 29% of all Canadians with active credit files,[1] a significant portion of the population which often turn to non-prime alternative lenders when they need credit.

Non-prime alternative lenders are regulated by both provincial consumer protection legislation and section 347 of the *Criminal Code*. In addition, four provinces have recently implemented "high-cost credit" regulations, which require non-prime lenders to obtain a license and adhere to additional disclosure and business practices, ensuring transparency and fair treatment for borrowers.

---

[1] Data based on TransUnion's Credit Vision Risk Score: 8.2M Canadians are considered non-prime and an additional 300,000 are without a credit score Balances include those held by co-borrowers.

Section 347 of the *Criminal Code* was established in 1980 and stipulates that everyone who enters into an agreement or arrangement to receive, or receives payment or partial payment, of interest at an effective rate that exceeds 60% is guilty of an offence. The *Criminal Code* defines interest broadly to include all mandatory charges, fees, fines, commissions and other expenses.

For the majority of lending products that require a regular repayment on a monthly, or more frequent, basis, a 60% effective interest rate translates into a 47% annual percentage rate (APR), the measure more common in lending markets. The reason a 60% effective rate equates to a 47% APR is because most loan products offered in Canada are structured to be repaid back in installments on a monthly or bi-weekly basis, thus the maximum interest rate that can be charged reflects the effect of the lender receiving regular repayments.

According to a report by EY, *Understanding the Calculation of Criminal Rate of Interest*:

> The logic is that when the borrower is paying more frequently […] the lender is getting their interest earlier and hence better off [...] Another way to look at it is that the lender is receiving the interest earlier when the borrower pays more frequently (monthly in our example) and could invest those funds received and earn interest at a compounding rate. Therefore, regardless of whether or not the contractual loan terms include compounding, the formula considers this additional time value of money (benefit received by the lender or cost incurred by the borrower) and compounds each customer payment (both principal and interest) at the effective interest rate through the term of the loan. [2]

For instance, if someone were to borrow $1,000 over 12 months at an effective annual rate of 60%, that would be an APR of 47%, and the total interest over the life of the 1-year loan would be approximately $272.

Payday lenders are exempt from the maximum allowable rate of interest provisions under section 347.1 of the *Criminal Code*, where the loan amount is under $1,500 and repaid within 62 days. This enables payday lenders to charge interest rates as high as 600%.

A change to the maximum allowable rate of interest under section 347 of the *Criminal Code* will not impact payday loans. In fact, as we note below, this product (and variations of it) will likely become more prevalent in the event that the maximum allowable rate of interest is reduced.

SHOULD THE CRIMINAL RATE OF INTEREST BE SET AT A FIXED LEVEL OR LINKED TO PREVAILING MARKET CONDITIONS? PLEASE PROVIDE YOUR RATIONALE.

Since 1980, the *Criminal Code* maximum allowable rate of interest has been fixed and we agree that it should remain as such for certainty and administrative effectiveness for businesses. In comparable jurisdictions such as Australia, the maximum allowable rate of interest is fixed (at 48% APR).

Linking the maximum allowable rate of interest in the *Criminal Code* to prevailing market conditions would have the effect of creating a floating, or variable, maximum rate. Requiring lenders to adjust their rate as market conditions change would be administratively burdensome, as it would require additional

[2] EY, Understanding the Calculation of Criminal Rate of Interest, January 2019

processes and IT requirements for lenders to comply with a changing calculation (an element that they are not currently set up to easily complete). It would also create significant legal risk for lenders, as the consequence of non-compliance would be criminal, given the maximum allowable rate is set out in the *Criminal Code*. This legal risk could also impact customers, as, given the change in rates, they may be put in a position to continue to pay off loans at interest rates that might become criminal in the future. This could lead to increased litigation and place a greater chill on lending markets, which we do not believe is the intent of the government.

Lastly, and most important, we think this would be confusing for consumers, as the maximum rate of interest they might expect to pay would vary over time, causing uncertainty about the appropriate rate. A variable rate creates unpredictability that might be problematic for customers who seek fixed cost credit products that allow them to project out their payments with certainty.

TO WHAT EXTENT IS THE INTEREST RATE CHARGED BY ALTERNATIVE LENDERS ON HIGH-COST INSTALLMENT LOANS A REFLECTION OF THE CREDITWORTHINESS OF THE BORROWER?

Interest charged by non-prime alternative lenders is directly linked to the creditworthiness of borrowers, and the associated anticipated default rate of the consumer.

Credit scores and credit files underpin consumer lending markets. Credit data indicates the likelihood a borrower will repay or default on credit.

Today, despite the existence of a mature lending market in Canada, many Canadians still do not qualify for credit when they need it because their credit scores indicate they are more likely to default on loan repayments. If the *Criminal Code* rate of interest is reduced, even more Canadians will be cut off from accessing credit from the legal lending market. All lenders use a risk-based method to calculate interest rates, which correspond with the associated risk of the borrower. The more risk a lender takes, the higher the rate of interest charged on a loan, up to the maximum allowable rate of 47% APR.

The higher cost of credit is necessary for a few reasons.

First, the cost of capital that alternative lenders incur to enable lending to the non-prime segment of the population is much higher than the rates paid on consumer deposits by mainstream banks. According to CLA data, the average cost of capital for our members is approximately 13%. That means that our lenders are borrowing capital at 13%, before any risk of default or operational expenses are taken into account.

Second, the underwriting for non-prime borrowers is often more complex than for prime borrowers. The underwriting models lenders use in this segment need to account for a number of additional factors to determine whether the borrower can afford the loan and the likelihood of repaying the loan. This often requires accessing third party data sources, which requires a higher investment in technology to make the underwriting possible.

Third, if a loan is unsecured, it means the lender has no collateral to collect from the borrower if the borrower fails to make loan payments. The lack of a physical asset acting as security means more risk for the lender. If the borrower fails to make their loan payments, there is nothing the lender can collect besides the interest. Unsecured loans are often priced at higher interest rates.

Fourth, lenders are pooling risk in lending to higher risk customers. As mentioned above, the lower the credit score, the higher the risk that the customer will default on the loan repayment. The interest on loans in part covers the failure of a segment of borrowers to repay the original principal on their loan. For illustration, if a company were to lend $1,000 to each of ten individual borrowers ($10,000 total) and two were to default, the remaining eight customers would need to pay more than a 25% interest rate, just to cover the losses of the two defaulting borrowers. Once borrowing costs and operational expenses are considered, the interest rate would need to be considerably higher just to break even.

If the maximum allowable rate of interest is reduced, lenders will no longer be able to offer loans to a whole segment of higher-risk customers who would have otherwise qualified for loans. Some lenders might no longer be able to operate with a lower maximum allowable rate, choosing to exit the Canadian marketplace altogether, resulting in less competition in the marketplace. Non-prime Canadians would then have even fewer options when in need of a loan, having to turn to last-resort and more expensive borrowing options such as payday lenders, pawn shops or illegal lenders.

Lowering the maximum allowable rate of interest will not mean that borrowers will access the same loans at reduced interest rates: it simply means that the lender will no longer be able to lend to a whole segment of customers that they would have lent to at higher interest rates that reflected the risk of extending credit.

WHAT ARE THE REASONS FINANCIAL CONSUMERS ACCESS HIGH-COST INSTALLMENT LOANS?

Over 8 million Canadians have credit scores that would make them struggle to access loans from traditional financial institutions: Their credit scores indicate they are more likely to potentially default on loan repayments. They make up 29% of all Canadians with active credit files.

Canadians develop non-prime credit scores for many reasons. In Spring 2022, the CLA commissioned a poll by Pollara Strategic Insights of 1,000 Canadians 18+ who qualify as non-prime borrowers, and 1,011 who qualify as prime borrowers.[3] The research found that the top reasons Canadians have low credit scores include unexpected life events (38%); making financial mistakes due to a lack of financial literacy (30%); poor spending habits (30%); job loss (20%); illness (14%); divorce (8%) and recent immigration (6%). These are everyday Canadians who are struggling to consolidate debt, pay down their bills, or manage through an expense such as auto or home repairs. They are simply faced with a host of unexpected life events and need time and opportunity to rebuild.

The research by Pollara Strategic Insights also found that 59% of non-prime Canadians would be unable to pay for an unexpected $1,000 expense with readily accessible funds. They would have to borrow, sell personal belongings or dip into retirement/education savings to cover the expense.

The research showed that non-prime Canadians borrow primarily to pay the bills (53%); for essential expenses such as paying rent (39%); home and auto repairs (28%) and to consolidate debt (24%). This demonstrates that non-prime Canadians are not accessing credit for frivolous reasons: they are accessing credit for things essential to their well-being.

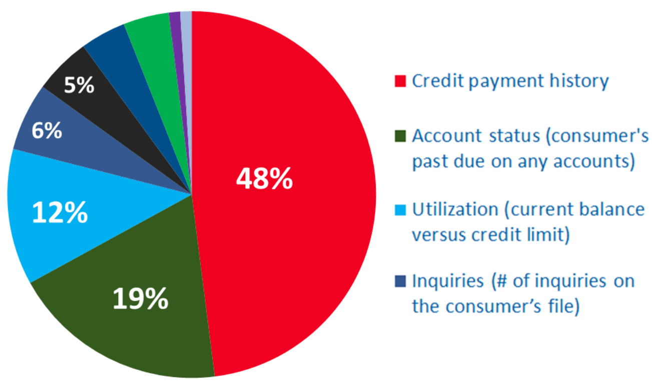
[3] Pollara Strategic Insights, *Non-Prime Borrowers,* March 2022.

WHAT ARE THE IMPACTS OF HIGH-COST INSTALLMENT LOANS ON THE FINANCIAL WELL-BEING AND FINANCIAL RESILIENCE OF CANADIANS?

Credit offered by non-prime alternative lenders provide non-prime consumers with access to the credit they need (up to the maximum allowable interest rate of 47% APR), manageable repayment schedules, the opportunity to rebuild their credit and achieve their financial goals. These are all positive impacts for Canadians trying to improve their future.

Without access to credit, the 8 million-plus non-prime Canadians will struggle to rebuild their credit score and get back to borrowing at prime interest rates, as borrowing and repayment of credit in a timely manner makes up the bulk (48%) of an individual's credit score.[4] The unintended outcome of being cut off from accessing credit is that these non-prime Canadians will be stuck in cycles of debt from which they cannot escape.

Factors in a TransUnion Credit Score



CLA lenders also report their customers' credit repayments to the credit reporting agencies so that customers can improve their credit score with every payment and get back to borrowing at prime interest rates. If the maximum allowable rate of interest was reduced, many non-prime borrowers would be forced to turn to payday loans. As mentioned previously, payday lenders not only charge significantly higher rates of interest (up to 600%), but they do not report credit repayments to the credit reporting agencies, meaning borrowers cannot rebuild their credit scores and escape the cycle of debt caused by short-term high-cost credit products.

In lowering the maximum allowable rate of interest, the government would be limiting the ability of non-prime Canadians to rebuild their credit scores. Non-prime lenders are giving non-prime Canadians a second chance to achieve financial health. According to the CLA's Risk Roundtable, which represents risk officers from across the lending spectrum, a potential reduction in the maximum allowable rate of interest to 35% APR or 30% APR would impact the ability of 4.8 million or 6.7 million Canadians, respectively, to access credit, leaving them struggling to rebuild their credit.

The government's concern for the financial well-being and resilience of Canadians is well intentioned. However, significant misinformation is circulating. For example, despite recent claims by some advocacy organizations, data from TransUnion shows that non-prime Canadians' debt shrunk 3% over the last

[4] 2021 TransUnion LLC.

three years, whereas prime Canadians have seen their total debt increase by 13%. This speaks to the fact that the debt held by non-prime Canadians has not been exacerbated by the pandemic.[5]

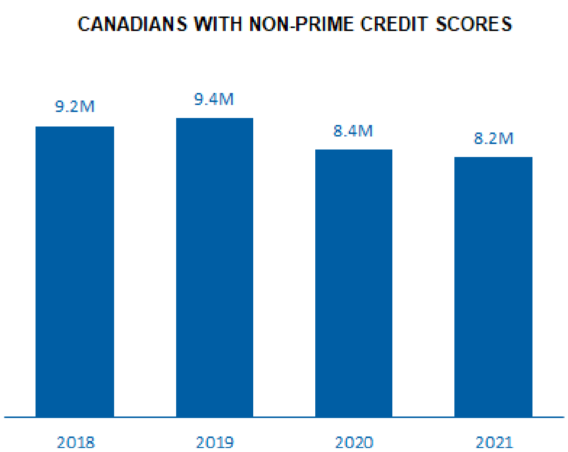
Prime Customers

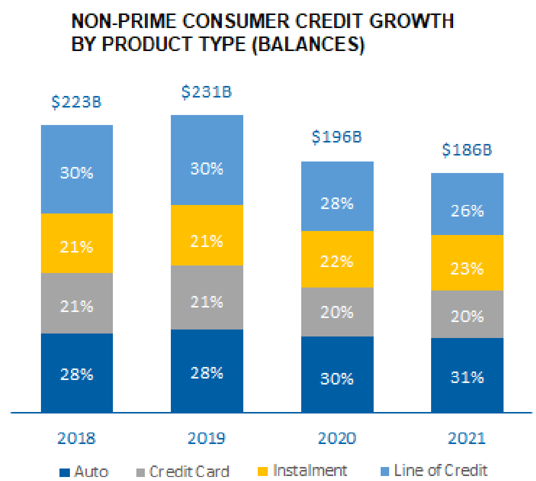
	2021	2020	2019
# Customers	21,127,237	20,477,644	19,533,511
$ Total Balances[6]	2,971,578,359,746	2,661,458,712,118	2,430,649,368,198
$ Average Total Balance	140,651	129,969	124,435

Non-prime

	2021	2020	2019
# Customers	8,237,031	8,442,641	9,446,054
$ Total Balances[7]	518,119,710,787	523,370,398,961	611,529,472,781
$ Average Total Balance	62,901	61,991	64,739

Furthermore, the number of people with non-prime credit scores decreased from a high of 9.4 million in 2019 to 8.2 million in 2021. Less people have non-prime credit scores today than they did in 2019, despite population growth.[8]





Restricting access to credit is not the solution non-prime Canadians want. According to the research conducted by Pollara Strategic Insights, six-in-ten (62%) non-prime Canadians would worry if the government restricted the ability of lenders to offer loans to people with low credit scores.

[5] TransUnion, data is as of December 31 of each year.
[6] Total balances outstanding of all forms of debt, excluding utilities.
[7] Total balances outstanding of all forms of debt, excluding utilities and residential mortgages.
[8] TransUnion, data is as of December 31 of each year.

Bankruptcy

Lowering the maximum allowable rate of interest will relegate a whole segment of non-prime Canadians to payday loans and potentially personal bankruptcy.

According to the Pollara Strategic Insights research, 84% of non-prime Canadians would rather rebuild their credit score than declare bankruptcy.

Consumers understand that the impact of bankruptcy on an individual's financial health is devastating. When an individual files for bankruptcy, the record of bankruptcy remains on a credit report for six to seven years after the first bankruptcy (14 years for subsequent bankruptcies). These individuals then struggle to access credit after filing for bankruptcy, and any credit they can access will inherently be at higher interest rates. This impacts the ability of Canadians to afford important purchases such as a vehicle, or a home.

Currently, the Superintendent of Bankruptcy is powerless to crackdown on lead generators that encourage people to file for bankruptcy through advertisements on social media. Lead generators direct clients to insolvency trustees but are themselves outside the oversight of the Superintendent of Bankruptcy, meaning they are not bound by the rules created to protect consumers from insolvency trustees. There are several examples of lead generators encouraging consumers to consider bankruptcy as a first course of action in marketing materials that would be prohibited if made by insolvency trustees themselves. Allowing lead generators to imply bankruptcy is a quick fix to debt obligations chips away at the stability of lending markets and misleads individuals into making potentially detrimental life-altering decisions. We recommend the government provide more legislative power to the Superintendent of Bankruptcy to ensure oversight of the activities of lead generators to ensure compliance with rules around marketing, plain language, and informed consent.

WHAT IMPACT WOULD LOWERING THE CRIMINAL RATE OF INTEREST HAVE ON THE AVAILABILITY OF CREDIT FOR FINANCIAL CONSUMERS WHO USE HIGH-COST INSTALLMENT LOANS? WOULD LOWERING THIS RATE HAVE ANY NEGATIVE IMPLICATIONS FOR FINANCIAL CONSUMERS, INCLUDING LOST OR REDUCED ACCESS TO CREDIT?

There are several unintended consequences to lowering the maximum allowable rate of interest in the *Criminal Code*, including limiting access to credit, pushing non-prime Canadians into payday loans and creating an environment ripe for unregulated lending activities.

Access to Credit

According to the CLA's Risk Roundtable, which represents risk officers from across the lending spectrum, a potential reduction in the maximum allowable rate of interest to 35% APR or 30% APR would negatively impact the ability of 4.8 million or 6.7 million Canadians, respectively, to access credit (see APPENDIX A). These potential changes could impact up to 80% of the entire non-prime/un-scorable segment of the population, which accounts for almost a quarter of the Canadian population.

Removing access to credit does not remove the need for credit.

Take for instance the case study in California. In 2019, the California Legislature passed the *Fair Access to Credit Act* (AB 539), which capped interest rates at 36% (plus the federal funds rate) for personal loans between $2,500 and $10,000 made by state-licensed lenders. The legislation did not address payday lenders, who can still charge triple-digit interest on loans. The change to the maximum allowable rate of interest had the effect of collapsing the state-regulated installment loan market, pushing borrowers to payday loans and "sovereign installment loans", which are loans offered by Native American groups that operate outside state control and charge significantly higher interest rates. Some of these sovereign installment lenders offer loans with interest rates as high as 950% APR (see APPENDIX B) in California. Consumers' need for credit does not disappear when governments cap interest rates. As California demonstrates, Americans that lost access to installment loans opted for higher cost and unregulated options to fill their credit needs, which negatively impacts their overall financial resilience.

Exemption for payday lenders

There is an inherent contradiction in limiting the rate of interest under section 347, while allowing the exemption under section 347.1 under the *Criminal Code* to persist for payday lenders, who charge interest as high as 600%. Simply reducing the maximum allowable rate of interest in the *Criminal Code* will exacerbate the issue of predatory lending by limiting access to the middle market for lending, leaving non-prime Canadians with few options other than payday lenders.

Take for example an individual with a lower credit score who needs a $3,000 loan to pay for urgent auto repairs. She could qualify for an installment loan from a non-prime alternative lender at an interest rate under 47% APR with a manageable repayment plan. Alternatively, she could go to two payday lenders for two separate loans of $1,500 at 600% interest rates that must be all repaid within 62 days. Lowering the rate of interest will result in this scenario for millions of Canadians who will be priced out of accessing loans from non-prime alternative lenders.

If the government is serious about addressing predatory lending, the exemption for payday loans in the *Criminal Code* should be removed. Payday loans are products that actually trap people in a cycle of debt by their very nature of being high-interest, short-term, and with a single balloon payment structure, which results in individuals struggling to repay the loan amount and interest within the 62 day term.

The government must balance the needs of the 8 million-plus non-prime Canadians for credit with protections that would limit their access to credit. A policy solution to the problem of predatory lenders must address the payday loan industry and interest rates as high as 600%, while ensuring Canadians can still access the crucial credit they need that gives them tools to rebuild their credit scores and allows them to graduate to prime lending.

Black market

Governments regulate industries to protect society from the risks of a black market by ensuring people continue to have safe access to legally regulated products. In fact, the original purpose for enacting a maximum allowable rate of interest in the *Criminal Code* was to provide law enforcement with a tool to prosecute loan sharks – unlicensed lenders offering credit at exorbitant interest rates and employing intimidation and violence to enforce their contracts. It was never intended to regulate the legal lending industry.

Should the rate of interest be lowered, more people will be barred from accessing loans from legal lenders, but their need for credit will not disappear.

The research by Pollara Strategic Insights shows that 75% of non-prime and 58% of prime Canadians worry that people who don't have access to a loan will turn to illegal loan sharks. In fact, close to three-in-ten (28%) Canadians who borrowed from non-prime alternative lenders last year and nearly half (47%) of those who borrowed from payday lenders last year have thought about going to an illegal loan shark.

In a recent study by the Centre for Social Justice (CSJ) entitled, *Swimming with Sharks: Tackling illegal money lending in England*, CSJ estimates that 1.08 million people could be borrowing money from illegal loan sharks. The study cites the collapse of legal non-prime lenders in the U.K. as a contributing factor. In fact, the study shows a two-thirds decline in the number of firms servicing the non-prime segment of the population. Although their ability to access credit has been significantly limited, the non-prime consumer's need for credit persists, and the vacuum is then filled by illegal lenders: "Indeed, we heard considerable concern from voices across a range of sectors, including debt charities, that the loss of high-cost credit options will mean more people have fewer regulated credit options."[9]

In India, the inability to access credit has forced many to turn to unregulated loan shark apps that then extort the borrower into paying interest in excess of the loan agreement using threats of physical violence and reputational harm. Nearly two dozen borrowers have committed suicide due to the harassment and threats they have faced by these unregulated online loan sharks. The exact size of the problem is unclear, with India's anti-money laundering agency finding that $500 million in illegal loans have been disbursed, while other law enforcement agencies placed the figure at hundreds of billions. And due to the proliferation of these loan sharks and demand for credit, both government and app platforms are struggling to contain the problem.[10]

The non-prime lending industry in Canada has run effectively for 40-plus years. The Canadian financial system has been a global leader for a stable and well-regulated industry. It is in the government's best interest to foster the ongoing sustainability of open access to credit and financial inclusion in a licensed and regulated manner.

WHAT IMPACT WOULD LOWERING THE CRIMINAL RATE OF INTEREST HAVE ON CREDIT PRODUCTS OTHER THAN HIGH-COST INSTALLMENT LOANS?

The maximum allowable rate of interest was established in 1980, with an entire ecosystem of lending evolving around the rate over the last 42 years. The rate is deeply ingrained into the financial system and the unintended consequences of a rate change are significant.

A reduction to the maximum allowable rate of interest in the *Criminal Code* will negatively impact many small and medium-sized businesses (SMBs) across the country, who are ineligible for loans from traditional financial institutions. These are businesses at the heart of the Canadian economy – restaurants, bars, convenience stores, hair salons, spas and auto repair shops – but are considered too

[9] Centre for Social Justice's (CSJ) entitled, Swimming with Sharks: Tackling illegal money lending in England, March 2022

[10] https://techcrunch.com/2022/08/26/loan-apps-abuse-harassment-suicide-indian-users-google-apple-india/

high risk for traditional financial institutions because they have little to no credit history, few assets that could be used as collateral, and unstable sales and earnings. The alternative lenders servicing the non-prime SMB space are able to meet the time-sensitive needs of small businesses for short-term and flexible financing.

In reducing the maximum allowable rate of interest, non-prime lenders would struggle to offer financing to a whole segment of small businesses, leaving them with no options when needing to access funds for working capital or to finance expansions. This will destabilize SMBs across the country, drive up small business bankruptcy rates and lead to more economic instability.

Short-term loan products with modest fees are also at risk, should the rate be further reduced. Already today, there are examples of how seemingly small fees for short-term products are the subject of litigation for being in violation of the maximum allowable rate of interest in the *Criminal Code*. An example of this recently played out at the British Columbia Court of Appeal, which found that several credit unions were in violation of the *Criminal Code*'s maximum allowable rate of interest by imposing overdraft fees that exceeded $5 per transaction.[11] Although the overdraft fees were arguably small in cost (between $6 and $20, depending on the credit union), when the overdrafts were small and outstanding for short periods of time, the fees triggered a violation of the maximum allowable rate of interest of 60% effective rate. These fees, which protected credit union members from being charged non-sufficient funds fees or defaulting on legal obligations, benefited the customer. However, because of the way the maximum rate of interest is calculated, they were in violation of section 347 of the *Criminal Code*.[12]

HOW COULD THE GOVERNMENT OF CANADA, INCLUDING THE FCAC, IMPROVE FINANCIAL EDUCATION AND AWARENESS REGARDING HIGH-COST INSTALLMENT LOANS TO FURTHER EMPOWER AND PROTECT CANADIANS AS THEY MAKE INFORMED FINANCIAL DECISIONS?

The regulation of credit products serving the non-prime consumer market is regulated at the provincial level. All provinces have consumer protection frameworks in place that regulate this market segment, and several have implemented additional high-cost credit regulations specific to the sector.

In today's world, financial literacy must be considered as important as basic literacy. Without it, individuals are unable to make appropriate and informed financial decisions. The CLA acknowledges that financial literacy should be a prerequisite to borrowing.

According to the research by Pollara Strategic Insights, almost 90% of Canadians polled agreed that the government should do more to teach Canadians about financial literacy so that people can make better financial decisions for themselves. The research also found that two of the top reasons Canadians have low credit scores include making financial mistakes due to a lack of financial literacy (30%) and poor spending habits (30%).

The federal government could work with the industry to create a mandatory financial literacy resource and require all lenders across Canada to ensure that all new customers view this educational resource

[11] The *Criminal Code of Canada* exempts overdraft fees under $5 from the definition of "interest".
[12] Community Savings Credit Union v. Bodnar, 2022 BCCA 263

before a loan is issued – especially if the loan was deemed high cost. By standardizing a financial literacy resource and requiring it to be viewed/reviewed before credit is extended, the federal government can help borrowers make better financial decisions. The CLA is supportive of this type of initiative and would be happy to work with the government on implementing financial literacy initiatives for Canadians that take into account how modern-day financial services are delivered.

Current data on consumer debt is flawed and does not provide an accurate picture of how leveraged a potential borrower might be. There are no requirements for lenders, such as payday lenders, to report consumer debt to credit reporting agencies, leaving gaping holes in the credit reports of consumers looking to borrow. Federal rules could mandate better reporting and collection of consumer debt information so that lenders, borrowers, and governments can better identify risks in the lending ecosystem and make more informed decisions.

We applaud the federal government's interest in advancing financial literacy initiatives. We are ready and willing to partner with the government to ensure Canadians are provided with better access to financial literacy, in whatever format that might be.

CONCLUSION

The existing lending ecosystem has been in place for 40-plus years and has evolved to service the needs of Canadians across the credit score spectrum. Lowering the maximum allowable rate of interest in the *Criminal Code* now would create more problems than it would solve.

If the government's intent is to protect Canadians from predatory lending, it would be counter-productive to eliminate access to middle market loans at <47% APR, when consumers rely on access to credit for everyday financial needs. The need and demand for credit will not subside, rather many consumers will be forced to turn to less desirable and more expensive, or illegal, sources of credit.

If the government's intent is to improve the financial health of Canadians, it would be counter productive to remove access to credit that can help non-prime Canadians rebuild their credit score and get back to prime interest rates. Non-prime loans often provide a bridge for consumers and help them lower their future rate of interest. Removing this tool would leave consumers stranded with low credit scores.

If the government's intent is to improve the lives of non-prime Canadians, then policy efforts should be directed at combating inflation, which these Canadians identify as the biggest stress point (by 76%) according to the research undertaken by Pollara Strategic Insights. The government can also work with the industry to create a mandatory and standardized financial literacy resource distributed by lenders across Canada to their new customers before a loan is issued. Because financial literacy is as critical as basic literacy.

There are many ways to help Canadians but reducing the maximum allowable rate of interest in the *Criminal Code of Canada* will have unintended consequences that will hurt more Canadians than it will help. Therefore, any steps to limit access to various forms of borrowing should be carefully considered given the large number of Canadians who would be negatively impacted by a change of this nature.