

Focus: Banks and the alternatives to payday loans

Focus Sheet

FAST FACTS

- More than 99% of Canadians have an account with a financial institution¹ such as a bank or credit union
- Less than five per cent of Canadians have taken out a payday loan²
- In order to get a payday loan, the borrower must have a bank account



The Bottom Line

Banks in Canada offer accessible and convenient products and services to meet their customers' needs, including a number of small, short term loan options at a much lower cost than a payday loan.

What is a payday loan?

A payday loan is a small, unsecured, short-term loan that is typically repaid within one or a few payday cycles. Usually when taking out a payday loan, the borrower must have a bank account and provide a post-dated cheque to the lender for the full amount of the loan plus interest and fees. The date on the cheque is often the day that the borrower will receive his or her next pay cheque. Usually, the borrower must provide proof of employment, such as a pay stub. Payday lenders typically do not do a credit check on the borrower. According to a Financial Consumer Agency of Canada report published in November 2022, less than five per cent (4.52%) of Canadians have used an online lender or payday loan company to manage their daily expenses.

Small, short-term loans available from banks

Banks offer small, short term loans and credit options to Canadians that are a fraction of the cost of a payday loan, including:

- **Lines of Credit** – A line of credit allows a customer to borrow only what they need from an amount made available from the bank. Interest is only charged on the amount of money borrowed, not the full amount that the bank makes available.
- **Credit Card Cash Advances** – Allows a credit cardholder to withdraw cash from their credit card account either at an ABM or in a bank branch.
- **Overdraft Protection** – For customers who have signed up and are approved for this service, banks will allow them to withdraw more money than they have in their bank account, and the excess amount is called overdraft. A small fee will be charged for this service and interest will be charged on the overdraft amount, which is borrowed from the bank.

Banking is accessible

Banks understand the importance of meeting their customers' needs and offering accessible and convenient products and services in Canada. According to the World Bank, more than 99 per cent of adult Canadians have an account with a financial institution such as a bank or credit union, so access to banking services in Canada is incredibly high.

Banks in Canada work hard to ensure that banking services are accessible:





- **Online and mobile banking** – Canadians [appreciate convenience](#) and the use of online and mobile banking continues to grow. Banks are continuing improving their online banking websites and mobile apps to provide customers with safe, convenience and secure ways to conduct almost all of their banking transactions.
- **Cheque cashing** – For most customers depositing a cheque at a bank, the funds are available right away. If the account is subject to a cheque hold period, the bank must make \$100 available immediately. And banks will cash federal government cheques of up to \$1,750 even if the individual is not a customer of that bank.
- **Ease of opening an account** – Generally, you will need two documents from a reliable source to open a retail deposit banking account – one of which has your name and address and the other which has your name and birthdate. A list of the types of documents you may use is available on the Canadian Bankers Association website.

It's also possible to present only one document that indicates your name and date of birth if your identity is also confirmed by a customer in good standing with the bank or by an individual of good standing in the community where the point of service or branch is located.

- **No fee and low fee accounts** – Basic banking accounts are available for \$4 per month or less, and at no cost to youth, students, beneficiaries of Registered Disability Savings Plan (RDSP) and seniors receiving the Guaranteed Income Supplement.
- **Branches with extended hours** – Branches continue to evolve and many of the 5711 branches

available across Canada have extended hours in the evenings and weekends to meet customers' needs.

- **Banks actively involved in financial literacy** – Financial literacy is a key priority for banks and the CBA. Banks sponsor many community programs and bankers volunteer their time for the CBA's [Your Money Students](#) and [Your Money Seniors](#) financial literacy programs.

Helping those in debt

Banks have a strong interest in working with their clients who are facing financial difficulty. However, they also believe that providing additional credit to someone who already has trouble managing their debt is not helping that person.

Banks want to work with their customers who may be struggling financially by providing the right tools and advice. A bank can provide money management advice or consolidate loans to help reduce interest costs and simplify payments.

Banks also provide significant financial support to not-for-profit credit counselling agencies across Canada. These agencies help over-indebted individuals repay their debts and they also provide training and education to help their clients better manage their money and credit and avoid debt problems in the future.

1 World Bank, Global Findex Database 2017, pg. 123: <https://bit.ly/3cPauyB>

2 Cited in the Financial Consumer Agency of Canada's Consumer Vulnerability: Evidence from the Monthly COVID-19 Financial Well-being Survey - Canada.ca, November 2022 <https://www.canada.ca/en/financial-consumer-agency/programs/research/consumer-vulnerability.html>

The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals.

Canadian Bankers Association www.cba.ca