

## Police are sounding the alarm on the government's interest rate cap

The government's plan to reduce the criminal interest rate from 47 per cent to 35 per cent APR will force low-income Canadians to turn to illegal lenders for loans.



Finance Minister Chrystia Freeland. *The Hill Times* photograph by Andrew Meade

**OPINION** | BY JEFF MCGUIRE | February 22, 2024

It is a terrible reality: when times are tough, as they are now, criminal activity that victimizes those most at-risk often intensifies. One of the most significant categories of this activity is financial crime. It's the kind of exploitation that tears families apart, drains life savings, and leaves a trail of financial ruin and emotional devastation in its wake.

Perhaps most disturbing of all is that today this activity is preying on those who live on the sharpest edge of this country's cost-of-living crisis. As a society, it is our collective responsibility to help lift these Canadians up, not set traps they can fall into.



Jeff McGuire is the executive director of the Ontario Association of Chiefs of Police. *Handout photograph*

That is why the federal government's recent proposal to decrease the maximum allowable rate of interest is deeply worrying. According to a [new report](#) from the Ontario Association of Chiefs of Police (OACP) and the Canadian Lenders Association (CLA), this decision could lead to an alarming rise in financial criminal activity that victimizes vulnerable Canadians.

First, let's tackle the obvious questions: "Isn't reducing the maximum rate of interest an automatic positive step? Won't it help struggling Canadians by reducing the amount of interest lenders can charge?" According to our findings, it's not that simple.

Under the government's proposed interest rate reduction from 47 per cent to 35 per cent annual percentage rate (APR), up to 4.7 million Canadians could lose access to credit. The government argues that lenders will simply lower rates for these borrowers, but as the study

reveals, the history of similar changes tells a very different and far more dangerous story.

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The report emphasizes that many regulated lenders may leave the market, because the rate cut will constrain their ability to serve higher-risk Canadians. Consequently, these individuals may be forced to turn to illegal lenders for loans.

The dangers of this are as clear as they are worrying. The changes will not serve to alleviate financial difficulties, but rather will generate a vacuum for criminal organizations to fill—allowing them to target at-risk Canadians more readily.

A Quebec case study, from the same OACP and CLA report, is highly revealing: after that province capped interest rates, an illegal online loan market surged. This serves as a cautionary tale for all of Canada; tighter restrictions on legal lenders may drive Canadians towards international, illegal online loan sources.

There are few words more worrying to law enforcement members working in financial crime than “online” and “international.” Put together, they represent criminals’ growing ability to defraud Canadians with the comfort that little can be done to prevent and prosecute this activity.

A [comprehensive study](#) conducted by the Centre for Social Justice in the United Kingdom shows that illegal lenders are increasingly using online tools and social media platforms. As the report details, that means three things:

1. Criminals can now target people who already face a range of interwoven challenges, including pre-existing indebtedness, health challenges, and low incomes.
2. They can more easily lure victims by falsely advertising their services as safe and legitimate.

3. They can terrorize their victims 24 hours a day. The report provides documentary evidence of loan sharks terrorizing people through a steady stream of intimidating messages and photos.

This is the nature of online loan sharking today: cruel, ruthless, relentless. The level of disregard this presents for the most vulnerable Canadians is concerning and we cannot turn a blind eye to this. We must do everything in our power to prevent this type of unlawful and unscrupulous activity in the first place.

Our report makes clear the government's policy may have the opposite of its intended effect and that, by far, the very worst is the possibility it pushes Canadians into the arms of illegal lenders.

The government's objectives in this domain should be clear: preserving financial options for all Canadians and protecting them from criminality. Unfortunately, this change does not achieve those objectives.

To course correct, the federal government needs to listen to both law enforcement and financial experts and the stories of people who have been victimized by this type of criminal activity.

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