

SMALL LOANS FOR CONSUMERS: What to Do?

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The masculine is used generically in this report.

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TABLE OF CONTENTS

UNION DES CONSOMMATEURS, <i>STRENGTH THROUGH NETWORKING</i>	ERREUR !
SIGNET NON DÉFINI.	
INTRODUCTION	5
CHAPTER 1: PORTRAIT OF THE CURRENT SITUATION: THE SMALL LOAN MARKET AND CONSUMERS' NEED FOR SMALL LOANS	7
The Disappearance of Small Loans Offered by Traditional Financial Institutions	7
<i>History</i>	<i>7</i>
<i>Consequences for consumers</i>	<i>9</i>
The Emergence of an Alternative Consumer Credit Market	11
<i>Penetration rate</i>	<i>12</i>
<i>Profile or users</i>	<i>13</i>
<i>Loan costs</i>	<i>15</i>
<i>Consequences of consumer use of the new credit services</i>	<i>16</i>
Consumers' Need for Small Loans	18
<i>Overall needs (amounts, motives, etc.)</i>	<i>18</i>
<i>Case studies</i>	<i>22</i>
CHAPTER 2: REVIEW OF EXISTING PROGRAMS FOR IMPROVING ACCESS TO SMALL LOANS	26
Catalogue of Available Programs	26
<i>In Canada</i>	<i>26</i>
<i>Abroad</i>	<i>29</i>
Examination of a Program: Desjardins Mutual Aid Funds	41
<i>The program</i>	<i>41</i>
Qualitative and Comparative Study of the Programs	46
Summary Assessment of the Programs	48
CHAPTER 3: WHAT SOLUTIONS SHOULD BE ADVOCATED?	55
The Best Practices	55
Restrictions to Implementing the Advocated Measures in Canada	57
CONCLUSION	61
RECOMMENDATIONS	63
MEDIAGRAPHY	66
ANNEX 1 – BUDGET CONSULTATION FILES	72
ANNEX 2 –DESJARDINS MUTUAL AID FUNDS	77

UNION DES CONSOMMATEURS, *Strength through Networking*

Union des consommateurs is a non-profit organization whose membership is comprised of several ACEFs (*Associations coopératives d'économie familiale*), *l'Association des consommateurs pour la qualité dans la construction* (ACQC), as well as individual members.

Union des consommateurs' mission is to represent and defend the rights of consumers, with particular emphasis on the interests of low-income households. Union des consommateurs' activities are based on values cherished by its members: solidarity, equity and social justice, as well as the objective of enhancing consumers' living conditions in economic, social, political and environmental terms.

Union des consommateurs' structure enables it to maintain a broad vision of consumer issues even as it develops in-depth expertise in certain programming sectors, particularly via its research efforts on the emerging issues confronting consumers. Its activities, which are nation-wide in scope, are enriched and legitimated by its field work and the deep roots of its member associations in the community.

Union des consommateurs acts mainly at the national level, by representing the interests of consumers before political, regulatory or legal authorities or in public forums. Its priority issues, in terms of research, action and advocacy, include the following: family budgets and indebtedness, energy, telephone services, radio broadcasting, cable television and the Internet, public health, food and biotechnologies, financial products and services, business practices, and social and fiscal policy.

Finally, regarding the issue of economic globalization, Union des consommateurs works in collaboration with several consumer groups in English Canada and abroad. It is a member of Consumers International (CI), a United Nations recognized organization.

INTRODUCTION

“Financial services offered to poor and low-income customers in developing countries have grown rapidly in recent decades. Evidence is that demand grows when financial service providers understand what customers use and value and then offer products and services customers want to buy. When these operations function with appropriate pricing and efficient, streamlined institutional structures, they can become profitable business ventures that reach a scale necessary to be increasingly significant players within a vast market. And yet, most of the bankable poor people of the world are still unbanked.”

United Nations Organization

*Department of Economic and Social Affairs
and United Nations Capital Development Fund*

Given the current scale and cost-effectiveness of financial services offered to the poor in developing countries, how is it that low-income people in Canada don't have access to the traditional financial services they need?

In recent years, the traditional financial institutions have withdrawn from the small loans market, thus leaving the door open to the alternative consumer credit market, which has seen phenomenal growth. This alternative market gives consumers access to short-term credit (pledge lenders, payday lenders, etc.) and makes credit available to people who otherwise would probably not have access to it (bad credit history, no bank account, etc.). Other services have appeared, such as cheque-cashing services, which don't necessarily compensate for lack of access to small-amount credit, but do offer various services to consumers who don't have a bank account or want to avoid the rigidity of financial institutions and, lacking cash in many cases, to have immediate access to money.

For their part, to meet consumers' need for small loans, financial institutions offer consumers a more systematic use of credit limits, credit cards, and overdraft options on current bank accounts. Other than the fact that these forms of credit can be expensive, they have the effect of inciting vulnerable clienteles to fall into debt, and even into disastrous debt overload.

Given consumers' real and substantial demand for short-term small-amount credit, it's important that those services be largely available to them, under reasonable conditions, so as to limit the problematic debt to which too many vulnerable consumers have already fallen victim. Some jurisdictions and companies have reached the same conclusion, and have established various programs in that vein.

Accordingly, our research project aims to identify alternative solutions that might give consumers adequate access to small loans. We notably study measures that have been experimented with in certain jurisdictions, and that might be adopted in Canada to resolve the problem of consumer access to small loans, in order to reduce the risks of problematic debt resulting from the lack of affordable solutions.

The first chapter draws a portrait of the current situation, including an evaluation of the small loans market and of consumers' need for small loans. The following points are discussed in turn: the disappearance of small loans from traditional financial institutions; the consequences of that disappearance for consumers; the emergence of an alternative consumer credit market; and consumers' need for small loans. This chapter will examine the overall need for small loans and cites a case study based on thirty budget consultation files assembled by four Associations coopératives d'économie familiale (ACEFs) across Quebec; the study attempted to identify consumer needs and their sources.

The second chapter reviews measures and programs established in Canada and abroad (United States, United Kingdom, France and Belgium) to give consumers access to small loans. A more in-depth examination will be made of a Quebec program in which consumer rights associations participate – Desjardins Mutual Aid Funds. Data previously collected on consumer needs will be correlated with the programs studied, so as to determine which of the latter's features would be likely to meet consumers' real needs.

The third and final chapter presents solutions that should be advocated in Canada. The best programs or practices observed will be discussed, along with restrictions to the implementation of those programs in Canada.

The study's findings are followed by recommendations that could be useful in providing material for ongoing and future discussions by governments and others.

CHAPTER 1: PORTRAIT OF THE CURRENT SITUATION: THE SMALL LOAN MARKET AND CONSUMERS' NEED FOR SMALL LOANS

THE DISAPPEARANCE OF SMALL LOANS OFFERED BY TRADITIONAL FINANCIAL INSTITUTIONS

History

Over the years, traditional financial institutions have abandoned less-profitable activities. Financial institutions have sought to standardize relations between their customers and personnel. This shift is evident in the difficulty experienced by consumers to maintain relations with their banking advisor: the trust that used to develop between customers and banking personnel, and that formed the basis of those sustained relations, is no longer the norm. Granting credit therefore depends less and less on a bond of trust whereby the banking advisor would know his customer personally. Rather, financial institutions have developed a number of statistical methods to save valuable time in deciding whether to extend credit to a consumer:

“La logique est simple, et fait appel à la théorie de l'agence en économie: le banquier est en situation d'asymétrie d'information face à son client, qu'il connaît mal comme indiqué ci-devant. Il cherche donc à prévoir sa capacité de défaut par des séries historiques statistiques sur la base de critères prédéfinis. Or ces critères conduisent à une standardisation des profils, ce qui pose problème pour tous les profils atypiques rejetés d'office par le scoring, y compris et surtout lorsque ces profils représentent une part de plus en plus importante de la population.”¹

In addition, although extending credit remains profitable, financial institutions make less and less profits with classic loans, which they now use to attract customers in order to offer them other services with a greater profit margin, such as insurance services.² Extending small loans is obviously less profitable, since the cost of this service is higher:

“[...] historically microfinance has been a high cost proposition. Cost is the single most common constraint retail financial institutions cite for not serving this market.”³

Accordingly, financial institutions still offer loans to attract customers likely to purchase other products, but they view low-income customers as a less substantial source of profits, since those customers are much less likely to purchase the other, more profitable products the

¹ Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

² Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

³ United Nations Department of Economic and Social Affairs and United Nations Capital Development Fund, Building Inclusive Financial Sectors for Development, 2006. [Online]. http://www.uncdf.org/english/microfinance/pubs/bluebook/pub/Building_Inclusive_Financial_Sectors_The_Blue_Book.pdf (Page consulted on January 27, 2009).

institutions want to sell⁴. Thus, small loans have practically disappeared from the range of services offered by financial institutions:

*“Mainstream banks have tended to reduce the provision of services of relevance to low-income people, for example, small loans. The costs of providing such services are relatively high and net lower returns for banks when compared to the returns received for other services. A case could be made that it is the banking sector’s long-term interest to invest in inner-city outlets and appropriate financial services since as low-income people become financially included, their own income and asset positions may improve, leading them to purchase more lucrative bank products. However, there will be some clients who will likely always rely on basic banking services. Banks are unlikely to see these clients as a strategic market and are therefore unlikely to invest in branches and services that meet their needs.”*⁵

Another explanation is even more cynical: The fees collected by the institutions due to some of their customers’ lack of cash are more profitable than small loans. Sheila Bair, president of the Federal Deposit Insurance Corp, wrote in 2005, when she was a professor at the University of Massachusetts:

*“one reason banks and credit unions may have held back from short-term lending was to avoid undercutting highly profitable, bounced-check protection programs that have become de facto payday protection for some customers — with similarly high fees.”*⁶

In short, whether because financial institutions have depersonalized their method of operation, or because a clientele or a service is not sufficiently profitable to interest them any longer, or because they can make more money from that clientele’s consumers by refusing to meet the latter’s needs, it remains that traditional financial institutions no longer offer low-income consumers small short-term loans and that the latter have to bear the consequences and use alternative solutions.

⁴ Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

⁵ Jerry Buckland, Strengthening Banking in Inner-cities: Practices & Policies to Promote Financial Inclusion for Low-income Canadians, Canadian Centre for Policy Alternatives, March 2008. [Online]. http://www.policyalternatives.ca/documents/Manitoba_Pubs/2008/Strengthening_Banking_in_Inner_Cities.pdf (Page consulted on August 26, 2008).

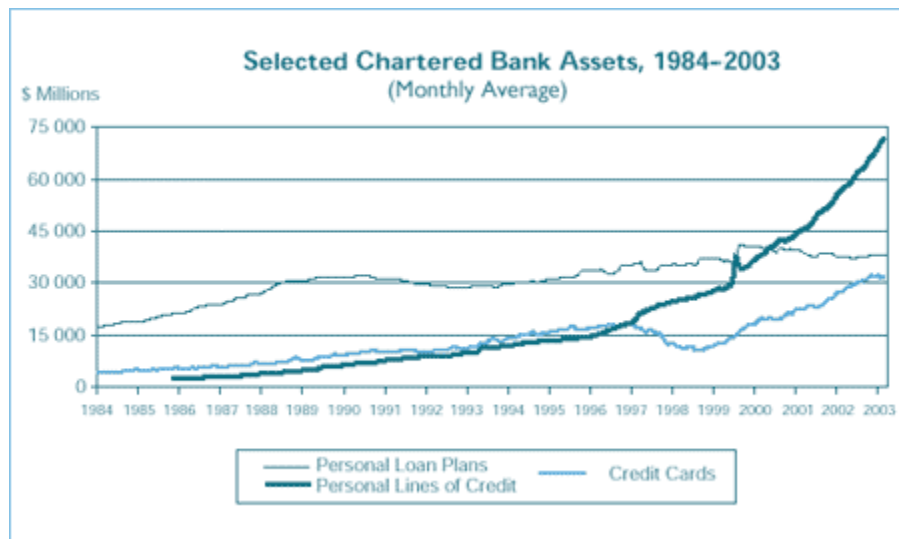
⁶ Sue Kirchhoff, *Breaking the cycle of payday loan 'trap'*, USA TODAY http://www.usatoday.com/money/perfi/general/2006-09-19-credit-unions-usat_x.htm (Page consulted on January 6, 2009).

Consequences for consumers

As traditional financial institutions no longer extend small consumer loans, and consumers still need such credit, the financial institutions rather enjoin their customers to use a credit card, a credit line or an overdraft protection service.

Table 1 illustrates, over twenty years, the increasing amounts garnered by financial institutions from credit lines and cards compared to personal loans.

Table 1: Growth in the Balances of Certain Canadian Chartered Banks for Various Credit Products⁷



So consumers are abundantly using and bearing the consequences of those services that often may not be suited to their needs, but still cost them more. Consumers who choose to use the services that traditional financial institutions make available in lieu of small loans have turned to credit cards, used as a payment method or lending source (credit card payment, credit card cash advance), to credit lines, or to overdraft protection.

Indeed, credit cards offer the consumer immediate access to a loan he uses to pay for a product or service, but he must – unless he carries no balance on his credit card and pays for new purchases before the due date – bear high interest rates, and he is penalized even more if he uses his credit card to obtain a cash advance, in which case the interest rate starts running from the moment of the advance. The fact that consumers accept to pay such fees clearly indicates their real need for small loans... and the impossibility of meeting that need at their financial institution.

Credit card use has rocketed in recent years:

“According to the Canadian Bankers Association (CBA), over the past two decades the number of personal and business credit cards in circulation has increased fivefold, from

⁷ Statistics Canada series v36867, v36868 and v36869 of CANSIM available on the Office of Consumer Affairs website, Consumer Trends Report, September 2007. [Online]. <http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca02111.html> (Page consulted on December 11, 2008).

*10.8 million cards in 1980 to 50.4 million cards as of the end of the 2003 fiscal year (CBA 2003)."*⁸

It is also noted that "cash advances on credit cards (which accrue interest immediately upon receipt of the funds) have grown at a staggering pace over the last two decades. Cash advances increased from \$180 million in 1984 to \$21.7 billion in 2003."⁹

The situation of the credit line market is similar:

*"An important trend that emerged over the 1990s is the increasing use of personal lines of credit by Canadian consumers. Public opinion data reveal that the percentage of adult Canadians who reported having a line of credit nearly tripled between 1993 and 2003, increasing from 16 percent to 43 percent".*¹⁰

Moreover, although the use of credit lines has increased substantially, it remains that this service is not available to all consumers, depending on their financial situation or lack of information, and that credit card advertising is much more aggressive:

*"The requirements for getting a personal line of credit are generally much more strict than for more expensive forms of credit, such as a credit card. Consequently, some consumers may be unable to take advantage of the lower interest rates offered by personal lines of credit. In addition to those who may be unable to access lower rates, some consumers may simply have not actively investigated cheaper alternatives to managing their current debts."*¹¹

The disappearance of small loan offers from traditional financial institutions has thus led consumers to turn toward other sources in order to meet their small loan needs. Without access to a loan, some consumers use the substitute services offered by traditional financial institutions, whereas other consumers turn toward the alternative consumer credit market to obtain the small loans they need. The refusal of traditional financial institutions to meet the needs of part of the population has in fact sustained the development of the alternative credit market.

⁸ Industry Canada, Consumer Trends Report, September 2007. <http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca02111.html> (Page consulted on December 12, 2008).

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ *Ibid.*

THE EMERGENCE OF AN ALTERNATIVE CONSUMER CREDIT MARKET

The alternative small consumer loan market was a by-product of the cheque-cashing industry, which has grown since the 1980s.¹² This market includes various instruments that resemble those of traditional credit, but with different loan terms and costs. This is notably the case for loans coming due on payday (payday loans) and pledge loans.

All these services are offered by companies that are not deposit institutions and are therefore not governed by the laws that apply to traditional financial institutions.

Payday loans

A payday loan is:

*"[...] a small value, unsecured loan made to a borrower who guarantees repayment with a post-dated cheque or pre-authorized debit. Lenders typically require borrowers to prove three months of continuous employment, produce a recent utility bill in their name to establish address, and have an active chequing account. No credit check is performed."*¹³

Payday loans were reportedly introduced in Canada in the 1990s, notably in response to consumers who needed small amounts of short-term credit. "The roughly 200 outlets in the United States at that time have now grown to around 22,000, with an annual loan volume of \$40 billion. Rapid growth has also occurred in Canada—from a handful to approximately 1,200 in 2004."¹⁴

In Canada, the amount of such loans generally doesn't exceed 50 percent of the borrower's net salary; the average loan is for \$280 with a ten-day term.¹⁵

Pledge loans

A pledge loan is:

*"[...] un contrat de crédit par lequel l'emprunteur d'une somme d'argent garantit le remboursement de cette somme et des frais de crédit qui y sont rattachés en remettant en gage à son prêteur un bien mobilier que le prêteur pourra conserver comme le sien propre ou le vendre si l'emprunteur ne respecte pas son engagement de rembourser dans le temps prévu au contrat. Il s'agit en fait d'un prêt personnel garanti par la remise au prêteur d'une sûreté mobilière avec dépossession pour l'emprunteur jusqu'au remboursement complet de l'obligation."*¹⁶

¹² Iain Ramsay, 2000. Access to Credit in the Alternative Consumer Credit Market. [Online]. [http://www.ic.gc.ca/eic/site/cmc-cmc.nsf/vwapj/ramsay_e.pdf/\\$FILE/ramsay_e.pdf](http://www.ic.gc.ca/eic/site/cmc-cmc.nsf/vwapj/ramsay_e.pdf/$FILE/ramsay_e.pdf) (Page consulted on August 20, 2008).

¹³ Ministry of Consumer Services, *Payday Lending*, Ontario, May 7, 2008. http://www.gov.on.ca/mgs/en/ConsProt/STEL02_178878.html (Page consulted on July 24, 2008).

¹⁴ Iain Ramsay, *Payday loans* in Perspectives on Labour and Income, vol. 8, No. 4, April 2007. [Online]. <http://www.statcan.gc.ca/pub/75-001-x/10407/9617-eng.htm> (Page consulted on December 8, 2008).

¹⁵ Government of Canada, *Payday Loan Companies in Canada: Determining the Public Interest*, January 26, 2006. [Online]. <http://www.parl.gc.ca/information/library/PRBpubs/prb0581-e.html> (Page consulted on October 27, 2008).

¹⁶ Claude Masse, *Le prêt sur gage - qu'en est-il et comment est-il contrôlé?*, January 13, 2000. [Online] on the website of the Réseau juridique du Québec. <http://www.avocat.qc.ca/public/iipretgage.htm> (Page consulted on October 27, 2008).

To obtain a pledge loan, a consumer has only to visit a company that extends this type of loan, and bring one or more items he agrees to leave as a pledge in counterpart to a personal loan paid to him immediately in cash. The merchant examines the goods, evaluates them and pays an amount generally varying between 10 and 20% of the resale value estimated by the merchant. The transaction is confirmed in a written document on which are indicated: the consumer's name, address, telephone number, the description of the property he is leaving as a pledge, the amount loaned, the terms of the loan, and at times the designation of an identification document.¹⁷ Since the merchant has a guarantee that exceeds the amount of the loan extended, the consumer obviously doesn't have to submit to a credit check or provide proof of income.

“À Montréal, il y avait environ 50 commerces de prêts sur gage en 1994. En début de 1999, cinq ans plus tard, ce nombre était passé à plus de 200.

Dans tout le Québec, on en compte environ 350 concentrés dans les milieux urbains. En 1999, il s'en ouvrait un nouveau par semaine. Avec les quelques données bien incomplètes que nous possédons, on peut évaluer sommairement que ces commerces génèrent globalement au Québec au moins une centaine de millions de dollars par année en profits, légaux ou non.”¹⁸

Cheque-cashing services

Cheque-cashing services enable a consumer to cash a cheque and immediately obtain part of the amount of the cheque, various charges being levied as the cheque is cashed. Consumers thus obtain their money without having to wait while financial institutions hold the funds after a cheque is deposited. This service is mainly intended for two types of clientele: consumers who don't have an account in a financial institution, and those who don't have the necessary cash to wait while the amount of their cheque is frozen.

To a certain extent, the cheque-cashing service is intended for the same consumers as the other services are – those who lack a margin of manoeuvre and can't wait a few days for financial institutions to process cheques, a period when the funds are not available. However, this service cannot be considered as an alternative to small loans, although in some cases a small loan from a financial institution could provide the necessary margin of manoeuvre and render this service useless, thus sparing the consumer from paying related charges. Most frequently, this type of service is included in studies of alternative credit services, and their clienteles are included in statistics on users of such alternative services.

Penetration rate

In Canada, 3% of all citizens and 8% of low-income citizens don't have a bank account: they conduct their financial transactions via alternative financial services such as cheque-cashing services.¹⁹

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ Jerry Buckland, Strengthening Banking in Inner-cities: Practices & Policies to Promote Financial Inclusion for Low-income Canadians, Canadian Centre for Policy Alternatives, March 2008. [Online]. http://www.policyalternatives.ca/documents/Manitoba_Pubs/2008/Strengthening_Banking_in_Inner_Cities.pdf (Page consulted on August 26, 2008). P.1.

More specifically, 1.5 to 2 million Canadians use payday loan services each year.²⁰ In early 2005, the Financial Consumer Agency of Canada (FCAC) used the Canadian Ipsos-Reid Express – an omnibus telephone survey conducted each week among 1000 adults in Canada – to ask Canadians about their use of cheque-cashing and payday loan services:

“The survey found that approximately 7% of survey respondents had used a cheque-cashing or payday loan company. Cheque cashing was the most frequently used service (57%), followed by payday loans (25%) and tax refund anticipation loans (5%).”²¹

A survey conducted in 2006 by the Financial Consumer Agency of Canada (FCAC) confirmed that “[...] seven per cent, or approximately 1.5 million Canadians had used a cheque cashing service within the previous year. By contrast, a 1999 survey in the Jane/Finch area of Toronto indicated that 26 per cent of those surveyed had used a cheque cashing service.”²²

This wide variance between the Canadian average and that of a disadvantaged Toronto neighbourhood clearly indicates that, depending on the neighbourhood, the percentage of users of this type of services, given that the latter are mainly intended for disadvantaged clientele, could be much higher than suggested by the omnibus survey and other research of the entire population.

Profile of users

Various studies have attempted to draw a profile of users of the alternative consumer credit market.

A study published in 2008 by the Canadian Centre for Policy Alternatives defines users of alternative financial services as consumers who are in the main financially excluded, i.e., persons who don't hold an active deposit account in a financial institution governed by federal or provincial legislation. The same study pointed out: “Many low-income people use informal and fringe financial services for a variety of their credit needs. These include savings/credit circles for loans, reciprocal or one-way credit partners, pawnshops, cheque-cashing services, rent-to-own and payday loans.”²³

According to the results of the Canadian Ipsos-Reid Express, the respondents who had most often used payday loan and cheque-cashing services were, notably:

- men;
- people from 18 to 34 years of age;
- city-dwellers;
- persons whose household had an income of less than \$30,000 per year;

²⁰ *Ibid.*

²¹ Government of Canada, Payday Loan Companies in Canada: Determining the Public Interest, January 26, 2006. [Online]. <http://www.parl.gc.ca/information/library/PRBpubs/prb0581-e.html> (Page consulted on October 28, 2008).

²² Law Commission of Ontario, III. The Users of Cheque Cashing Services.
<http://www.lco-cdo.org/en/FeesSecIII.html>

²³ Jerry Buckland, Strengthening Banking in Inner-cities: Practices & Policies to Promote Financial Inclusion for Low-income Canadians, Canadian Centre for Policy Alternatives, March 2008. [Online]. http://www.policyalternatives.ca/documents/Manitoba_Pubs/2008/Strengthening_Banking_in_Inner_Cities.pdf (Page consulted on August 26, 2008).

- persons who had some postsecondary education.²⁴

On the other hand, a survey conducted in 2002 on behalf of the Public Interest Advocacy Centre concluded that users of the alternative consumer credit market shared no determining characteristics. Most of them reportedly belonged to the middle class, and only 15% had an income below the low-income cut-off as defined by Statistics Canada. Users of cheque-cashing services were reportedly 32 years of age on average, and payday loan users were 42 years of age.²⁵

Union des consommateurs conducted a survey in 2005 by questioning users directly at the exit of various institutions providing payday loan services, cheque-cashing services, etc. Among the 300 persons who accepted to fill out a questionnaire, 48.33% of respondents were 18 to 34 years of age, 32% were 35 to 44, and 19% were more than 45 years of age. 71% of respondents had no dependent children. Respondents' annual income varied considerably: 29.67% had an income of less than \$20,000, 34.67% from \$20,000 to \$39,999, 12.67% from \$40,000 to \$59,999, and 6% more than \$60,000.²⁶

Age was reportedly an important factor, and young families used payday loans more than other families did:

*"Fully one-quarter of families who were payday loan borrowers had a major income recipient aged 15 to 24, compared with only 6% who were not. [...] Even after controlling for key financial variables such as income and bank balances, young families were more likely to have had a payday loan. Relative to the reference group (major income recipient aged 35 to 44), young families were 3 times more likely to have used payday loans."*²⁷

An Environics survey conducted in 2005 on behalf of the Canadian Payday Loan Association indicates that most users of cheque-cashing services are single (35% vs. 25% in the general population), have custody of children (47% vs. 27%), have a lower income (49% belong to a household whose income is less than \$35,000 annually, vs. 27% for Canadians as a whole). The survey found no major difference as to gender. Users of cheque-cashing services were 39 years of age on average.²⁸

Since the various surveys didn't use the same criteria or categories, it's difficult to draw cogent statistics. And since the surveys often concern payday loans as well as cheque cashing, whereas the clienteles of these two different types of services can have distinct characteristics, it becomes almost impossible to draw accurate conclusions about clienteles who need a loan.

²⁴ Government of Canada, Payday Loan Companies in Canada: Determining the Public Interest, January 26, 2006. [Online]. <http://www.parl.gc.ca/information/library/PRBpubs/prb0581-e.html> (Page consulted on October 28, 2008).

²⁵ Public Interest Advocacy Centre, Fringe Lending and "Alternative" Banking: The Consumer Experience, November 2002. [Online]. http://www.piac.ca/financial/new_report/ (Page consulted on December 9, 2008).

²⁶ Union des consommateurs, Le marché parallèle des petits prêts, 2006. [Online]. <http://www.consommateur.qc.ca/union-des-consommateurs/docu/budget/petitsprets.pdf> (Page consulted on December 9, 2009).

²⁷ Wendy Pyper, Payday loans in Perspectives on Labour and Income, vol. 8, No. 4, April 2007. [Online]. <http://www.statcan.gc.ca/pub/75-001-x/10407/9617-fra.htm> (Page consulted on December 8, 2008).

²⁸ Law Commission of Ontario, The Users of Cheque Cashing Services. <http://www.lco-cdo.org/en/FeesSecIII.html> (Page consulted on December 8, 2008).

Still, the various surveys of alternative service users agree on certain points: the users are generally young, from 18 to 40 years of age; and they have a rather modest annual income, i.e., less than \$30,000. Data collected on other factors such as gender and level of education are insufficient for drawing conclusions. As for place of residence, it can of course have an impact, mainly depending on the availability of such services and on the quality of services provided by traditional financial institutions.

Loan charges

Payday loans

Several authors agree that payday loan charges are prohibitive:

*"The cost to the borrower consists of interest and various fees including administration, processing, and broker's and collection fees. The Financial Consumer Agency of Canada estimates the cost of a \$300 loan taken for 14 days at \$50, equivalent to 435% per year, far higher than other short-term borrowing such as a cash advance on a credit card (\$4.13 or 36%), overdraft protection (\$2.42 or 21%), or a line of credit (\$1.15 or 10%)."*²⁹

According to the Association of Community Organizations for Reform Now Canada (ACORN Canada) and the Public Interest Advocacy Centre (PIAC), payday loan charges vary between 300 and 900%³⁰.

Pledge loans

Pledge loan charges are also very high.

*"Par exemple, le consommateur qui signe le contrat de prêt sur gage s'engage à remettre la somme prêtée dans un mois de la date de la conclusion du contrat, en plus d'une somme représentant 5% d'intérêts par mois et de 17% à 20% par mois en frais d'administration et d'entreposage des biens laissés en gage. L'emprunteur qui ne peut pas rembourser le capital prêté à la fin du mois mais qui peut payer seulement les frais d'intérêts, d'administration et d'entreposage, peut éviter de perdre la propriété des biens en payant seulement ces frais. Le contrat est alors reconduit (renouvelé) pour un autre mois au terme duquel la même obligation est imposée au consommateur. Par exemple, en trois mois, un consommateur peut avoir à payer 33.00 \$ de frais et d'intérêts (3 mois à 11.00:\$ par mois) en plus d'avoir à rembourser le capital prêté de 50.00 \$ pour retrouver des biens qui lui appartiennent valant jusqu'à 500.00 \$."*³¹

It therefore appears that loan service charges prevailing in the alternative consumer credit market are extremely high, easily exceeding the usurious rate, set at 60% in Canada.

²⁹ Wendy Pyper, *Payday loans* in Perspectives on Labour and Income, vol. 8, No. 4, April 2007. [Online]. <http://www.statcan.gc.ca/pub/75-001-x/10407/9617-eng.htm> (Page consulted on December 8, 2008).

³⁰ Association of Community Organizations for Reform Now Canada (ACORN Canada). November 2004: Protecting Canadians' Interest: Reining in the Payday Lending Industry. [Online]. http://acorn.org/fileadmin/International/Canada/Reports/Payday_Lending_Report.pdf (Page consulted on December 9, 2008). The Public Interest Advocacy Centre (PIAC). Michael Grant and Sue Lott. November 2002. Fringe lending and "alternative" banking: the consumer experience. [Online]. <http://www.piac.ca/files/fringelendingrpt1.pdf> (Page consulted on December 9, 2008).

³¹ Claude Masse, *Le prêt sur gage - qu'en est-il et comment est-il contrôlé?*, January 13, 2000. [Online]. <http://www.avocat.qc.ca/public/iipretgage.htm> (Page consulted on December 8, 2008).

However, when questioned as part of a Canadian omnibus Ipsos-Reid Express survey, the users don't generally seem aware of this fact; 37% consider that the interest rates are equal to (12%) or lower than (25%) credit card rates, whereas 16% admitted not knowing the answer.³²

Consequences of consumer use of the new credit services

Current Consumer debt could eventually prove problematic, if it isn't already. The practices and charges of the alternative credit market make debt all the more likely to become problematic:

*"The circumstances under which alternative consumer credit market loans are advanced can leave consumers unable to repay them within their terms. The result can be a 'debt spiral' marked by the revolving use of small short-term credit in successive pay periods, and the compounding of the already high costs of borrowing."*³³

Consumers who resort to the alternative consumer credit market incur a number of charges that exceed those of traditional credit. In particular, they must pay high initial payments, high refinancing or rollover charges if applicable, and charges related to various collection practices as the case may be.

Relying on alternative credit could make access to traditional credit even more difficult:

*"The Board finds it distressing that an increasing and significant number of Manitobans are taking out payday loans, notwithstanding that payday loans, while meeting an immediate need, may only defer and make worse a borrower's financial problem, and are very expensive and don't build a credit rating. In fact, the Board suspects the taking out of a payday loan, if it becomes known to a bank or credit union, may actually dissuade mainstream lenders from lending to the borrower."*³⁴

More broadly, access to credit by other means than the traditional financial system can have grave consequences for a consumer's financial health, beyond having to pay more for the credit obtained:

"• L'absence de conseil au moment de l'octroi du crédit peut conduire à l'octroi d'un prêt non adapté à la situation de la personne. De fait, les établissements financiers spécialisés ont rarement des contacts physiques avec leur client: l'octroi des crédits revolving [ou crédit renouvelable] se fait principalement à distance, par internet et par téléphone, ou par l'intermédiaire de partenaires commerçants, directement sur les lieux de vente. L'information fournie est souvent partielle, le conseil relatif à la pertinence ou au choix du type de crédit contracté absent.

"• La faiblesse des justificatifs demandés peut inciter les emprunteurs à faire de fausses déclarations dans le but d'accéder au crédit, incitation souvent proposée par le vendeur.

³² Financial Consumer Agency of Canada, Public Experience with Financial Services and Awareness of the FCAC, March 24, 2005. [Online].

<http://www.fcac-acfc.gc.ca/eng/publications/SurveyStudy/Consumer/PDFs/PublicExpFinServAwareRpt-eng.pdf> (Page consulted on April 27, 2009).

³³ Consumer Measures Committee, Stakeholder Consultation Document on a Proposed Consumer Protection Framework for the Alternative Consumer Credit Market, December 14, 2004. [Online]. [http://cmcweb.ca/eic/site/cmc-cmc.nsf/vwapj/accm.pdf/\\$FILE/accm.pdf](http://cmcweb.ca/eic/site/cmc-cmc.nsf/vwapj/accm.pdf/$FILE/accm.pdf) (Page consulted on October 15, 2008).

³⁴ Manitoba Public Utilities Board, Maximum Charges for Payday Loans, April 4, 2008. [Online]. <http://www.pub.gov.mb.ca/pdf/misc/39-08.pdf> (Page consulted on October 28, 2008).

Une simple déclaration sur l'honneur de la part de l'emprunteur suffit pour vérifier son niveau d'endettement, aucun relevé de compte bancaire n'est à fournir.

“ La permanence de la réserve de crédit sans qu'aucune décision formelle n'intervienne ne tient pas compte de l'évolution des revenus et de l'endettement.

“ La complexité du produit couplée à un manque de lisibilité des offres rend la compréhension du produit difficile pour le consommateur. Les offres présentent souvent un taux d'appel attractif pour la première utilisation de la réserve d'argent et dérivent très rapidement vers des taux d'intérêt compris entre 15 et 20% pour les utilisations suivantes.”³⁵

Canadians excluded from traditional financial systems fall into a vicious cycle: without savings or the possibility of building a credit history, it's difficult to obtain a credit card or a line of credit, and even more difficult to obtain a loan from a traditional financial institution. Relying on those emergency services would thus close the door to services that may be more appropriate, and likely to lead to financial recovery in the longer term:

“Credit from informal and fringe sources limit a person's ability to improve her credit rating. Timely repayment of pawn loans, payday loans and family-based loans do not improve a person's credit bureau score. As a result, the well-disciplined fringe bank borrower is not rewarded with access to cheaper and more flexible credit through an improved credit rating. In the case of a carefully designed program it would be helpful for the client's credit history to be reported to the credit rating agency.”³⁶

It therefore appears likely that the emergence of alternative banking services carrying higher interest rates and more-limited services than in the traditional system could reinforce the very poverty that created those alternative services.³⁷

“At fringe banks service fees are typically higher than those charged by mainstream bank services, services are focused on immediate transactions, and since there is limited government regulation, business practices can be more risky for consumers. Since fringe banks generally provide only limited transaction services and no saving services, they do not give consideration to or advice about the customer's overall financial situation. Thus financial services decisions are made without an understanding of the client's financial context.”³⁸

³⁵ Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

³⁶ Jerry Buckland, Strengthening Banking in Inner-cities: Practices & Policies to Promote Financial Inclusion for Low-income Canadians, Canadian Centre for Policy Alternatives, March 2008. [Online]. http://www.policyalternatives.ca/documents/Manitoba_Pubs/2008/Strengthening_Banking_in_Inner_Cities.pdf (Page consulted on August 26, 2008).

³⁷ *Ibid.*

³⁸ *Ibid.*

CONSUMERS' NEED FOR SMALL LOANS

Overall needs (amounts, motives, etc.)

The needs to be filled

As mentioned above, financial institutions have practically stopped extending small loans to consumers, so that this type of service has become the domain of the alternative market. One way to determine consumers' need for small loans is therefore to examine the overall needs of consumers who seek to obtain a small loan on the alternative consumer credit market.

An American survey of 2,197 persons that was conducted from December 2000 to January 2001 by the Credit Research Center attempted to learn the reasons why people try to obtain a payday loan. Table 2 shows data collected by the survey.

Table 2: Reasons for relying on a payday loan³⁹

Motives Given by Users of Payday Loan Services for Relying on This Type of Credit	Percentage (%)
<i>Emergencies</i>	
Unplanned expenses	47.2
Temporary income reduction	18.5
<i>Discretionary Uses⁴⁰</i>	
Planned expenses	11.9
Others	22.5
<i>Total</i>	100.0

At least for their most recent loan, the vast majority of respondents thus used payday loans because of an emergency.

A 2007 study conducted in Ontario on behalf of the Canadian Payday Loan Association revealed that the main reason for people to use a payday loan is the need for cash to pay for the usual needs (33%), whereas other such borrowers stated that they needed to pay for an unplanned expense such a home or car repair (26%).⁴¹

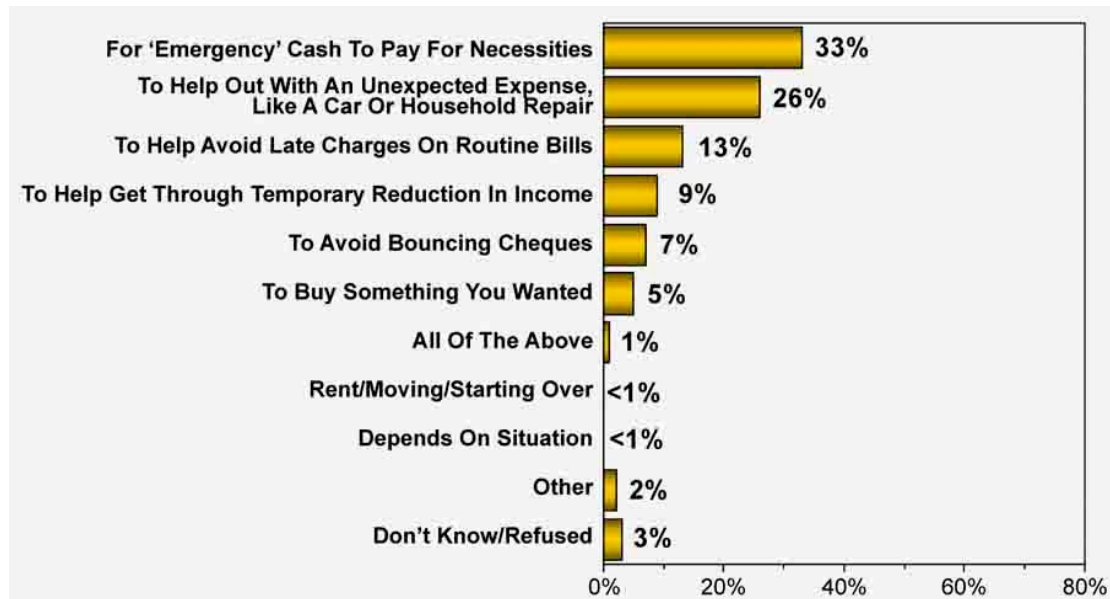
³⁹ Gregory Elliehausen and Edward C. Lawrence, *Payday Advance Credit In America: An Analysis Of Customer Demand*, Credit Research Center, April 2001. [Online]. <http://www.business.gwu.edu/research/centers/fsrp/pdf/Mono35.pdf> (Page consulted on December 11, 2008).

⁴⁰ The study defines *discretionary use* as follows: "Planned and other expenses can be considered discretionary in that the need for the payment is generally known in advance and can be budgeted. Even if the advance is used for a necessity such as rent, the consumer chose to spend his income on other things rather than set aside sufficient funds to pay for the necessity." Gregory Elliehausen et Edward C. Lawrence, *Payday Advance Credit In America: An Analysis Of Customer Demand*, Credit Research Center, April 2001. [Online]. <http://www.business.gwu.edu/research/centers/fsrp/pdf/Mono35.pdf> (Page consulted on December 11, 2008).

⁴¹ Pollara, Payday Loan Customer Survey - Ontario -, November 2007. [Online]. [http://www.cpla-acps.ca/english/reports/3631%20Ontario%20CPLA%20Report%20FINAL%20\(Oct%2026\).pdf](http://www.cpla-acps.ca/english/reports/3631%20Ontario%20CPLA%20Report%20FINAL%20(Oct%2026).pdf) (Page consulted on January 6, 2008).

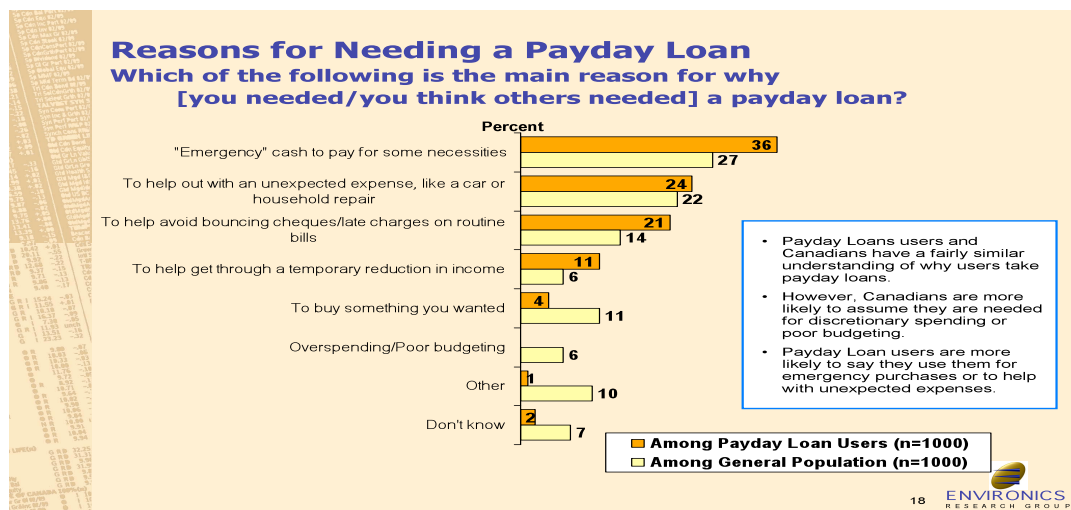
More specifically, respondents were asked to choose from a list of reasons for needing a payday loan:

Table 3: Reasons for needing a payday loan⁴²



Another study, produced in 2005 on behalf of the Canadian Association of Community Financial Service Providers, yielded the same results. Table 4 presents the results when payday loan users were asked: *Which of the following reasons mainly justifies why you needed a payday loan?*

Table 4⁴³



⁴² Pollara, Payday Loan Customer Survey - Ontario -, November 2007. [Online]. [http://www.cpla-acps.ca/english/reports/3631%20Ontario%20CPLA%20Report%20FINAL%20\(Oct%2026\).pdf](http://www.cpla-acps.ca/english/reports/3631%20Ontario%20CPLA%20Report%20FINAL%20(Oct%2026).pdf) (Page consulted on January 6, 2008).

⁴³ Environics research group, Understanding Consumers of Canada's Payday Loans Industry, June 2005. [Online]. <http://www.cpla-acps.ca/english/reports/PaydayLoansReportPresentationJune9.ppt> (Page consulted on January 7, 2008).

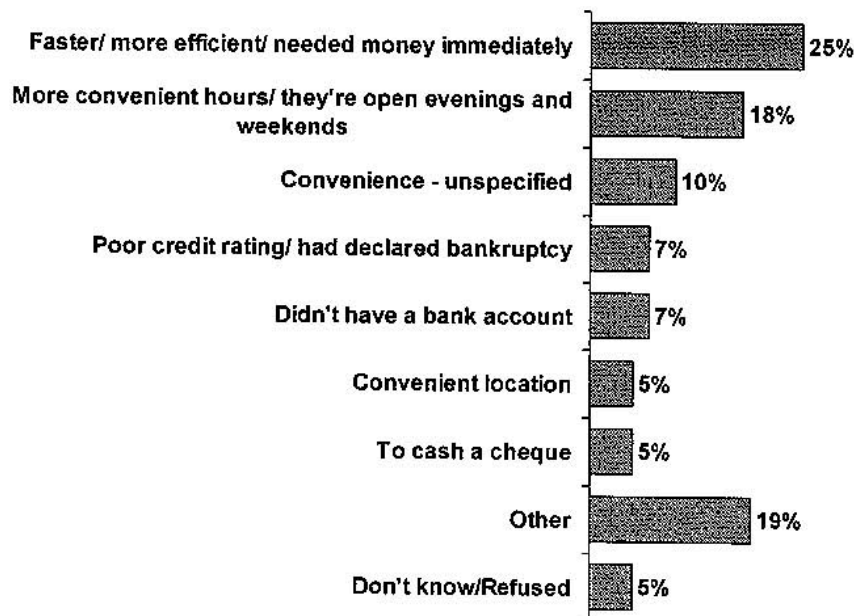
The majority of the answers reveal a shortage of cash, but the causes of this situation are barely mentioned (Loss of income: from 6 to 9%, poor planning: 6%). The urgent need for cash to defray regular expenses is, in both surveys, the reason most often cited (27 and 33%); to those numbers we could certainly add part of the answers under the heading “avoiding late fees” and “avoiding non-sufficient funds cheques” (14 and 20%). The desire to purchase something that (given the other possible answers) would not be a necessity represents a small percentage (5 to 11%).

Rather than focus on the planned use of the loans, the Financial Consumer Agency of Canada (FCAC) used a Canadian omnibus Ipsos-Reid Express survey to question Canadians about their reasons for turning to the alternative market rather than traditional institutions. Of 5,000 respondents, only 7% used such a service. It's interesting to note that only 3% of respondents don't have an account in a financial institution, whereas this reason is cited by 7% of those who use cheque-cashing or payday loan services.

Table 5⁴⁴

Reasons For Use of Cheque Cashing Outlets or Payday Loan Companies

Why have you used a cheque cashing or payday loan service instead of using the services of a regular financial institution, such as a bank, credit union or caisse populaire?



Base: Used a cheque-cashing outlet or a payday loan company N=370

⁴⁴ Financial Consumer Agency of Canada, Public Experience with Financial Services and Awareness of the FCAC, March 24, 2005. [Online]. <http://www.fcac-acfc.gc.ca/eng/publications/SurveyStudy/Consumer/PDFs/PublicExpFinServAwareRpt-eng.pdf> (Page consulted on April 27, 2009).

As stated by the *Federal Deposit Insurance Corporation*, which confirms the motives identified by the FCAC survey:

*“Many consumers turn to payday loans and overdraft programs because these products are easily accessible and generally are more widely promoted than other more traditional, affordable loans. For many borrowers with emergency or other short-term needs, accessibility and expediency in the application process are important.”*⁴⁵

Other studies reach the same conclusions:

“Families borrow money for different reasons. They may be unable to meet expenditures with their current income or assets—life-cycle stage, education, and income all affect whether a family has the needed financial resources. Also, families have different financial management skills and experiences, influencing savings and spending patterns.

*“But why do people borrow money using a payday loan rather than through a bank? Some may prefer the convenience, with location, hours of operation, and ease and speed of approval playing a key role ([EnviroNics 2005](#)). Some may choose a payday loan because they live in a community that is underserved by mainstream financial institutions ([ACORN 2004](#)). Those with a poor credit rating, a previous bankruptcy, or no bank account may not have the option of using less expensive means such as credit cards, lines of credit, or overdraft protection. Without payday loans, some consumers may be led to less desirable credit options such as loansharking and organized crime ([CMC 2002](#)).”*⁴⁶

In short, people turn to payday loans mainly in two situations: the need to obtain “emergency” money quickly and easily in order to pay for the usual needs; and the need for money to defray unplanned expenses, such as home or car repairs.

The amounts borrowed

Data on the amounts borrowed are difficult to access: alternative financial service companies are private companies, in competition with one another, that don’t disclose this type of data. The best way to obtain data on borrowed amounts is thus still to conduct surveys and polls of users.

The Credit Research Center’s survey focused on the amounts generally borrowed through payday loan services. Table 6 presents statistics on the amounts borrowed by consumers in the latest loan contracted with payday loan services.

⁴⁵ Federal Deposit Insurance Corporation, *Affordable Small-Dollar Loan Guidelines*, June 19, 2007. [Online]. <http://www.fdic.gov/news/news/press/2007/pr07052a.html> (Page consulted on April 15, 2009).

⁴⁶ Wendy Pyper, *Payday loans* in *Perspectives on Labour and Income*, vol. 8, no. 4, April 2007. [Online]. <http://www.statcan.gc.ca/pub/75-001-x/10407/9617-eng.htm> (Page consulted on December 8, 2008).

Table 6⁴⁷

Size of Most Recent New Advance	Percent (%)
\$100 or less	7.0
\$101-200	27.3
\$201-300	45.4
\$301-400	8.9
\$401-500	9.2
More than \$500	2.2
<i>Total</i>	100.0

According to this survey, the average amount of the latest payday loan was, for almost half of respondents, from \$200 to \$300. For the vast majority of them, i.e., 72.7%, the amount borrowed was \$100 to \$300. We should keep in mind that this type of loan is granted according to a periodic amount – the borrower's salary, as it appears on his pay stub of recent weeks. The maximum amount of the loan granted will in fact be based on a portion of the amount shown on the pay cheque. The amount borrowed could thus be an available amount rather than the one consumers would actually have needed.

We have found no survey or study enabling us to determine or establish credible statistics on the average amounts obtained by consumers who have used pledge loan services.

In an attempt to more generally examine consumers' need for small loans, we studied some thirty budget consultation files produced by *Associations coopératives d'économie familiale* (ACEFs).

Case study

The *Associations coopératives d'économie familiale* (ACEFs) form a network of non-profit organizations in Quebec that intervene in the areas of budgets, indebtedness and consumption. The ACEFs meet with people struggling with various consumer problems, including budget problems; ACEF budget advisors (also called consultants or counsellors) offer consumers a variety of services to facilitate budget balancing and control.

The budget consultation offered by ACEFs is a confidential and free service for people experiencing budgetary difficulties or debt problems. The consultants assess the situation with the consumer, and then examine paths to solutions.

When developing this research project, we assumed that some of consumers' budget difficulties could find a solution, or at least be alleviated, by a small loan.

To verify this assumption and assess the need for small loans (reasons and amount) that consumers may experience when faced with budget difficulties, we asked four ACEFs across Quebec (Lanaudière ACEF, Montreal North ACEF, Montérégie East and Montreal East ACEF) to examine 30 budget consultation files indicating that the consumers concerned would have needed a small loan.

⁴⁷ Gregory Elliehausen et Edward C. Lawrence, *Payday Advance Credit In America: An Analysis Of Customer Demand*, Credit Research Center, April 2001. [Online]. <http://www.business.gwu.edu/research/centers/fsrp/pdf/Mono35.pdf> (Page consulted on December 11, 2001).

No particular indication was given ACEFs regarding the choice of files, except that the latter had to be about people who could have needed a small loan to settle a short-term need for money or to improve their financial situation.

We therefore asked the budget advisors to choose at random, among their own ACEF's consultation files, those in which a small loan would have been useful and appropriate due to the consumer's particular difficulty in meeting his needs.

After verifying with the budget consultants the type of information that usually appears in the files of people who have benefited from budget consultation, the participating ACEFs' budget consultants were given a grid on which to enter information available in the files: socio-economic data (age and gender, net income (amount and provenance)), the type of need detected during the budget consultation, the amount required to meet that need, the solution considered by the consumer, the solution proposed by the consultant, and finally the solution adopted by the consumer⁴⁸.

The amounts entered are the ones requested by consumers – who if possible may have provided a quotation, an estimation... – and the ones that, following analysis of the file, may have been negotiated or refined by the budget advisor.

⁴⁸ The completed grids are available in Annex 1.

The needs to be covered

The budget consultations that supplied our data reveal the main reasons why consumers would have needed additional money:

- buying a household appliance or electronic device (refrigerator, kitchen stove, computer, etc.);
- moving;
- paying for training to re-enter the job market;
- paying for accounts in arrears (mortgage, rent, electricity bills, telephone bills, insurance, etc.);
- paying for the services of a health professional (dentist) or for medical devices (denture, eyeglasses, wheelchair, etc.);
- recovering items left in pledge;
- repay debts carrying a high interest rate.

It should be noted that some of the reasons why consumers want a small loan are actually based on a need for money to repay other loans obtained under onerous terms, such as high-interest-rate loans or loans obtained in exchange for items left in pledge.

In short, the abovementioned underlying motives for requesting a payday loan, and those that explain the need for an additional amount, as revealed by budget consultations, are comparable. To illustrate the comparison, it is possible to verify whether the abovementioned needs of consumers belong, in proportion, to the same categories as those we identified previously.

In 37% of the files examined, the largest proportion of needs – 44% – expressed by consumers appears to be for “emergency” money to pay for the usual needs, whereas 7% of the needs expressed were for money to pay for unplanned expenses such as home or car repairs. In 37 % of the files examined, the need was related to the purchase of equipment (furniture, household appliance, computer, medical equipment, etc.). Moreover the information collected for the study’s purposes doesn’t enable us to determine the number of files where the need was motivated by an external factor (loss of income due death, separation, loss of employment, etc.).

The necessary amounts

According to the consultants who processed the files, which confirmed in most cases the need expressed by the consumer, the amounts that would have been necessary ranged from \$250 to \$5,000, and the average amount was about \$1,600.

It is extremely difficult to establish statistics about the solutions proposed to consumers who need additional money to fill a deficit or meet a specific need. Indeed, the solutions offered to consumers in financial difficulty who consult an ACEF depend on multiple factors, such as the level of debt, repayment capacity, the use that would be made of a loan (debt repayment, rent payment, paying for home repairs, paying for training, etc.), etc.

Rather than a single blanket solution, those proposed by budget consultants are extremely varied: a loan (from financial institutions, family, friends, etc.), investment withdrawal, consumer proposal, bankruptcy, etc., not counting solutions involving a reassessment of needs or the establishment of a budget that would make it possible to fill the deficit or plan for the amounts to be allocated for planned expenses. As can be observed, a loan will not always be possible,

depending on the circumstances, and will not be in every case the appropriate solution to a budget problem. For example, taking out a loan to pay for arrears on recurring expenses can prove dangerous if the budget doesn't forecast the regular payment of those expenses, to which would be added the loan repayment. Obviously, a merchant who exercises a single type of activity, i.e., extending loans, which happens to be extremely lucrative, has no interest in evaluating with a potential customer whether the loan requested is the most adequate solution – the greater the customer's debt, the more he profits.

Amounts generally obtained by payday loans (Table 6) are lower than the loan needs revealed by our study. As mentioned above, to obtain a payday loan, a consumer must have a regular job, and the amount available cannot exceed a certain percentage of the amount of a regular pay. However, only 8 households, out of the 30 households collected by the ACEFs (i.e., 27% of the files), had regular employment as a source of income: When there was employment income, it was very low, and the income percentage that would have been available through a payday loan would have been insufficient to meet the need. In fact, of the 8 files where people held a job providing regular income, the needs totalled \$2,262.50 on average – an amount considerably greater than generally available through a payday loan.

CHAPTER 2: REVIEW OF EXISTING PROGRAMS FOR IMPROVING ACCESS TO SMALL LOANS

CATALOGUE OF AVAILABLE PROGRAMS⁴⁹

In Canada

In Canada, few programs enable consumers to obtain small loans that are not intended to start up a small company, but rather to meet various needs or compensate for temporary income loss. Still, we did identify some programs of this type.

For example, in Manitoba, the provincial government wanted to assist low-income people and thus prevent them from relying on services offered by the alternative consumer credit market. Thus, the *North End Community Renewal Corporation*, an organization working toward the social, economic and cultural renewal of Winnipeg's north end, launched the **Community Financial Service Centre**, which dispenses personal finance management courses as well as small short-term loans in order to help residents of Winnipeg's north end neighbourhoods to improve their file, notably their credit history.⁵⁰

The purpose of the project is not so much to extend small loans to people, but rather to enable them to build a financial history and thus accede to financial services provided by traditional financial institutions rather than depend on those offered by the alternative consumer credit market. People are offered the following, for instance: identity cards with photos so that they may cash government cheques; advice and resources to help them manage their personal finances; and small short-term loans if needed.⁵¹

The small loans extended range from \$40 to \$100, for a term of 30 to 90 days.

"The goal of the loan program is to provide the loan at an annualized interest rate below the criminal rate of interest (60 percent per year), but above competitive rates associated with credit cards (18-25 percent per year). This pricing is well below the cost of pawning, yet since it is above that of a typical credit card, clients would be motivated to move towards conventional credit as it becomes available. Micro-loans will only be offered to clients who meet two criteria. The first is that they are referred to the program by members of a network of local community service organizations, who will be asked to provide a character reference for the borrower. The second criterion is that the person is either unbanked or has a minimal relationship with a bank."⁵²

⁴⁹ Below in the present study are tables 7 to 11, which outline the various features of the programs identified.

⁵⁰ CBC News, Proposed law would regulate payday loan companies, 13 March 2006. [Online]. http://www.cbc.ca/canada/manitoba/story/2006/03/13/mb_money-management-20060313.html (Page consulted on 8 January 2009).

⁵¹ Government of Canada, Removing Barriers: Winnipeg Partnership Agreement invests in Community Financial Service Centre project, November 16, 2006. [Online]. http://www.wd.gc.ca/fra/77_3277.asp (Page consulted on January 8, 2009).

⁵² Jerry Buckland, Blair Hamilton, Brendan Reimer, Fringe financial services, inner-city banking & community-based solutions, Canadian Journal of Urban Research, June 16, 2006. [Online].

The program thus does not constitute a long-term solution. Rather, the purpose is for people to be able to quickly use traditional financial services. The loans extended are in line with the program by enabling consumers to build a credit history that will prove useful when they apply for a loan from a traditional financial institution or for a credit card.

In addition to the provincial government, the federal and municipal governments financially support this initiative, which received in its debut a substantial grant from the Winnipeg Foundation⁵³.

In Ontario, in 1998, the City of Toronto, which was then trying to prevent the eviction of tenants who had difficulty paying their rent, launched a pilot project, the **Rent Bank Service**. The 12-month pilot project aimed “to determine to what extent a small loan and/or grant can keep a family housed, thus diverting them from the shelter system”.⁵⁴ The pilot project’s initial funding of \$65,000 was distributed as follows: \$50,000 from the City of Toronto Homeless Initiatives Fund (of which \$40,000 was earmarked for loans), \$5,000 from United Way, and \$10,000 from the Canada Mortgage and Housing Corporation to evaluate the project. Afterward, the charitable organization Hockey for Homelessness donated \$10,000, and the municipality gave an additional \$5,000 for administration. In total, the pilot project operated with \$80,000 for the first year, not counting the contribution in personnel, valued at \$65,650 for the first six months.⁵⁵

“A common issue that many low-income tenants have to face is the lack of credit when they must deal with short-term emergency crises. Illness, accidents or the sudden loss of a job can quickly lead to rental arrears and eviction.”⁵⁶

At the end of the project, the evaluation demonstrated that the amounts extended to people ranged from \$250 to \$2,398, with the average loan being \$1,100. Most of the loans served to pay rent arrears, but on a few occasions small amounts served to pay utility bills. If a loan application is accepted, the unpaid rent is paid directly to the owner on behalf of the tenant. The recovery rates of the amounts loaned were not very high:

“One area of the Rent Bank which has, however, not been successful is the loan repayment aspect. As of the end of April 1999, only 12 clients, or 31%, had made repayment plans and only two of the 37 clients had been able to fully keep up with their loan repayment schedules. A substantial number of clients would have been eligible for the City’s recently established Shelter Fund and it is hoped that in the future, the Rent Bank can achieve a higher degree of repayment through more careful screening of clients in terms of their ability to repay their loans.”⁵⁷

<http://www.articlearchives.com/banking-finance/banking-institutions-systems-savings/760530-1.html>

(Page consulted on January 16, 2009).

⁵³ Jubilee Fund: Ethical Investing in Manitoba. [Online].

<http://www.jubileefund.ca/projects/CommunityFinancialServicesCentre.html> (Page consulted on April 27, 2009).

⁵⁴ Canada Mortgage and Housing Corporation, City of Toronto Rent Bank Pilot Project Evaluation, Socio-economic Series, Issue 57, February 22, 2007. [Online].

<http://dsp-psd.communication.gc.ca/Collection/NH18-23-57E.pdf> (Page consulted on January 12, 2009).

⁵⁵ Canada Mortgage and Housing Corporation, City of Toronto Rent Bank Pilot Project Evaluation, Socio-economic Series, Issue 57, February 22, 2007. [Online].

<http://dsp-psd.communication.gc.ca/Collection/NH18-23-57E.pdf> (Page consulted on January 12, 2009).

⁵⁶ *Ibid.*

⁵⁷ *Ibid.*

The CHMC concluded its evaluation with 32 recommendations. Among them:

“The City of Toronto should fund a Rent Bank that is primarily for loans to tenants in one-time emergency situations, recognizing that, in exceptional circumstances, the loan or a portion thereof may need to be forgiven.”⁵⁸

In 1996, the provincial government of British Columbia, formed by the NDP, opened the **Four Corners Community Savings**, an organization structured as a bank to freely meet the financial needs of East Vancouver. Among the services offered: savings accounts without a minimum balance, cheque-cashing services, utility bill payments, electronic cheque deposit services, the opportunity to obtain financial advice, etc.

Operating under the authority of the B.C. Community Financial Services Corporation, a provincial government agency with the mandate of offering Vancouver consumers a complete range of financial services, the Four Corners Community Savings received \$300,000 in annual government funding⁵⁹, after an initial investment of \$6.9 million.⁶⁰

In 2000, to counter the major impact of usurious loans, the Four Corners Community Savings had also created a fund to give area residents access to small loans.

“The Four Corners Support Fund Society (FCSFS), a non-profit society, was established to provide a loan guarantee for applicants who lacked collateral. The fund targeted low-income British Columbians, and were intended to help launch creative initiatives that incorporated community economic development goals.”⁶¹

In its first year of operation, FCSFS extended a hundred small loans ranging from \$300 to \$1,500.⁶²

In 2002, the newly elected Liberal government required changes to the activities and administration of the organization, “which does not fit ideologically with their privatisation and budget reduction agenda, particularly when considering the perpetual deficits Four Corners runs”⁶³; the changes led to the abandonment of small loan activities.

Again in Vancouver, the **VanCity Credit Union**, the largest credit union in Canada, offers its members various financial services, including small loans. VanCity has established specific programs to facilitate access to small loans: although the eligibility criteria for obtaining a small loan are the same as those required for obtaining a conventional loan, members who meet the criteria can obtain loans for amounts as small as \$300 – less than what traditional financial institutions generally offer. Moreover, the interest rates are the same as those required for

⁵⁸ *Ibid.*

⁵⁹ Raising the Roof: Case Study: Four Corners Community Savings http://www.raisingtheroof.org/ss-case-dsp.cfm?casefile=Four_Corners_Community_Savings

⁶⁰ Jerry Buckland and Martin Thibault, The rise of fringe financial services in Winnipeg’s north end: client experiences, firm legitimacy and community-based alternatives, August 2003. [Online]. <http://ius.uwinnipeg.ca/WIRA/PDF/fringe-banking-Chesya.pdf> (Page consulted on January 9, 2009).

⁶¹ *Ibid.*

⁶² *Ibid.*

⁶³ *Ibid.*

traditional loans, so that apart from the smallness of the amounts, nothing really distinguishes the small loans from others offered by traditional financial institutions.⁶⁴

In the light of the programs identified elsewhere in Canada, it appears that the program established in 2001 in Quebec by Desjardins, the Desjardins Mutual Aid Funds, is the only Canadian program with the primary purpose of offering consumers small loans at favourable terms. This program, which gives consumers access to small loans, will be examined in greater detail below.

Abroad

The present section does not aim to draw an exhaustive inventory of programs abroad, but rather to present a few programs that may meet consumers' need for small loans and to study their main features. Our study focuses on American, British, French and Belgian programs.

In the United States

It should be noted from the outset that the American situation is special, since regulations have been adopted in the United States to compel and monitor access to credit in small amounts.

During the seventies, fears regarding the attitude of financial institutions led Congress to react and adopt a series of fair lending laws; among those laws is the Community Reinvestment Act (CRA), voted in 1977, with the goal of encouraging lenders to meet the credit needs of local markets, including low-income areas, and specifically requiring financial institutions to meet the credit needs of all communities, including low- and middle-income communities. Measures were adopted by the Federal Reserve Board to evaluate the performance of financial institutions.⁶⁵

More specifically, the Community Reinvestment Act (CRA) seeks to prohibit the lack of credit that could penalize relatively low-income areas. To that end, the CRA obliges 4 American federal financial regulatory organizations to adopt necessary regulations to encourage their members (banks and savings institutions) to help local communities meet residents' credit needs. The four regulatory organizations (the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC) and the Director of the Office of Thrift Supervision) carry out various specific activities in addition to their usual mandate. For example, they must evaluate an institution's performance in terms of credit granted to the entire local community it services, including sectors where the residents' income is low or moderate. They must also report on actions taken to meet the responsibilities conferred to them by the CRA. Finally, the CRA obliges banks to document loan rejections in order to be prepared to justify them economically.⁶⁶

Based on the *Community Reinvestment Act*, the FDIC decided to offer incentives for granting small loans, in association with savings components. Accordingly, the Federal Deposit Insurance Corporation (FDIC) launched a two-year pilot project in 2007, the **Pilot Project for Affordable Small-Dollar Loans**, to demonstrate that small loans could be profitable for

⁶⁴ *Ibid.*

⁶⁵ Iain Ramsay, 2000. Access to Credit in the Alternative Consumer Credit Market. [Online]. [http://www.ic.gc.ca/eic/site/cmc-cmc.nsf/vwapj/ramsay_e.pdf/\\$FILE/ramsay_e.pdf](http://www.ic.gc.ca/eic/site/cmc-cmc.nsf/vwapj/ramsay_e.pdf/$FILE/ramsay_e.pdf) Page consulted on August 20, 2008.

⁶⁶ Government of Canada, the Community Reinvestment Act (CRA): American credit legislation, October 1998. <http://dsp-psd.tpsgc.gc.ca/Collection-R/LoPBdP/BP/bp464-e.htm>

financial institutions and to convince them to reach communities that were poorly serviced by banking institutions, so that this clientele may be encouraged to use the regular services of financial institutions⁶⁷.

In a June 19, 2007 press release, the FDIC presented its project as follows:

*"Some of the key features of the pilot will include loan amounts of up to \$1,000, mandatory savings components, payment periods that extend beyond a single pay cycle, interest rates below 36 percent, low or no origination fees, no prepayment penalties, prompt loan application processing, and access to financial education to help with asset building. Participating financial institutions in the study that offer these products in a safe and sound manner may receive favorable consideration under the Community Reinvestment Act (CRA)."*⁶⁸

The FDIC selected 31 banks to take part in its pilot project (Small-Dollar Loan Pilot Program), for a total of 560 branches in 27 states. At the end of the first quarter of 2008, the results were the following:

"Loan terms ranged from three bi-weekly installments to 36 monthly payments. Fifteen banks reported they would charge an application fee. The fees ranged from \$18 to \$61.50, with an average fee of \$34.

*"Institutions originated 1,617 loans exceeding \$1,000 for a combined principal amount of about \$2.7 million. For those loans exceeding \$1,000, the average loan size was \$1,695, while the average loan term was 17 months and the average interest rate was 15.5%. Banks originated 1,523 loans less than \$1,000 for a combined principal amount of about \$1 million. For those loans less than \$1,000, the average loan size was \$678, while the average loan term was 10 months and the average interest rate was 15.1%."*⁶⁹

The criteria for granting loans are not clearly defined in the project. But a few guidelines are given to institutions:

"Many consumers turn to payday loans and overdraft programs because these products are easily accessible and generally are more widely promoted than other more traditional, affordable loans. For many borrowers with emergency or other short-term needs, accessibility and expediency in the application process are important.

"Effective small-loan products balance the need for quick availability of funds with the fundamentals of responsible lending. Sound underwriting criteria should focus on a borrower's history with the institution and ability to repay a loan within an acceptable timeframe. Given the small-dollar amounts of each individual loan, documenting the

⁶⁷ Signe-Mary McKernan and Caroline Ratcliffe, New Safety Net Paper 7, July 2008. Enabling Families to Weather Emergencies and Develop - The Role of Assets

http://www.urban.org/UploadedPDF/411734_enabling_families.pdf

⁶⁸ Federal Deposit Insurance Corporation: FDIC Board Approves Small-Dollar Loan Pilot Project. Press Release. June 19, 2007. [Online]. <http://www.fdic.gov/news/news/press/2007/pr07051.html> Page consulted on April 27, 2009.

⁶⁹ Mischel, Brian J, Banks Reach Underbanked with Small-Dollar Loans. All Business, September 1 2008 <http://www.allbusiness.com/company-activities-management/management-best-practices/11694084-1.html> . See also: Federal Deposit Insurance Corporation, Small-Dollar Loan Pilot Program <http://www.fdic.gov/SmallDollarLoans/> Page consulted on April 27, 2009.

borrower's ability to repay could be streamlined significantly for existing customers and may only need to include very basic information, such as proof of recurring income."⁷⁰.

In parallel to those initiatives, based on regulatory provisions, other American programs offer small loans.

For example: As part of a vast welfare reform program⁷¹, the Wisconsin legislature created Job Access Loans. "The purpose is to allow eligible applicants to borrow up to US\$1,600 at no interest if the loan will help them to find or retain employment and will be used to and will be used to address an immediate and discrete financial crisis."⁷²

To qualify for and obtain a loan, applicants must:

- ensure that they cannot obtain the required money from another source:
- be the parents of minor children and have an income lower than 115% of the poverty level established by the federal government:
- be eligible for the Wisconsin Works (W-2)⁷³, apply to the program through the Financial and Employment Planner and produce a loan repayment plan.

The loans granted may be used for:

- defraying the cost of repairing a vehicle necessary for obtaining or keeping a job:
- purchasing a vehicle that will enable a participant to travel to his workplace;
- purchasing clothes or a uniform and any other equipment necessary for a job:
- paying rent or a security deposit:
- paying moving costs to obtain or keep a job.

Monthly loan repayments may be done in two ways: in cash or by a combination of cash and volunteer service to the community. Loans must be repaid over 12 months, but in exceptional circumstances the repayment period may be extended to up to 24 months. The program is thus intended for a very specific clientele, and loans may be granted only for a restricted number of job-related reasons.⁷⁴

⁷⁰ Federal Deposit Insurance Corporation, Affordable Small-Dollar Loan Guidelines, June 19, 2007. [Online]. <http://www.fdic.gov/news/news/press/2007/pr07052a.html> (Page consulted on April 15, 2009).

⁷¹ Evergreen Freedom Foundation. Policy Highlighter, Volume 7, Number 4, February 17, 1997. Welfare Reform that Really Works #4: *Wisconsin Calls It Welfare Replacement*. http://www.effwa.org/highlighters/v07_n4.php

⁷² Iain Ramsay, 2000. Access to Credit in the Alternative Consumer Credit Market. [Online]. [http://www.ic.gc.ca/eic/site/cmc-cmc.nsf/vwapj/ramsay_e.pdf/\\$FILE/ramsay_e.pdf](http://www.ic.gc.ca/eic/site/cmc-cmc.nsf/vwapj/ramsay_e.pdf/$FILE/ramsay_e.pdf) (Page consulted on August 20, 2008).

⁷³ "The Wisconsin Works (W-2) program is available to parents of minor children whose family income is below 115% of the Federal Poverty Level (FPL). Each W-2 eligible participant meets with a Financial and Employment Planner (FEP), who helps the individual develop a self-sufficiency plan and determine his or her place on the W-2 employment ladder. The ladder consists of four levels of employment and training options, in order of preference." Wisconsin Department of children and families, Wisconsin Works (W-2) and Related Programs Home Page, December 11, 2008. [Online]. <http://dcf.wisconsin.gov/w2/default.htm> (Page consulted on January 12, 2009).

⁷⁴ Wisconsin Department of children and families, Wisconsin Works (W-2) Job Access Loans, 16 June 2008. [Online]. http://dcf.wisconsin.gov/w2/job_access_loan.htm (Page consulted on January 12, 2009).

There is also a small loan program in North Carolina: the **Salary Advance Loan Program (SALO)**, offered by the North Carolina State Employees' Credit Union ⁷⁵(SECU). Introduced in 2001, the SALO program offers an annual interest rate of 12% for loans of up to \$500. The program aims both to replace the payday loan business and to educate consumers regarding budgets and savings. The same repayment principle applies here as in payday loans: Loans are repaid through direct withdrawal from the borrower's account on his next payday. Moreover, 5% of the loan amount is deposited in a savings account in order to secure the loan and encourage savings. The SALO program has also forged a partnership with a credit counselling service, BALANCE, to give borrowers advice on budgeting, credit and personal financial management. Anyone who receives more than three consecutive loans is referred to BALANCE.

SECU reported in 2008 that almost 100,000 people had used this service since its inception, and had saved more than \$145 million compared to the usual costs of payday loans. The program's savings component reportedly enables consumers who had no savings to accumulate almost \$15 million, thus breaking the cycle of payday loans.

Today, almost 1,000 of the 9,000 American credit unions have similar programs.⁷⁶ However, it should be noted that, as with payday loans, this type of program is available only to people who are employed.⁷⁷

In Arizona, Window Rock's **First American Credit Union (FACU)** makes small loans available. To customers who cannot access regular consumer loans, FACU offers loans in amounts as small as \$50 through a credit line. At any time, customers can borrow their entire credit line plus 110% of the amount contained in their savings account, at a 12% interest rate if the loan is to be used for a repair or home improvement, and at a 16% interest rate if the loan is to be used for other reasons. Financial advice is also provided to members who apply for a loan. FACU thus hopes to offer its members an alternative to alternative financial services such as payday loans. The services are extended to the credit union's members; membership costs \$1, and a minimum amount of \$5 must be maintained in a savings account to keep the membership active. There are no monthly charges. In 2002, FACU extended 34,516 loans at an average amount of \$378. In total, \$13,037,290 in small loans have been provided.⁷⁸

In New York, the **Provident Loan Society (PLS)**, founded in 1893, offers pledge loans giving people quick access to small loans, thanks to the organization's 5 places of business in New York. In exchange for pledged property, a loan is granted over a 12-month term at an annual interest rate of 26%. No additional charges apply to the loan, which may be repaid before maturity; the borrower will then only have to pay interest for the number of days during which the money was loaned. Upon maturity, the borrower may also renew his loan for another term and at the same interest rate. If the loan is not repaid, the property is sold at auction; if the

⁷⁵ North Carolina State Employees' Credit Union. Annual Report 2008.
http://www.ncsecu.org/PDF/Annual/AR_2008.pdf

⁷⁶ Sue Kirchhoff, Breaking the cycle of payday loan 'trap', USA Today, September 19, 2006. [Online].
http://www.usatoday.com/money/perfi/general/2006-09-19-credit-unions-usat_x.htm (Page consulted on January 13, 2009).

⁷⁷ Signe-Mary McKernan and Caroline Ratcliffe, Enabling Families to Weather Emergencies and Develop. The Role of Assets, New Safety Net Paper, July 7, 2008. [Online].
http://www.urban.org/UploadedPDF/411734_enabling_families.pdf (Page consulted on January 13, 2009).

⁷⁸ Jerry Buckland and Martin Thibault, The rise of fringe financial services in Winnipeg's north end: client experiences, firm legitimacy and community-based alternatives, August 2003. [Online].
<http://ius.uwinnipeg.ca/WIRA/PDF/fringe-banking-Chesya.pdf> (Page consulted on January 9, 2009).

amount thus obtained is greater than the loan, the interest and the auction fees, the borrower receives the difference.⁷⁹

In the United Kingdom

In 1997, the Labour Party sought to broaden access to credit and financial services by establishing the Social Exclusion Unit (SEU). The SEU was fragmented into various working groups (Policy Action Teams (PAT)); the work of Team 14 (PAT 14) led to the establishment of a list of recommendations, notably for increasing access to credit. Among the recommendations formulated by PAT 14 was that credit unions be used to provide an alternative when banks don't serve the credit market adequately. The working group thought that credit unions could offer small loans to small companies and low-income households. The working group's recommendations were not followed, and no legislation was introduced to apply them.⁸⁰

The **Community Banking Partnership: Community Reinvestment Action** was established on the basis of the American experience, so that consumers excluded from traditional financial institutions could have access to financial services. Behind this project is the desire to develop accessible and viable services replacing the payday loan industry. Several organizations collaborated in this project: the New Economics Foundation, the National Association of Credit Union Workers (NACUW) and the Community Finance Solutions of Salford University. This initiative is made possible by the financial contribution of Lloyds TSB Bank.⁸¹ The purpose of this partnership is to develop trust and cooperation between the organizations working together to promote financial inclusion; the Community Banking Partnership model aims to bring together the best practices of credit unions and community reinvestment trusts to create a range of financial services for financially excluded people. Other than access to banking services, this model gives access to consulting services and credit, and supports budget activities and workshops, as well as an understanding of banking products⁸².

British credit unions provide access to small loans. The three main objectives of British credit unions are to encourage their members' regular savings practices, offer them loans at low interest rates, and help members manage their personal finances. Credit union members must save on a regular basis: Whatever the size of savings, the regularity of savings is what matters. The money thus accumulated is placed in common and is then used for extending loans to members. When a member has been saving for a certain time (normally 12 weeks), he may reapply for a loan that will come from the combined savings of all members. The loan's annual interest rate will be 12.68%. The amount that it will be possible to borrow will depend on the amount needed by the member, on repayment ability, and on the policies of the credit union to which the loan application is made. To become a credit union member, a person must have a

⁷⁹ Jerry Buckland and Martin Thibault, The rise of fringe financial services in Winnipeg's north end: client experiences, firm legitimacy and community-based alternatives, August 2003. [Online].

<http://ius.uwinnipeg.ca/WIRA/PDF/fringe-banking-Chesya.pdf> (Page consulted on January 9, 2009).

⁸⁰ Tom Feltner and Malcom Bush, A Global Survey of Community Reinvestment Laws: The Obligation of the Private Sector to Serve the Underserved in Several Countries, Woodstock Institute, Volume 1, August 2004. [Online]. <http://www.woodstockinst.org/programs/global/>. P.12.

⁸¹ New economics foundation. *New banking partnership sounds death knell for predatory lenders*, December 16, 2004. [Online].

http://www.neweconomics.org/gen/news_communitybankingpartnership.aspx (Page consulted on November 22, 2008).

⁸² See for example: South Hampshire Community Baking Partnership. [Online].

http://www.shantscbp.org.uk/SHCBP/What_We_Do.html (Page consulted on November 22, 2008).

“common bond”, by residing in a specific region, working for a particular employer, or being a member of a club or association.⁸³

In France

Like other Western countries, France faces various social problems: unemployment, poverty, non-occupational accidents leading to a difficult financial situation, difficulty finding affordable housing, financial exclusion. Accordingly, the French government has sought, if not to eliminate, at least to mitigate the difficulties facing citizens. In that context, the *Loi de programmation pour la cohésion sociale* (LPCS), called “*loi Borloo*”, was enacted on January 18, 2005, primarily to reinforce the country’s social cohesion. The law thus created the **Fonds de cohésion sociale (FCS)**, with the general mandate of reinforcing social cohesion, and the more specific mandate of fighting social exclusion. This fund was to be used, notably, for creating a personal microcredit program (MCP), also called “*Microcrédit social*”. The Caisse des dépôts et consignations received from government the mission of managing the FCS, endowed with a budget of €73 million over five years (2005 to 2009). This money is to be used to guarantee loans.⁸⁴

The system put in place by government is based on collaboration between social institutions, which service potential microcredit beneficiaries, and banks, which grant and manage credit. Given that the trust’s mission exceeds simple access to credit, coaching is also a central component of the project:

“L’accompagnement doit être réalisé en amont et en aval du prêt. Il doit permettre d’aborder le microcrédit social dans une démarche intégrée, d’aider l’emprunteur à formaliser son projet, de répondre aux besoins identifiés et de l’accompagner à réaliser son projet social et/ou professionnel.”⁸⁵

The *Fonds de cohésion sociale* has thus made it possible to extend personal microcredits, i.e., small loans, to individuals in a precarious situation, of low income and without access to loan services offered by the traditional banking system. The loans are 50% guaranteed by the *Fonds de cohésion sociale* and are short term – from 2 to 4 years. The risk assumed by banks was set at a minimum of 35%. Partner organizations must offer a supplemental guarantee mechanism of 15%. The partner organizations are thus risk stakeholders.

The Comité d’orientation et de suivi de l’emploi des fonds (COSEF), charged with administering FCS operations, wanted the loans to range from €300 to €3,000 (\$494 to \$4,940) over a maximum of 36 months at a maximum interest rate of 8%. A waiver on behalf of persons

⁸³ Tameside, Credit Union, September 5, 2007. [Online]. <http://www.tameside.gov.uk/creditunion> (Page consulted on January 14, 2009).

⁸⁴ Jean Beaujouan, Le développement du micro-crédit personnel (MPC): une contribution à l’insertion sociale, Caisse des dépôts et consignations, December 2007. [Online]. http://www.jean-beaujouan.fr/IMG/doc/MCP_Etude_France_Benevolat_pour_la_CDC_12_2007.doc (Page consulted on September 3, 2008).

⁸⁵ Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

deemed “*accidentées de la vie*”⁸⁶ (non-occupational accident victims) was granted: their loans can reach €12,000 (\$19,757) and be repaid over up to 60 months.⁸⁷

The program’s establishment thus required the participation of several organizations to create national loan distribution networks. Among the partners identified: the Secours Catholique, the Union Nationale des Centres Communaux d’Action Sociale (UNCCAS) and the Union Nationale des Associations Familiales (UNAF).

An example of an FCS loan is the **programme de microcrédit social** offered by the Union Nationale des Associations Familiales (UNAF). The program aims to:

*“permettre à un public solvable mais qui n’a pas accès au crédit bancaire classique de réaliser des projets d’investissements dans des biens de consommation courante, des projets personnels, et de favoriser leur insertion sociale et professionnelle.”*⁸⁸

The loans are intended for persons:

- in a precarious situation who need credit to meet vital needs:
- confronted to a non-occupational accident entailing financial difficulties:
- encountering difficulty using banking services and products.

The loans may be used for funding various projects:

- Job mobility: training, driver’s licence, means of transportation...
- Housing: agency fees, security deposit, moving, housing charges, small home improvement work, household appliance purchases...
- Non-occupational accidents: health care expenses, funeral expenses, medical equipment purchases.

The loans can range from €300 to €12,000 (from \$494 to \$19,757) with an interest rate lower than 4%.

Throughout the program, the Association provides assistance in budgeting the loan repayment with the consumer, and then in following up in order to organize and stabilize the consumer’s budget in the long term.⁸⁹

Another example: The “**programme crédits projets personnels**” offered by the Secours Catholique. The objective is to fight banking exclusion and more specifically the credit exclusion that mainly affects the most disadvantaged people. The association provides lending institutions with guarantees for half of the loan amount. The “*Crédits projets personnels*” are thus intended

⁸⁶ The situations mentioned are divorce, illness, a handicap or unemployment.

⁸⁷ Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

⁸⁸ Union nationale des associations familiales, Lancement du microcrédit social en Dordogne, June 9, 2008. [Online]. <http://www.unaf.fr/recherche.php3?recherche=microcredit> (Page consulted on August 28, 2008).

⁸⁹ Union départementale des associations familiales de Loire Atlantique, Microcrédit social. [Online]. http://www.journal-la-mee-2.info/IMG/microcredit_social.pdf (Page consulted on August 27, 2008).

for people in a precarious situation. Available amounts range from €300 to €3,000 € (about \$494 to \$4,940) for up to 36 months. The loans' interest rate is 4.7%.⁹⁰

The loans granted are generally used for:

- carrying out a project as a personal achievement:
- avoiding a deterioration in the borrower's situation (non-occupational accident, break-up, car failure that could lead to loss of employment...).

⁹⁰ Secours Catholique, Microcrédit social – Évaluation et perspectives, August 4, 2008. [Online]. http://www.secours-catholique.asso.fr/actualitefrance_1577.htm et http://www.secours-catholique.asso.fr/communiqu_1553.htm (Page consulted on August 28, 2008).

Between January 2005 and June 2008, out of 641 received applications, 453 loans in an average amount of €1,662 (\$2,737) were granted by the Secours catholique. 59% of those loans have been used for funding a car purchase or repair, 16% for housing, and 5% for training.⁹¹

In addition to loans extended thanks to the *Fonds de cohésion sociale*, there is in France another small loan program: **the Crédit Municipal de Paris** (formerly called *Mont-de-Piété*):

*“S'appuyant sur un savoir-faire social qui ne s'est pas démenti en 230 ans, le Crédit Municipal de Paris apporte, avec le prêt sur gage, une réponse à tous ceux qui ont à faire face à un besoin de trésorerie, un coup dur, un imprévu. Parallèlement il a développé une gamme complète de produits financiers permettant de répondre efficacement aux problèmes d'endettement.”*⁹²

The pledge loan service gives consumers a cash loan in exchange for the deposit of an item of value (jewellery, watch, painting, furniture, fur, etc.). The loan amount will depend on the item's estimated market value, and will generally be from 50 to 70% of that estimated value. The minimum loan is €30 (\$49) and the annual interest rate is from 9 to 15%.⁹³ In 2006, the average loan per customer was €650 (\$1,050). As the item is left in pledge, a one-year contract is entered into. The loan may be repaid at any time, with interest, which will depend on the number of months passed since the loan was made. It is possible to extend the loan's term by paying interest. If the borrower cannot or will not repay the loan, the item is sold at auction. If a profit is made from the sale of the item, it is handed to the borrower.⁹⁴ Crédit Municipal de Paris statistics reveal that 93% of pledged property is returned to its original owners.

In addition to pledge loan services, the Crédit Municipal de Paris offers various financial products, including a personal loan service, **muniPERSO**, provided to people exercising a profession and to retirees up to 80 years of age. The loans are granted by CMP-Banque, a subsidiary of the Crédit Municipal de Paris.

It is possible to obtain such a personal loan to fund:

- the purchase of a new vehicle;
- the purchase of a computer;
- a trip;
- odd jobs.

⁹¹ Collectif SDF Alsace, Le Secours catholique souhaite que le microcrédit social se développe, June 18, 2008. [Online]. <http://collectifsdalsace.20minutes-blogs.fr/tag/micro%20cr%C3%89dit%20social> (Page consulted on August 28, 2008).

⁹² Crédit municipal de Paris, Le Crédit municipal de Paris aujourd'hui, 2008. [Online]. <http://www.creditmunicipal.fr/le-credit-municipal-de-paris/histoire/aujourd'hui.html> (Page consulted on September 4, 2008).

⁹³ Le prêt sur gage: présentation et fonctionnement, October 30, 2008. [Online]. <http://www.gralon.net/articles/economie-et-finance/credit/article-le-pret-sur-gage---presentation-et-fonctionnement-2116.htm> (Page consulted on January 19, 2009).

⁹⁴ Crédit municipal de Paris, Prêt sur gage, 2008. [Online]. <http://www.creditmunicipal.fr/pret-sur-gage/obtenir-un-pret-sur-gage/pret-sur-gage.html#psg1> (Page consulted on September 4, 2008).

Loans of €1,525 (\$2,511) and over are offered; the loan amount that may be granted is based on the borrower's income. Instalments, which may be spread over 12 to 120 months, are established in line with the borrower's budget balance. Interest rates are about 7%.⁹⁵

Programs similar to those offered by the Crédit Municipal de Paris are available in other French cities.

In Paris, since October 2008, **microcredits are offered by the Paris City Hall** to low-income Parisians, i.e., those whose monthly income does not exceed €2,000 (\$3,293) for a single person, €2,500 (\$4,117) for a couple, and €4,500 (\$7,410) for a couple with two children. The loans range from 300 to €3,000 (\$494 to \$4,939) up to €5,000 in exceptional cases; and instalments may be spread over 6 to 36 months (up to 60 months in exceptional cases). The interest rate is 4%, and no insurance or administrative charges are added. The repayment period is calculated according to the applicant's repayment ability and the nature of the project. Loans are not extended for covering account overdrafts or repaying debts. The program's avowed objective is to favour a return to work, and to enable people to be decently housed or access health care services.

The loans granted may be used for:

- Supporting a search for work: payment of a driver's licence, vehicle purchase, etc.;
- Paying for moving costs;
- Defraying training expenses;
- Paying for health care services, etc.⁹⁶

Once the loan is repaid in full, half of the interest charges paid are returned to the borrower.⁹⁷

At the start, the Crédit Municipal de Paris, assigned by the Paris City Hall to establish the loan mechanism, estimated that 1,000 applications would be accepted in one year. The one-year period will be reached in October 2009; an assessment of the project will probably be available at that time.

In Belgium

In Belgium, we have identified only one program extending small consumer loans and not funding an income-generating activity: the **crédits sociaux** offered by the **CREDAL** cooperative. The shares subscribed by the cooperators "dans une optique de solidarité et d'utilisation transparente" serve to fund the organization's microcredit, joint credit, and social credit with coaching.⁹⁸ CREDAL is:

"une organisation pluraliste qui veut renforcer la cohésion sociale et développer une société durable à travers la finance solidaire, ainsi que par l'accompagnement des clients qui y est lié."

⁹⁵ Crédit municipal de Paris, Financez vos projets, 2008. [Online]. <http://www.cmpbanque.fr/financez-vos-projets/prest-personnel/muniperso.html> (Page consulted on September 8, 2008).

⁹⁶ Céline Astruc, La mairie de Paris propose des micro-crédits aux faibles revenus, MoneyWeek, November 19, 2008. [Online]. http://www.alterinfo.net/LA-MAIRIE-DE-PARIS-PROPOSE-DES-MICRO-CREDITS-AUX-FAIBLES-REVENUS_a26628.html (Page consulted on January 14, 2009).

⁹⁷ Le microcrédit personnel Le mini-prêt qui vous aide à rebondir. [Online]. <http://www.microcredit-municipal.fr/> (Page consulted on January 14, 2009).

⁹⁸ CREDAL, Devenir coopérateur, 2008. [Online]. http://www.credal.be/index.php?option=com_content&task=view&id=31&Itemid=44 (Page consulted on May 15, 2009).

“Le cœur de Crédal, c’est l’argent qui est placé par ses coopérateurs et qui est prêté à des organisations d’économie sociale (crédits solidaires), à des micro-entrepreneurs (microcrédits) et à des personnes en situation de besoins qui sont exclus bancaires (crédit social accompagné).”⁹⁹

CREDAL’s objectives include:

“Soutenir des projets sociaux qui n’ont pas accès au crédit bancaire, d’une part grâce à des crédits à taux modérés (à court, moyen ou long terme) en Wallonie et à Bruxelles et, d’autre part, grâce à du conseil en gestion [et] Offrir aux collectivités et aux particuliers une forme d’épargne alternative dont le rendement n’est pas d’abord financier, mais avant tout social et humain. Construire une relation de confiance basée sur la transparence. Tout coopérateur connaît l’usage précis qui est fait de son argent”¹⁰⁰

Social credit is extended to consumers excluded from the traditional banking system. More specifically, it is intended (in the case of social credit provided in the Brussels area¹⁰¹) for:

- Brussels area residents;
- recipients of social benefits (C.P.A.S., unemployment, mutual aid, benefits to the impaired, pensions...);
- or people of low earned income (low salaries, part-time work, temporary work...).

To be eligible for social loans, people must have a net income that does not exceed:

- €1,018 (about \$1,557) for a person living alone;
- €1,388 (about \$2,123) for co-tenants.

After deducting:

- the rent or the monthly mortgage payment;
- €181 per dependent child;
- the debt repayment amount agreed to by informal mediation.¹⁰²

For a loan to be granted:

- It must serve to fund a useful and necessary purchase;
- It must not compete with bank financing (if bank financing adapted to the application is available, social credit cannot be used);
- The household must acknowledge its expenses (current and in credit) and be capable of repaying the loan (which must not aggravate a situation of insolvency);
- No solution that is more adequate or less costly may exist.

The loans granted may be used for:

- Purchasing durable household equipment such as furniture, household appliances, a computer...;
- Purchasing a used car, a scooter;

⁹⁹ CREDAL, Nous sommes ..., 2008. [Online].

http://www.credal.be/index.php?option=com_content&task=view&id=93&Itemid=106 (Page consulted on May 15, 2009).

¹⁰⁰ CREDAL, *Portrait*. [Online]. http://www.credal.be/credal/p12_credit_alternatif.html (Page consulted on September 7, 2008).

¹⁰¹ Those of the Wallonne region are very similar.

¹⁰² CREDAL, Région de Bruxelles-Capitale (02/213.38.31), 2008. [Online].

http://www.credal.be/index.php?option=com_content&task=view&id=50&Itemid=63 (Page consulted on April 15, 2009).

- Purchasing equipment that will reduce household expenses: energy saver, new heating system...;
- Purchasing or renovating equipment that will improve housing comfort;
- Sanitary facilities, improvements, repairs...;
- Purchasing equipment for impaired persons;
- Purchasing training equipment: for a driver's licence, a language course...;
- Paying for uninsured health care costs: eyeglasses, dental care...¹⁰³

To obtain a loan, a consumer must first contact CREDAL to verify whether he is eligible and explain why he wants a loan. If the applicant meets the criteria, he receives documents for completing his file. The borrower must then gather the required documents and prepare his budget, and then he can schedule a meeting with an advisor, who will review his budget with him and complete the application. Once the file is completed, it is presented to a committee, which will decide to grant the loan or not.¹⁰⁴

The amounts available for social loans range from €500 to €10,000 (about \$815 to \$16,317). Repayment may be spread over 18 months (for a loan of €500) to 48 months (for a loan of €7,501 to €10,000). The loans' interest rate is 5%.¹⁰⁵

Between September 2003 and September 2005, 96 social credit loans averaging €2,614 (about \$4,265) were granted. The average repayment term was 26 months, which represents monthly instalments of €101 (about \$155). The majority of the social credit loans (49) were used for improving the mobility or employability of beneficiaries: 37 loans were used for purchasing a used car, seven (7) for funding a course to obtain a driver's licence, two (2) for purchasing a scooter, and three (3) for funding vocational training courses. Most of the other social credit loans served to improve the housing of beneficiaries: 14 loans were used for purchasing furniture and household appliances, 11 for making repairs, etc.¹⁰⁶

¹⁰³ CREDAL, *Crédit social accompagné*. [Online]. <http://www.credal.be/creditsocial/index.html> (Page consulted on September 22, 2008).

¹⁰⁴ CREDAL, *Crédit social accompagné*. [Online]. <http://www.credal.be/creditsocial/index.html> (Page consulted on September 22, 2008).

¹⁰⁵ CREDAL, Brussels area (02/213.38.31), 2008. [Online]. http://www.credal.be/index.php?option=com_content&task=view&id=50&Itemid=63 (Page consulted on April 15, 2009).

¹⁰⁶ Lise Disneur, *FINANCité*, "Le crédit social à la consommation: une solution en faveur de personnes exclues des crédits bancaires classiques", November 2005. [Online]. <http://www.financite.be/ma-documentation/mes-articles/le-credit-social-a-la-consommation-une-solution-en-faveur-de-personnes-exclues-des-credits-bancaires-classiques.fr.200.html> (Page consulted on September 22, 2008).

EXAMINATION OF A PROGRAM: DESJARDINS MUTUAL AID FUNDS

Data on the Desjardins Mutual Aid Funds were gathered through documentary research and then completed during a telephone conversation with an officer of the financial institution¹⁰⁷. Four ACEFs that offer Desjardins Mutual Aid Funds (Lanaudière ACEF, Montreal North ACEF, Montérégie East ACEF and Montreal East ACEF) also provided us with information on the operation of the Mutual Aid Funds.

The program

Aware that situations of problematic debt are more and more prevalent in Quebec and that, in parallel, alternative credit services are proliferating, the Mouvement Desjardins took the initiative of working more closely with community budget consulting organizations, i.e., the Associations coopératives d'économie familiale (ACEF), to establish a small loan program: the Desjardins Mutual Aid Funds. The Mouvement Desjardins defines itself as a cooperative organization that promotes values of fairness, solidarity and social responsibility; it seeks the economic and social well-being of its members, and not solely the enrichment of an investor group.

When the Desjardins Mutual Aid Funds were created, in 2001, the Mouvement presented them as follows:

“La réflexion sur les produits de solidarité vient du Mouvement, qui, à l’heure de son centenaire, veut léguer au Québec un projet durable s’inspirant de la coopération. Les caisses étant de plus en plus perçues comme des banques, une réflexion stratégique s’est amorcée pour mettre en avant la distinction coopérative. En outre, avec la réapparition de prêteurs sur gages, c’est la mission originelle des caisses, leur légitimité de coopérative qui était remise en question. Il y aurait en effet près de 400 commerces officiels de prêteurs sur gage au Québec en 2000, imposant un taux de crédit réel généralement entre 300% et 500%. Le Mouvement, en créant des Fonds d’entraide Desjardins, reste modeste quant à ses objectifs, il ne s’agit pas d’une solution miracle contre la pauvreté, mais, selon les estimations du Mouvement, les fonds pourraient attirer jusqu’à 15% des gens ayant recours aux prêteurs sur gage. Comme l’a souligné Yvan Laurin, vice-président Développement coopératif et régional et Service aux membres à la Confédération: “Nous n’avons pas la prétention de pouvoir enrayer ce fléau, mais nous croyons que les fonds offriront une solution de rechange.”¹⁰⁸

The idea of the Mutual Aid Funds was born of discussions between the Mouvement Desjardins and the budget organizations seeking a funding model for the budget consultation they were offering consumers free of charge. The Fédération des caisses Desjardins (the Fédération), aware of the indirect advantages to it of the budget consultations and the education in savings and good financial management dispensed by the budget organizations in the course of their regular activities, studied for a time the idea of an endowment fund. The Mouvement’s

¹⁰⁷ Mr. François Gosselin, Regional and Community Economic Development Advisor, Cooperation and Quality Vice-President. Mr. Gosselin is responsible for Desjardins’ social inclusion products (Desjardins Mutual Aid Fund, Microcredit to Companies and Créavenir). Telephone interview held on February 20, 2009.

¹⁰⁸ Alexandrine Lapoutte, Caisse Desjardins de Lévis et ACEF Rive-Sud: quelle configuration partenariale?, Cahiers du CRISES Collection “Études de cas d’entreprise d’économie sociale”, January 29, 2002. [Online]. <https://depot.erudit.org/retrieve/1505/ES0202.pdf> (Page consulted on February 9, 2009).

hundredth anniversary, and the projects already underway (*Fonds du millénaire* in Joliette, *Fonds de dépannage* on the North Shore, *Fonds de dépannage* in Alma) to offer consumers small loans, inspired the Fédération to establish an endowment fund for providing small loans while supporting the budget organizations' activities:

*“Ce produit de solidarité, en partenariat avec des organismes de consultation budgétaire du milieu, a pour objectif d'aider les personnes en difficulté financière au moyen de services-conseils en gestion budgétaire et, au besoin, d'un prêt de dépannage.”*¹⁰⁹

The purpose of the project is expressly to aid people experiencing financial difficulties. But in addition to small loans, the project aims to foster budget and consumer education, by offering financial support to organizations or community groups that assist disadvantaged individuals and families.¹¹⁰

The first Mutual Aid Fund was established in January 2002 in collaboration with Quebec City's South Shore ACEF. In April of that year, a second Mutual Aid Fund was created in collaboration with Option consommateurs (the Montreal Centre ACEF). In the following years, 28 other Funds were created – the most recent in October 2008 in collaboration with the Île-Jésus ACEF and the *Entraide budgétaire d'Ottawa*. At this time, collaboration between the caisses Desjardins and a budget consulting organization located beyond Quebec's borders remains embryonic, with a single Fund, in Ottawa; nothing indicates that other such collaborations might occur.

Implementation

The Mouvement des caisses Desjardins initiated the project and coordinates it. The caisses are free to adopt it. When the pilot project was launched in 2001, the Quebec government was providing, as part of the Poverty Fund, the necessary money to cover the salary of a budget consulting organization employee assigned with managing the project for the organization. The Poverty Fund was abolished, and after only 18 months the government ceased its involvement in the project. The participating caisses now cover all the expenses that had been defrayed by the Fund.

There are currently 30 budget consulting organizations in Quebec (and one in Ontario) associated with Desjardins to offer Mutual Aid Funds¹¹¹. The budget consulting organizations (ACEFs, *Service budgétaire et communautaire* (SBC), etc.) are responsible for cooperative education, budget consultations, and follow-ups of loan beneficiaries. The budget advisors of those Fund-related organizations are also the first to process loan applications.

Currently, 305 caisses participate in the Mutual Aid Funds. Those caisses, grouped by region, are associated with the budget consulting organization that participates in the program and

¹⁰⁹ Desjardins, Desjardins Mutual Aid Funds, 2009. [Online].

http://www.desjardins.com/en/a_propos/profil/engagement/fonds_entraide.jsp (Page consulted on January 8, 2009).

¹¹⁰ Alexandrine Lapoutte, Caisse Desjardins de Lévis et ACEF Rive-Sud: quelle configuration partenariale?, Cahiers du CRISES Collection “Études de cas d'entreprise d'économie sociale”, January 29, 2002. [Online]. <https://depot.erudit.org/retrieve/1505/ES0202.pdf> (Page consulted on February 9, 2009).

¹¹¹ On the Desjardins website, *Social responsibility – Desjardins Mutual Aid Funds*, is a list of budget consulting organizations associated with a Desjardins Mutual Aid Fund. [Online]. http://www.desjardins.com/en/a_propos/profil/engagement/fonds_entraide.jsp (Page consulted on January 8, 2009).

covers the territory. In fact, that organization is most often responsible for approaching the caisses on its territory to obtain their participation in the project.

The initial endowment of each sector's Fund is constituted by the Fédération and participating caisses. The caisses participate, pro rata to the number of their members, in the endowment and the expenses (the caisses Desjardins being constituted as cooperatives).

Advisory committees (sometimes called partnership committees) were established by each Fund (for each territory), and on those committees sit, among others, a Fédération representative, a representative of one of the participating caisses, a liaison officer if several regions are represented, and a representative of the budget organization. Some advisory committees also include other members, for example from local community organizations, a CLSC, etc. An advisory committee also has the mandate of promoting the program among local community organizations, other organizations that meet people likely to benefit from the program, and participating caisses, and of making necessary representations before the Fédération and the caisses.

Management of the Funds is entrusted to the budget organizations.

From the time the first Fund was established in January 2002, up to December 31, 2008, Fédération statistics indicate that 3,093 loans have been granted and that \$1,741,026.35 have been loaned. Since the Funds were launched, the Fédération des caisses Desjardins has earmarked a total of \$4,000,000 for the project. Those amounts have served to defray part of the salaries of budget consulting organization employees working on the project, as well as the endowment intended for the loans themselves. Since the Funds were launched, the recovery rate of the loans granted has been 88.6%.¹¹²

Program applications

The majority of people who make a loan application to a Fund are referred by a community organization. After hearing about the program from friends or family, etc., some people approach a participating budget consulting organization themselves to obtain a loan. Finally, some people may be referred to the Fund by the budget organization itself, following a budget consultation done as part of its regular activities.

Loans are not available to everyone: certain general criteria, established, as we have seen, by the advisory committees of each territory, must be met. However, the fundamental eligibility criteria are at the very heart of the project and its *raison d'être* – providing assistance in the form of a loan and budget education.

The loans are intended for people who are or agree to become members of a participating caisse, and who:

- Agree to participate in a budget consultation under the responsibility of one of the budget consulting organizations associated with a Desjardins Mutual Aid Fund;
- Are capable of repaying the requested loan.¹¹³

¹¹² All data on Desjardins Mutual Aid Funds are in Annex 2.

¹¹³ Desjardins, Desjardins Mutual Aid Funds, 2009. [Online].

http://www.desjardins.com/en/a_propos/profil/engagement/fonds_entraide.jsp (Page consulted on January 8, 2009).

The reasons for granting the loans can vary enormously, depending on the territories. The following loan uses are among those most often recognized:

- Paying utility bills;
- Paying for rent arrears, moving costs;
- Purchasing medical equipment (eyeglasses, prostheses, dental care, etc.);¹¹⁴
- Purchasing, replacing or repairing furniture or household appliances;
- Paying for other arrears (daycare costs...).

The most likely general reason for exclusion is:

- The amounts granted must not be intended for mitigating a recurrent problem.

The loans may be granted only after the applicant has participated in a budget consultation with the consultant of the budget organization dedicated to the fund. An approval committee (also called a loan committee) has been formed on each territory to evaluate loan applications and approve or reject them. A loan application is presented to the committee by the budget advisor who gave the budget consultation. That advisor submits his recommendations on the basis of his preliminary evaluation.

The Fund advisor is responsible for performing a first examination of the file to determine its eligibility. Loan applications are first examined by the budget advisor according to the general criteria established by the advisory committee. If the applicant meets the general criteria, the budget advisor invites him to participate in a budget consultation. Following the consultation, the budget advisor examines alternatives with the applicant if a loan does not seem to be an adequate solution. If the loan appears eligible and adequate, the advisor formulates his recommendations and presents them to the approval committee, which will make the final decision whether or not to grant the loan.

The Fund's maximum loan amounts vary according to the regions, but range from \$500 to \$2,000. The program's average loan is \$562.89. The repayment period cannot generally exceed 24 months¹¹⁵. It should be noted that the advisors and approval committees have the margin of manoeuvre – in order to adapt to specific cases – to recommend or approve a loan that would not belong to the usual framework for granting loans.

With one exception, the loans carry no interest. One budget consulting organization, the Montreal Centre ACEF (Option consommateurs), imposes an interest rate:

The typical profile of people to whom a loan is extended showed the following characteristics in 2009:

“Généralement, le profil type des emprunteurs des Fonds d'entraide Desjardins correspond à une femme célibataire dont l'âge varie entre 25 et 54 ans. Elle vit de l'aide sociale, a un revenu annuel net inférieur à 10 000 \$, ne répond pas aux critères de financement traditionnel de son institution financière et possède la volonté de régler ses difficultés financières.”¹¹⁶

¹¹⁴ Desjardins Caisses populaires du Moulin des Mères, Le Grape, January 8, 2008. [Online]. <http://moulinidesmeres.ca/implication.asp?cleActualite=2004614070> (Page consulted on February 6, 2009).

¹¹⁵ In certain circumstances, a lender may be able to repay his loan over a longer period.

¹¹⁶ Canoe, Desjardins has extended more than \$1 million in small loans to people in financial difficulty, September 18, 2009. [Online].

Types of applications rejected and reasons for the rejections

From the beginnings of the Desjardins Mutual Aid Funds, 8,066 loan applications have been received¹¹⁷, of which 3,093 have been accepted; so only 38.3% of documented applications have received a positive response. Why have 4,973 loan applications – almost two thirds – been rejected?

Generally, the main reason for the high percentage of rejected loan applications is based on the very principle of the loans granted by the Mutual Aid Funds, which are intended as a solution of last recourse. Loan applicants must first meet with a budget advisor and participate in a budget consultation. That consultation makes it possible to establish the individual's budget, and then to present to him various solutions likely to help him redress or better control his budget situation. The loans extended through the Desjardins Mutual Aid Funds are of last recourse, so they only constitute one solution among many that may be proposed to people at a budget consultation. Thus, it is very likely that loan applicants are refused a loan if another solution could, according to the budget consultant, be better suited to their situation (food bank, negotiation with creditors, debt consolidation, a proposal by the consumer, etc.).

Given that the project has specific objectives and that the loan-granting process is quite strict, applications don't always meet those objectives or criteria. For example, only a person who can demonstrate that he will be able to repay the loan is eligible. So if the person's budget shows a chronic budget deficit and if budget forecasts don't suggest that the deficit can be filled, the loan is generally refused. To recommend a loan, the budget advisor must think that the loan will enable the applicant to improve his situation; if it's likely that a loan would only add to existing debt without offering the hope of actually improving the situation, the loan is not granted. Finally, a loan is not recommended if the budget advisor observes a recurrence of the problem that leads the applicant to apply for a loan; for example, if there is a regular deficit of income in relation to fixed expenses and if nothing suggests a short-term rise in income. In addition, at times people hope to use the loans for purposes other than those of the program; for example, a loan generally may not be granted for an unnecessary purchase.

Finally, it should be noted that the loans extended through the Mutual Aid Funds are based on a relation of trust; without a relation of trust between the borrower and the budget consultant, the latter will very likely not recommend the loan. Solidarity loans are offered within a broad framework that includes the borrower's participation in a budget consultation, the establishment of a budget and a repayment schedule – thus the importance for the budget consultant to perceive in the loan applicant a willingness to cooperate.

<http://lca.canoe.com/communiqués/cnw.html?lang=fr&id=200709180949006Q> (Page consulted on February 9, 2009).

¹¹⁷ The statistics are compiled by Desjardins on the basis of reports that are submitted to it by the budget consulting organizations. But it appears that those reports are somewhat anarchic, since the data are not compiled by the organizations on the basis of the same criteria: Some organizations consider as loan applications all the requests presented to them (by telephone, in person, in a consultation, etc.), whereas others consider as loan applications only the requests for which a budget consultation was done, i.e., the files referred to the approval committee. Therefore, the data can be of value solely by way of indication.

QUALITATIVE AND COMPARATIVE STUDY OF THE PROGRAMS

A comparative study of the various programs we have examined is arduous, given the many different features of some of those programs.

Other than their management methods and responsible organizations, the programs identified in various countries differ in their purpose, the reasons why certain amounts may be extended, the eligible clientele, the amounts granted and the loans' interest rates. The only common feature is that the programs are generally intended for disadvantaged people or, more broadly, to middle- or low-income people. However, with available loan amounts that range from \$40 to more than \$16,000, we note that a broad clientele is addressed by these various programs – a clientele that far exceeds that of disadvantaged consumers who need a helping hand.

As for the loans' interest rates, some programs have the sole rule of maintaining interest rates under 60% (Community Service Centre – the rule is that interest rates must be higher than those imposed by traditional financial institutions and services), as required by Canadian law, or under 36% (Federal Deposit Insurance Corporation – but this project's interest rates are generally about 15%). Other programs extend interest-free loans (Desjardins Mutual Aid Funds, Job Access Loan (Wisconsin)). With a few exceptions, the various programs' interest rates range from 0% to about 15%.

We note that some programs offer services that expressly aim to counter the alternative services – more specifically, payday loans and pledge loans – that have sprung up due to the unavailability in financial institutions of services that consumers need.

Some jurisdictions have thus created a pledge loan network that offers consumers more-acceptable terms than those of the alternative services: annual interest rates of 9% to 26% (the Crédit Municipal de Paris and le Provident Loan (U.S.), respectively), more-realistic property valuations, loans extended in an amount equivalent, for example, to 70% of the value of an item, compared to 10 or 20% in the case of pledge lenders; and if the item is sold at auction for an amount exceeding that of the loan, the surplus goes to the consumer rather than the lender.

Other programs offer, under better terms, a service identical to that known as a Payday Loan, i.e., a salary advance, repayable on future pay cheques (Salary Advance Loan (North Carolina)). As we have seen, the payday loan amounts requested by consumers – amounts limited to a certain percentage of a pay – ranges from \$100 to \$300 in 72.7% of cases.

The average loans requested in the context of the programs studied herein, while of course depending on the maximum available amounts, are consistently higher than the amounts offered by payday loans. For FDIC loans of less than \$1,000, the average amount granted has been \$678; for the Desjardins Funds, the average loan is \$562.98; First American Credit loans average \$1,600.

Programs that don't offer sufficient amounts are obviously of limited help to consumers, who may then need to continue depending on the alternative market. This is the case for the Community Financial Service Centre of Winnipeg, which only offers amounts from \$40 to \$100. Likewise, programs that only extend loans starting at a relatively high amount close the door to consumers who would need lesser amounts... or those programs may lead those consumers to borrow an amount higher amount than what they actually need. In France, the minimum offered by muniPerso (\$2,488) is a flagrant example of this. But we can also question the relevance of the \$500 minimum imposed by other programs (in France, the *Microcrédit social* offered by the

Union nationale des Associations familiales, and the *Crédits projets personnels* offered by the Secours catholique). Consumers who only need a small short-term loan are once again deprived of an acceptable provider of small loans.

As we have seen, the needs that lead consumers to request a small loan are varied: in most cases, the amounts will serve to cover either usual or unplanned needs, or to avoid late fees or not-sufficient-funds cheques.

In most cases, the various programs studied aim to cover such expenses. However, some of the programs impose, as eligibility criteria, special circumstances in which the applicant must find himself in order to qualify for a loan. Moreover, at times consumers need a small loan to repay debts or pay account arrears; these reasons are often excluded by the various programs.

For instance, Winnipeg's Community Financial Service Centre will give access to a loan only if the applicant has no bank account or if he has minimal relations with a financial institution. Despite the program's goal to help consumers renew ties with financial institutions, this restriction appears to terribly limit access to small loans, since financial institutions usually refuse to provide this service.

Of course, the situation would be different if financial institutions could, as is the case for the FDIC project, be induced to restore this type of service to consumers.

Whereas the loans provided by Ontario's Rent Bank meet a real need – paying rent arrears to avoid eviction – and this service should probably be extended across Canada, the program's conditions for obtaining small loans are not met by the very consumers who need such loans.

The same applies to certain programs adopted in the United States, which grant a loan only if the expenses considered serve to find or keep a job (the Job Access Loan, Wisconsin), or which require the applicant to be employed already (the Salary Advance Loan Program, modelled after Payday Loans).

French programs generally seem to be the most versatile: other than the minimum \$500 mentioned above, the *Microcrédits* offered by the Paris City Hall and by the Union nationale des Associations familiales, and the *Crédits projets personnels* offered by the Secours catholique, are among the most accessible programs.

The VanCity Credit Union in Vancouver, like the Credit Unions in the United Kingdom and the United States, offers small loan services that traditional financial institutions neglect to make available to consumers, but most often it applies the same eligibility criteria that would be applied by financial institutions. The small loan offer is desirable in itself; but that offer's unsuitability for a specific clientele, which is precisely the one that would not meet the financial institutions' eligibility criteria (credit check, for example), unfortunately has the effect of again denying that clientele any access to the small loans it needs.

We will identify in closing the large number of programs studied that combine small loans with a budget or savings education component. This component is implemented in various ways: mandatory budget consultations (Desjardins Mutual Aid Funds), downstream and upstream follow-up and coaching (*Fonds de cohésion sociale*, in France), depositing part of the loan into a savings account, reimbursing the borrower half of the interest when he has repaid the loan in full (*Microcrédit* offered by the Paris City Hall) even in the case of salary advances (financial advice related to the Salary Advance Loans). Some programs also seek to help the borrower build a

credit history and eventually rejoin the credit system of traditional financial institutions (Community Financial Service Centre of Winnipeg).

SUMMARY ASSESSMENT OF THE PROGRAMS

Tables 7, 8, 9, 10 and 11 present a summary of all the programs identified in Canada, the United States, the United Kingdom, France and Belgium.

Table 7: Summary Assessment of Canadian Programs

Program	Eligibility Criteria Loans are offered to people:	Available Amounts	Annual Interest Rate	Eligible Use
Community Financial Service Centre (Winnipeg)	Recommended by a network member of a local community service organization. No bank account or with minimal relations with a bank.	From 40 to \$100.	More than 18-25% less than 60%	Undefined.
Rent Bank (Ontario)	Risk eviction due to non-payment of rent.	2 months of rent.	0%	Rent arrears or, occasionally, utilities.
VanCity Credit Union (British Columbia)	(Same eligibility criteria as in financial institutions).	Similar to those offered by financial institutions, but may be less (\$300).		Undefined.
Desjardins Mutual Aid Funds (Quebec)	Members of a participating caisse or agree to join... Who participate in a budget consultation; Who have the ability to repay the loan.	From 500 to \$2,000é	0%	Utility bills; Rent arrears, moving; Medical equipment; Furniture or household appliances; Other arrears (daycare costs...).

Table 8: Summary of American Programs

Program	Eligibility Criteria Loans are offered to people:	Available Amounts	Annual Interest Rate	Eligible Use
Pilot Project for Affordable Small-Dollar Loans	Undefined criteria	Up to \$1,000 (possibility of a greater amount)	< 36%	Undefined
Job Access Loan (Wisconsin)	Who can keep or find a job thanks to the loan; Cannot obtain the money otherwise; Are parents of minor children; Whose income is lower than 115% of the poverty level.	Up to \$1,600	0%	Rent or security deposit; If necessary to the job: car purchase or repair, moving expenses, clothing or other.
Salary Advance Loan Program (North Carolina)	Who have a job.	Up to \$500	12%	Undefined.
First American Credit Union (Arizona)	Credit Union members	Line of credit + 110% of the amount available in a savings account.	12% (housing), 16% (others)	Undefined.
Provident Loan Society (New York)	Who own property to be left in pledge.	Depending on the item's value.	26%	Undefined.

Table 9: Summary of British Programs

Program	Eligibility Criteria Loans are offered to people:	Available Amounts	Annual Interest Rate	Eligible Use
Credit Unions	Credit Union members Who save on a regular basis.	Depending on the needs, the ability to repay and the Credit Union's policies.	12.68%	Undefined.

Table 10: Summary of French Programs

Program	Eligibility Criteria Loans are offered to people:	Available Amounts	Annual Interest Rate	Eligible Use
Microcrédit social offered by the Union Nationale des Associations Familiales	In a precarious situation; Confronted by a non-occupational accident; Who have difficulty using banking services and products.	From €300 to €12,000 (\$494 to \$19,757).	< 4%	Vital needs; Training, driver's licence, means of transportation...; Moving, odd jobs...; Health costs, funeral expenses.
Crédits projets personnels offered by the Secours Catholique	Disadvantaged and in a precarious situation.	From €300 to €3 000 (\$494 to \$4,939).	4.7%	Project related to personal growth; Various means of preventing the borrower's situation from deteriorating.
Crédit Municipal de Paris	Who own property to be left in pledge.	From 50 to 70% of the item's estimated value. Minimum: €30 (\$49).	From 9 to 15%	Undefined.
muniPerso	Retired professionals (less than 80 years of age).	Starting at €1,525 (\$2,488).	= 7%	New vehicle; Computer; Trip; Odd jobs, etc.
Microcrédits offered by the Paris City Hall	Low-income residents of Paris.	From 300 to €3,000 (\$494 to \$4,939, up to €5,000) exceptionally.	4%	Job search; Costs of settling into new housing; Training; Health care, etc.

Table 11: Summary of Belgian Programs

Program	Eligibility Criteria Loans are offered to people:	Available Amounts	Annual Interest Rate	Eligible Use
CREDAL (Brussels)	From the Brussels Area; Beneficiaries of social allowances (or low-income professionals).	From €500 to €10,000 (from about \$815 to \$16,317).	5%	Durable household appliance, equipment for lowering expenses or improving comfort; Adaptive device; Training equipment; Uninsured health care.

Correlation of budget consultation files with foreign programs

Among all the programs identified, we wanted to point out those that might best meet the consumer need for small loans. To do so, we correlated with the programs the 30 budget consultation files selected by budget consultants. Thus, each file was correlated, according to the individual and his needs (necessary amount and planned use of the loan), with the programs' peculiarities (loan eligibility criteria, available amounts, eligible use of loans).

Following our detailed study of the programs, we observed that the eligibility conditions of some of the programs were too limited for us to reach a conclusion by correlating those programs with the budget consultation files that were the object of our case study.

Excluded from the correlation were programs that required, for instance, that the applicant have money in a savings account to qualify for a line of credit (First American Credit Union, Arizona), since this was information we did not find in the budget consultation files; moreover, the advisors told us that, with rare exceptions, the applicants had no available savings. The small loan programs offered by British Credit Unions were also put aside for the same reason.

We also removed the pledge loan programs (*Provident Loan Society*, New York and *Crédit Municipal de Paris*) from the correlation; the budget consultation files that were used in our case studies did not contain information on items that might eventually be pledged against a small loan, so a correlation would have been impossible.

Also excluded were programs that linked credit to criteria that were too specific, such as participation in a specific job program (the Job Access Loan, Wisconsin), or to exclusive use of rent payment to avoid eviction (Rent Bank, Ontario).

In the table below (Table 12), our 30 budget consultation files are correlated with 10 programs; the indications illustrate whether the need for a small loan would have been met by the program in question.

In the case of two of the programs (VanCity Credit Union and Pilot Project for Affordable Small-Dollar Loans), the file or program information does not enable us to assess the adequacy of the small loan offer. In addition, we observe that three of the programs absolutely did not meet

(apart from a few uncertain cases) the needs identified during budget consultations (Community Financial Service Centre programs, the Salary Advance Loan Program and the muniPERSO).

The Paris City Hall's *Microcrédit* program and the CREDAL's social credit loans show mixed results (12 positive confrontations, 10 negative and 8 uncertain cases for the former, and 18 negative, 9 positive and 3 uncertain cases for the latter), whereas three programs appear to largely meet the needs with which we correlated them: the Desjardins Mutual Aid Funds, the UNAF's *Microcrédit social*, and the Secours Catholique's *Crédits projets personnels*.

In the following section, we will examine the best practices observed.

Table 12: Correlation of Canadian and Foreign Small Loan Programs with Budget Consultation Files

File #	Community Financial Service Centre	Van City Credit Union	Desjardins Mutual Aid Funds	Pilot Project for Affordable Small-Dollar Loans	Salary Advance Loan Program	Microcrédit social Offered by the UNAF	Crédits projets personnels Offered by the Secours Catholique	muniPERSO	Microcrédit from the Paris City Hall	Crédits sociaux from CREDAL
1	X	=	X	=	=	✓	✓	X	X	X
2	X	=	X	=	=	✓	✓	X	X	X
3	X	=	✓	=	X	✓	✓	=	✓	✓
4	X	=	✓	=	X	✓	✓	X	✓	✓
5	X	=	✓	=	X	✓	✓	X	✓	=
6	X	=	✓	=	X	✓	✓	X	✓	X
7	X	=	✓	=	X	✓	✓	X	✓	✓
8	X	=	X	=	=	=	✓	=	X	X
9	X	=	X	=	=	✓	✓	X	✓	X
10	X	=	✓	=	=	✓	✓	X	X	X
11	X	=	✓	=	X	=	✓	X	X	X
12	X	=	✓	=	X	✓	✓	X	✓	=
13	X	=	✓	=	=	✓	✓	X	X	X
14	X	=	✓	=	=	✓	✓	X	X	X
15	X	=	✓	=	X	✓	✓	X	✓	✓
16	X	=	X	=	X	=	=	X	X	X
17	X	=	X	=	X	=	=	X	=	=
18	X	=	X	=	X	=	=	X	=	X
19	X	=	X	=	X	✓	✓	X	✓	X
20	X	=	X	=	X	✓	✓	X	X	X
21	X	=	✓	=	=	✓	✓	X	=	✓
22	X	=	✓	=	X	✓	✓	X	=	✓
23	X	=	X	=	X	X	=	X	X	X
24	X	=	✓	=	X	✓	✓	X	✓	✓
25	X	=	✓	=	X	✓	✓	X	=	X
26	X	=	✓	=	X	✓	✓	X	=	✓
27	X	=	✓	=	X	✓	✓	X	=	X
28	X	=	✓	=	X	✓	✓	X	✓	X
29	X	=	✓	=	X	✓	✓	X	=	X
30	X	=	✓	=	X	✓	✓	X	✓	✓

Legend:

✓: The program can meet the needs

X: The program does not meet the needs

=: Program and/or file data are insufficient for us to draw a conclusion

CHAPTER 3: WHAT SOLUTIONS SHOULD BE ADVOCATED?

THE BEST PRATICES

By examining small loan programs in 5 countries (Canada, United States, United Kingdom, France and Belgium), and then correlating some of those programs with the actual needs revealed both by budget consultation files collected from 4 ACEFs across Quebec and by studies of alternative credit, we were able to identify the type of programs, and even certain practices of those programs, that appear to best meet consumer needs.

First, the idea of making available to consumers the alternative type of services to which they resort, i.e., salary advances and pledge loans, seems excellent to us – so long as the terms are favourable to consumers – if only to by-pass the abusive practices of the alternative credit market.

However, we should remember that if those services exist and are used, it's because what consumers actually need is not available. Indeed, while this type of service can help people out, as a line of credit can, it's difficult to imagine how it can, even under the best management, help or teach consumers to plan or budget better.

Of the 10 programs selected and then correlated with the budget consultation files, 3 don't appear to meet the consumer needs identified in our study.

The small loan program offered by the Community Financial Service Centre in Winnipeg is too strict as to the available amounts – \$40 to \$100. In addition, those loans' interest rates may be higher than the already very high credit card rates. The program does enable some consumers to meet part of their needs, but consumers (those who use alternative financial services as well as those selected in our files) generally need larger loans than those provided by this program. The latter would have been of no help in any of the 30 files with which we correlated it.

The Salary Advance Loan Program (SALO) attempts to counter the payday loans of the alternative market with a similar service under more-favourable terms. But this type of program requires employment income as a condition, whereas, among the 30 files selected by budget consultants, only one third of people had work income – the correlation of the 30 selected files with this program shows that the latter might eventually have been adequate in 27% of the cases.

Moreover, in some of the files, the work income was that of self-employed or seasonal workers, i.e., uncertain or temporary income that does not necessarily make it possible to benefit from services such as the SALO's. Among the files where people did have regular work income, that income was very low, and having a certain percentage of it as disposable income for a short period would not give people access to the amount of money they need. But while this program doesn't seem appropriate in the cases with which we correlated it, a high percentage of Canadian consumers do rely on payday loans for which they have to pay very high – even usurious – interest rates. Therefore, it may be useful to make available to such consumers a payday loan program with reasonable interest rates.

Finally, France's muniPerso program is intended only for professionals and retirees. This program would eventually have been useful only in almost 7% of our files. These access restrictions make it impossible for us to consider this program as meeting the general need for small loans.

As for the Pilot Project for Affordable Small-Dollar Loans, we cannot know if it might have been suitable in any of the files with which we correlated it. Among the only loan-granting criteria we could find for this pilot program is the obligation to demonstrate that regular income would make it possible to repay the loan according to a reasonable schedule, but there is no mention of the acceptable sources of income under the program. We could not find information on the eligible use of the loans. Based solely on the amounts available and in the absence of additional information, we cannot confirm that this service could have been suitable for the files with which we correlated it.

The remaining programs meet, to various extents, consumers' need for small loans.

Vancouver's VanCity Credit Union offers small loan services that traditional financial institutions neglect to make available to consumers, but most often it applies the same loan-granting criteria as those that would be applied by financial institutions. Therefore, we cannot know in how many of our correlated files this program would have been useful. Before extending a loan, financial institutions generally perform an overall analysis of the borrower's financial situation and do a credit check, while retaining a certain discretion in granting the loan or not.

Credit history does not appear in the budget consultation files, so we could not verify this aspect. Still, we can assume that a majority of people showing up in ACEFs to obtain a small loan would not have access to a loan granted on the basis of their credit history. In cases where the consumer's problem is not that his financial institution's refuses to grant him a loan because of a bad – or nonexistent – credit record, for example, but rather because the amounts requested are too small, the loans offered by the VanCity Credit Union could have been useful. One of the problems faced by consumers who need a small loan is indeed this refusal of financial institutions to grant loans of modest amounts.

The Desjardins Mutual Aid Funds offered in collaboration with ACEFs and other budget consulting organizations belong to a program that appears well suited to consumers' need for small loans. In our files, 67% of applicants met the loan eligibility criteria and were able to benefit from those loans. However, the assessment of the program since its inception shows that only 38.3% of applicants obtained the requested loan. Despite their limitations, the Desjardins Mutual Aid Funds seem to constitute the most promising program in Canada. In fact, the needs for which people request a small loan are generally covered by the Desjardins Mutual Aid Funds. The amounts available thanks to these Funds are also, generally, those that are most often requested by consumers. However, some applicants need larger amounts, up to \$5,000. The needs covered by the Desjardins Mutual Aid Funds are generally those for which consumers want a loan, with the exception of certain needs, such as debt repayment.

The *Microcrédit social* program offered by the Union Nationale des Associations Familiales (UNAF) is, among the programs we identified, the one that appears to best meet consumers' need for small loans: the loans are available for people in need who are generally refused the traditional solutions provided by financial institutions (low interest rate credit card, line of credit, etc.) and who would be most likely to seek solutions from the alternative consumer credit market. The program's loans can be used to meet a wide variety of needs. Available data on the

program, and data available in the budget consultation files, lead us to conclude that this program could have been useful for meeting some or all of the needs in almost 97% of our files.

Like UNAF's *Microcrédit social* program, the Secours Catholique's *Crédits projets personnels* program meets in almost every case the small-loan needs of consumers whose files we examined. This is not surprising, since the two programs were created thanks to the *Fonds de cohésion sociale*. As with the UNAF's *Microcrédit social* program, the Secours Catholique's loans meet generally identified needs regarding small loans. The information gathered suggests that these loans' granting criteria are slightly broader than those of the UNAF's *Microcrédit social*, so our data lead us to conclude that this program's loans could eventually have been granted in all our files.

The Paris City Hall's *Microcrédit* program would likely have met the needs in a number of the files with which it was correlated. The granting criteria are stricter than those of other programs, but are still sufficiently broad to cover a large part of applicants. The reasons for granting the loans are also more restrictive than in other programs; account overdraft or debt payments are excluded, for example. This program could have been useful in almost 67% of our correlated files.

Finally, the Belgian CREDAL's social credit program is similar to the French microcredit programs (*Microcrédit social* offered by the Union Nationale des Associations Familiales, *Crédits projets personnels* offered by the Secours Catholique) in terms of its clientele and its motives for granting loans. Thus, loans are not extended to pay for accounts in arrears or to repay debts. And in addition to the French programs, the Belgian one does not grant a loan if the borrower wants to purchase company start-up equipment, for example.¹¹⁸ This program could have met the small loan needs in 40% of our correlated files.

RESTRICTIONS TO IMPLEMENTING THE ADVOCATED MEASURES IN CANADA

Our study of existing programs in Canada and abroad led us to retain, among the programs correlated with the 30 budget consultation files, 7 programs that public authorities should consider for adoption across Canada or on a greater scale than that of a single municipality or province. Indeed, virtually all the programs retained require public funding, and in some cases joint management by financial institutions, community organizations and public authorities (municipal, provincial and/or federal governments).

The VanCity Credit Union's small loan program could be extended to all Canadian credit unions. Given that the loan-granting criteria are similar to those used by financial institutions, the risks of offering these loans are not greater than for other types of loans. Offering this type of loan requires no contribution from organizations or entities external to the credit unions – thus they are easier to implement.

The Desjardins Mutual Aid Funds have existed in Quebec for several years. While the program is currently not perfect and cannot meet every requirement, it meets the needs of a certain

¹¹⁸ CREDAL offers 3 loan programs; social credits are one of them. Crédal also extends microcredits to (future) self-employed individuals in Wallonie and Brussels: loans for starting up or developing a small company. CREDAL, Indépendants, 2008. [Online] http://www.credal.be/index.php?option=com_content&task=view&id=9&Itemid=10 (Page consulted on April 20, 2009).

number of persons. This program could easily be extended to a larger territory. The Mouvement Desjardins includes caisses outside Quebec, notably in Ontario and New Brunswick. The caisses in those provinces could offer the same small loans in collaboration, for example, with the Credit Counselling agencies, non-profit organizations that help people redress and manage their personal finances. In addition, Canada has a network of credit cooperatives. Those cooperatives, or credit unions, are, like the caisses, financial institutions owned and controlled by their members. The caisses and credit unions have similar objectives, so offering small loans in collaboration with community organizations such as the Credit Counselling agencies could be considered. Since the Mutual Aid Funds have existed for several years, it would be easy to transpose this model elsewhere in Canada. In fact, their necessary resources, general operation and success rate are known, which greatly minimizes the constraints involved in implementing the program elsewhere in Canada.

In the United States, the Pilot Project for Affordable Small-Dollar Loans is still a recent project; it began in 2007 and is scheduled to end in 2009. Afterward, more information will be available to make an assessment. The purpose of the project was to demonstrate to financial institutions that small loans could be profitable and that their clientele could be led to use the regular services of financial institutions. Although the latter had the option of requiring interest of up to 36%, the average interest rate has been 15.5%, so it appears that the loans can be profitable for financial institutions. The rewards offered by the Federal Deposit Insurance Corporation as an incentive for taking part in the pilot project no doubt helped motivate the participation of financial institutions¹¹⁹.

To induce Canadian financial institutions to do likewise, incentives should be established: legislation based on the American model, which specifically requires financial institutions to meet the credit needs of all communities, including low- or middle-income communities, should be considered.

Social microcredit programs of the type offered by the Union Nationale des Associations Familiales and by the Secours Catholique, created thanks to the *Fonds de cohésion sociale*, probably best deserve to be emulated in Canada, since they best meet the public's need for small loans. These programs require substantial public funding and the participation of governments as well as financial institutions and community organizations. The Desjardins Mutual Aid Funds have already demonstrated that partnerships between financial institutions and community organizations are desirable, possible and effective; all that remains is to awaken the interest of government authorities. This type of program would enable financial institutions to reinvest in the small loan sector without having to bear the entire risk of loan defaults.

The Paris City Hall's *Microcrédit* program includes an interesting objective: to favour a return to work. Moreover, the program is relatively new (October 2008), so the rate of loan repayment and the project's eventual spin-offs are not yet known. The Paris City Hall's project combines a network of social workers, associations, banks and volunteers to guide households toward this service and coach them throughout the repayment term to avoid eventual loan repayment

¹¹⁹ "Participating financial institutions in the study that offer these products in a safe and sound manner may receive favorable consideration under the Community Reinvestment Act (CRA)." Federal Deposit Insurance Corporation: FDIC Board Approves Small-Dollar Loan Pilot Project. Press Release. June 19, 2007. [Online]. <http://www.fdic.gov/news/news/press/2007/pr07051.html> Page consulted on April 27, 2009.

problems. A similar system should be considered if Canadian municipalities want to adopt a similar program.¹²⁰

The Belgian CREDAL's social credit program is similar to the French and Canadian programs: the amounts available, interest rates, loan-granting criteria and eligible loan uses are similar. The main peculiarity of the CREDAL's small loans is their funding source. The CREDAL is a cooperative that draws its funds from cooperators who, rather than open a savings account, subscribe for shares. For instance, the share of the "builders" is equivalent to €100:

*"Les "bâtisseurs" sont les coopérateurs qui, avec les fondateurs de Crédal, bâtissent le crédit alternatif. En achetant une ou plusieurs parts, les "bâtisseurs" ont une conception dynamique de leur argent: énergie au sein de projets combattant l'exclusion sociale. La part "bâtitseur" est remboursable à sa valeur nominale."*¹²¹

The share of the "investors" is equivalent to €500:

"Les coopérateurs "investisseurs" ont la même conception dynamique de l'épargne que les "bâtisseurs". Ils souhaitent la récupération de leur épargne avec maintien de leur pouvoir d'achat, c'est-à-dire avec couverture de l'inflation. Crédal prend à sa charge le précompte mobilier dû sur le versement annuel du montant de l'inflation."

To our knowledge, there is no similar initiative in Canada; this is an original type of cooperative that enables investors to be assured that the money invested actually funds projects or people with little or no access to traditional bank credit. Establishing such a cooperative thus meets the demands of those investors who attach more importance to social than financial outcomes. The adoption of such cooperatives in Canada should be considered.

These measures we are retaining meet in full or in part the needs of the people whose budget consultation files were selected at random, as well as the needs identified among people who use alternative financial services. Beyond the small loan needs that could thus be satisfied, should other criteria be considered if such a project were to be considered? Indeed, it would be important to ensure that the establishment of a new program also take into consideration the motives that lead people to depend on the alternative consumer credit market.

Accordingly, the programs advocated to meet the consumer need for small loans should ideally, in addition to meeting the need for a small loan, provide budget advice and support for personal finance management. They should enable people with a poor credit history or without a bank account to have access to the loans. The programs implemented should enable consumers to improve their credit history and eventually access the services offered by traditional financial institutions. If any of the programs or measures mentioned herein were adopted in Canada, these factors should not be neglected.

Some programs not correlated with the budget consultation files for the reasons given above have interesting features nevertheless, so constraints to their implementation deserve to be examined.

¹²⁰ Céline Astruc, *A petits soucis, petits crédits: la mairie de Paris propose des microcrédits*, MoneyWeek, November 19, 2008. [Online]. <http://www.moneyweek.fr/conseils/00325/paris-microcredits-emprunt-consommation.html> (Page consulted on February 3, 2009).

¹²¹ CREDAL, *Devenir coopérateur*, 2008. [Online]. http://www.credal.be/index.php?option=com_content&task=view&id=31&Itemid=44 (Page consulted on May 15, 2009).

The Rent Bank established in Toronto in partnership with the City and various community organizations is intended only for people likely to be evicted due to non-payment of rent; the needs it addresses are thus very circumscribed, but very real. Broader implementation would therefore be desirable, notably in large Canadian urban centres, where housing costs are constantly rising and where it is more and more difficult for families to find affordable housing. The feasibility of this type of partnership certainly deserves to be evaluated by other municipalities, in order to prevent the eviction of low-income people who face short-term emergency situations such as illness, job loss, divorce, etc. Adopting such a program in other Canadian cities appears all the more desirable because it would likely require modest funding. These loan programs could eventually be broadened to include other necessities than only the payment of rent, and could thus replace payday loans or other types of loans available on the alternative consumer credit market.

Finally, with regard to pledge loan services, the major Canadian cities, following the example of New York and Paris, should also consider the establishment of pledge loan services managed by public authorities. It is difficult to determine how many citizens might turn to those services¹²². Pledge loan services are already successful; it is reasonable to believe that citizens would prefer pledge loan services managed by the municipality and would be better served by them. A Canadian pledge loan system could be modelled after those in Paris or New York.

¹²² In Paris, the municipality's pledge loan service receives every day 250 to 300 people who deposit their valuables against a cash loan. Journal du Net, Dans les coulisses des prêts sur gage du Crédit Municipal de Paris. [Online]. <http://www.journaldunet.com/economie/reportage/credit-municipal/4-guichet.shtml> (Page consulted on February 3, 2009).

CONCLUSION

Traditional financial institutions have stopped providing small loans while they focus on credit cards, overdraft protections, lines of credit, etc. But consumers' need for small loans has not disappeared: those who could or would not use the services of traditional financial institutions have been compelled to rely on the alternative consumer credit market (payday loans, pledge loans, etc.). In fact, the alternative consumer credit market has taken advantage of the vacuum left by financial institutions and is proposing services requested by consumers. The users of alternative financial services are not marginal: millions of Canadians now must bear very high – even higher than usurious – interest rates for those services that financial institutions refuse to offer. And yet, the needs of those consumers are simple: to obtain small short-term loans at reasonable interest rates.

The disappearance of the small loan offer from traditional financial institutions, and the appearance of a flourishing alternative consumer credit market, are not limited to Canada. We observe it in many other countries as well. Various alternative solutions have been introduced to offer consumers small loans: legislative initiatives, programs provided by cooperatives, municipalities, communities, financial institutions, etc. Given the budget consultation files gathered in ACEFs, and the assessment in those files of the need for small loans, our study concludes that certain initiatives appear more than others to meet consumer needs.

We have identified practices and measures that appear most suitable, as well as constraints in applying those practices. The French, who offer the largest number of measures we consider effective, have made a diagnosis that seems relevant here:

“Face au problème de l'exclusion du crédit bancaire, deux grandes solutions se dégagent. Ces solutions sont opposées par la nature de l'opérateur central. La première solution consiste à faire en sorte que les banques ne produisent plus d'exclusion. La seconde consiste en la mise en place d'une politique publique palliative. Si la première solution nous apparaît incontournable à moyen terme, il est évident que le changement de comportement des banques, qu'il soit imposé ou volontaire, prendra du temps. Aussi, le micro-crédit social doit être envisagé comme une phase transitoire.”¹²³

Currently, it doesn't appear that major financial institutions, with the exception of Desjardins, are willing to take the necessary means on their own to meet their social responsibility and re-enter the small loan sector. The adoption of palliative programs seems therefore an inevitable short-term solution, notably to slow down the development of an alternative consumer credit market that is contributing to impoverish consumers forced to use it and that is locking them into a debt cycle, irreversible debt overload and even bankruptcy.

Moreover, should we consider, among the basic banking services that financial institutions have the obligation to offer consumers, an offer of small loans at reasonable interest rates?

“The concept of ‘inclusive finance’ is one for special consideration because serving the low-income end of the market is often not perceived as a major profit opportunity when compared to

¹²³ Agence nouvelle des solidarités actives, Micro-crédit social diagnostic et perspectives de développement, March 2008. [Online]. http://www.sante-et-travail.fr/fic_bdd/article_pdf_fichier/1209451616_ansa_mcs_rapport_2008.pdf (Page consulted on January 27, 2009).

other lines of business. In discussing why more commercial banks are not more involved, a senior manager of a credit union association suggested that:

‘Ample experience demonstrates that microfinance services can be profitable if appropriate rates are charged, but there is the perception and possible truth is that they are not as profitable as other ways that capital can be deployed.’

“A wide variety of retail financial institutions have found that micro and small scale lending is profitable enough. They have also found that microsavings combined with broader savings mobilization initiatives decreases the blended cost of funds. Credit unions have been particularly adept at intermediating members’ savings, including very small account balances, to support loan products for their members. ‘By serving a diverse group of people from different social and economic strata, credit unions can help more poor people than if they only focused on the poorest of the poor.’”¹²⁴

¹²⁴ United Nations Department of Economic and Social Affairs and United Nations Capital Development Fund, Setting the Stage for Building Inclusive Financial Sectors, 2006. [Online]. http://www.uncdf.org/english/microfinance/pubs/bluebook/pub/index.php?get_page=contents (Page consulted on February 5, 2009).

RECOMMENDATIONS

The following recommendations seek the establishment of short- and long-term solutions.

Whereas the relations of trust that used to prevail between customers and bank representatives are no longer the norm;

Whereas the decisions of financial institutions to extend credit to a consumer are based on statistical methods;

Whereas this way of processing loan applications leads to the exclusion of certain clienteles with atypical profiles (lower-income people, those who use few or no banking services, those whose credit history is poor or nonexistent, etc.);

Whereas traditional financial institutions no longer offer disadvantaged consumers small short-term loans;

Whereas financial institutions encourage consumers who need small loans to use lines of credit, credit cards and overdraft protections;

Whereas those financial services and products are more expensive and do not necessarily meet the real needs of consumers;

Whereas financial institutions' social responsibility should lead them to invest in disadvantaged communities;

Union des consommateurs recommends that the Canadian government, following the example of the American government, adopt legislation:

- that would require financial institutions to serve modest- and low-income communities;
- that would require financial institutions to offer necessary services such as small loans as part of their basic services, in order to meet the credit needs of all communities, including modest- and low-income communities.

Whereas, in the absence of suitable credit services offered by traditional financial institutions, an alternative consumer credit market has developed in Canada;

Whereas the practices and fees of the alternative credit market increase the risks of problematic debt;

Whereas millions of Canadians use the services of the alternative consumer credit market (from 1.5 to 2 million users just for payday loans) that entail exorbitant charges;

Whereas some cities (New York, Paris) have established, to counter the abuses observed on that market, effective pledge loan services at favourable conditions to consumers;

Union des consommateurs recommends that provincial and municipal governments study the possibility of adopting in large Canadian cities pledge loans based on those models;

Whereas very few programs offer consumers small loans in Canada;

Whereas the need for small loans intended to meet certain needs or compensate for temporary income loss has been confirmed;

Whereas a change in the behaviour of banks, whether imposed or voluntary, will take time;

Whereas microcredit programs seek to address problems of exclusion and impoverishment;

Whereas the success of those programs rests on adequate funding;

Whereas governments are responsible for the struggle against exclusion and impoverishment;

Whereas there exist abroad and in Quebec models of programs that offer small short-term loans at reasonable interest rates;

Whereas establishing similar programs in Canada based those models is possible and desirable;

Union des consommateurs recommends the creation in Canada of small loan programs for all consumers who need this type of service:

Union des consommateurs recommends that the federal and provincial governments pledge now to invest in those programs the necessary funds for their success and viability;

Union des consommateurs recommends that a multiparty committee be formed of representatives from governments, financial institutions and qualified community organizations, with the mandate of developing an effective and accessible program for granting small loans to all sectors of the population that need this type of service;

Union des consommateurs recommends that governments and financial institutions ensure that participating community organizations have the necessary financial resources for adequate participation;

Whereas a fund must be created to amass the amounts necessary for extending small loans:

Union des consommateurs recommends that the federal and provincial governments cooperate in creating a fund, in the image of the Fonds de cohésion sociale, that would improve the small loan offer to consumers who could not access it otherwise;

Union des consommateurs recommends that financial institutions be compelled to contribute to this fund;

Whereas access to small loan programs must not be circumscribed to assistance of last resort;

Whereas consumers' need for small loans varies considerably in terms of amounts and uses;

Whereas, to ensure greater access to small loans and the best possible repayment rate, repayment agreements must be as flexible as possible and take into account the specific repayment abilities of the various clienteles targeted;

Whereas minimum loan thresholds are likely to needlessly force consumers to borrow greater amounts than they need;

Union des consommateurs recommends that new and existing Canadian programs, notably the Desjardins Mutual Aid Funds, establish the most versatile granting and repayment criteria possible to accommodate all consumers who need this type of service;

Union des consommateurs recommends that limits to the amounts available through small loan programs be set at a sufficiently high threshold for giving access to as many consumers as possible and that no minimum limit be set;

Whereas small loan programs should ideally include consumer education objectives with regard to budgeting, saving and sound financial management;

Whereas certain community organizations specialize in educating and training consumers in budgeting, saving and sound financial management;

Whereas the participation of those community organizations in the development, implementation and offer of those programs makes it easier to meet those educational goals;

Union des consommateurs recommends that qualifying community organizations closely participate in the development, implementation and offer of small loan programs;

Union des consommateurs recommends that new small loan programs include an educational component with regard to budgeting, saving and sound financial management;

Union des consommateurs recommends that, as part of new small loan programs, qualifying community organizations be called upon to offer that educational component;

Union des consommateurs recommends that new small loan programs sufficiently fund the community organizations that will be responsible for budget education services.

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ANNEX 1 – BUDGET CONSULTATION FILES

Lanaudière ACEF	Client, Age and Gender	Net Income	Type of Need	Required Amount	Solution Considered by the Client	Solution Recommen- ded by the Advisor	Solution Applied (if Known)
1	Couple M: 59 years W: 49 years	Monthly: \$2,795 M: work income W: nothing	Health problems led to current account arrears. Want to avoid eviction.	\$2,500	Had tried to negotiate but did not know what to do	Negotiating with creditors regarding a few accounts, setting budget priorities, and borrowing from the couple's daughter as a last resort.	Negotiation H-Québec, Bell and Visa \$2,500 loan from the couple's daughter with a friend as endorser
2	Couple M: 44 years W: 36 years	Monthly: \$2,205 M: work income W: nothing	Current account arrears due to loss of employment	\$2,000	Loan application	Doing their taxes, which are 3 years late; obtaining a subsidized job for the lady, who has health limitations.	Did their taxes, so will recover some money
3	Man 76 years	Monthly: \$2,500 Old age pension and QPP	Wheelchair purchase	\$3,700	Loan application	Loan arrangement between the caisse and the Desjardins Fund, which endorsed the \$1,000 loan.	As recommended
4	Woman 61 years	Monthly: \$872 Social assistance	Home repairs	\$4,000	Loan application	Repeated \$1,000 loans because of the Fund's constraints	Repaid a \$1,000 loan and borrowed another \$1,000 to continue the work
5	Man 57 years	Monthly: \$1,000 Self-employed income	Office equipment purchase to restart his company	\$1,200	Loan application	Loan from the Mutual Aid Fund	\$1,000 loan due to the max. allowed by the Mutual Aid Fund
6	Man 23 years	Monthly: \$1,093 Training allowance	Automobile insurance arrears and purchase of snow tires	\$1,300	Loan application	Loan and negotiation with the merchants	\$1,000 loan due to the max. allowed by the Mutual Aid Fund
7	Woman Single parent 26 years	Monthly: \$1,700 Employment insurance	Returning to studies, needs a computer, needs to settle a judgement of seizure for previous home, needs to change car	\$3,000	Loan application	\$400 loan for the computer	Continued the payment agreement for the judgement and kept the old car. As recommended.

Montreal North ACEF	Client, Age and Gender	Net Income	Type of Need	Required Amount	Solution Considered by the Client	Solution Recommend ed by the Advisor	Solution Applied (if Known)
8	46 years Woman	Annual: \$33,679 Employment income	High-interest debts and rent and hydro arrears	\$5,000	RRSP withdrawal – Workers fund	Ibid	?
9	50 years Woman Alternates contract work and social assistance	Annual: \$15,000 Employment income and Social assistance	Bus driver training to return to STM	\$2,400	Had no savings, thus application to the Fund (else abandon the hiring process)	Delaying her project, or considering other employment while receiving free training	Other career
10	43 years Woman	Annual: \$47,000 Employment income	Gaz Métro cut off and daycare arrears	\$1,200	Returned to work recently, so no savings. No credit history, no access to a loan or a card from an institution, does not know what to do.	Loan granted, negotiation impossible with Gaz, and difficulty waiting to accumulate enough money (winter)	Fund loan
11	25 years Woman	Annual: \$20,500 The man's income when working: \$15,000) Seasonal	High-interest debts (to make up for his lack of income) and rent and utilities arrears	\$5,000	Borrowing \$1,000 to pay rent arrears	\$550 loan to repay a loan from United North Star, because weekly payments were disorganizing the budget. And rapid return to work for him, along with a budget course!	\$550 loan and his return to work a few weeks later
12	56 years Woman	Annual: \$8,200 Other sources than employment	New computer purchase to continue writing children's books	From \$800 to \$900	Application to her caisse, which referred her to the Fund	\$850 loan	DMAF \$850
13	42 years Woman	Annual: \$36,000 Employment income	Rent arrears due to spouse's serious illness, and income loss due to leaves to accompany the spouse	\$2,500 \$1,800 for arrears, and \$700 to reorganize	Loan application to her bank was refused. Only possibility: credit card with endorser (note: had declared bankruptcy in 1999)	Attempt to negotiate with the financial institution, negative. Loan granted on an exceptional basis	DMAF \$1,800
14	26 years 28 years Couple	Annual: \$25,000 Employment income	Loss of income due to spouse's loss of job, which caused current account arrears	\$1,300	No access to traditional credit, took steps to find alternative resources to avoid loss of housing	Spouse's return to work, and a loan for the rent. And budget follow- up.	DMAF \$558

Montréal East ACEF	Client, Age and Gender	Net Income	Type of Need	Required Amount	Solution Considered by the Client	Solution Recommend ed by the Advisor	Solution Applied (if Known)
15	32 years Woman	Monthly: \$1,448 Other sources than employment	Eyeglasses and braces	\$574	DMAF loan	DMAF loan	DMAF \$574 loan accepted
16	27 years Man	Monthly: \$575 Other sources than employment	Mortgage arrears	\$1,500	DMAF loan	Sale or additional income	Loan refused
17	30 years Woman	Monthly: \$1,780 Other sources than employment	Computer purchase	\$650	DMAF loan	DMAF loan	Loan refused
18	67 years Man	Monthly: \$1,441 Other sources than employment	Purchase of snow tires	\$476	DMAF loan	Loan	Loan refused
19	31 years Man	Monthly: \$1,100 Other sources than employment	Car purchase	\$1,500	DMAF loan	DMAF loan	Loan refused
20	24 years Man	No income	Paying car insurance	\$322	DMAF loan	Negotiation with creditors and insurance company	Negotiation with creditors and insurance company. Loan refused.
21	21 years Woman	Monthly: \$1,520 Employment income	Furniture purchase	\$1,200	DMAF loan	Mutual Aid loan	DMAF \$1,200 loan accepted
22	44 years Woman	Monthly: \$588 Other sources than employment	Purchase of eyeglasses	\$250	DMAF loan	Voluntary deposit Mutual Aid loan	DMAF Voluntary deposit. \$250 loan accepted.

Montreal East ACEF	Client, Age and Gender	Net Income	Type of Need	Required Amount	Solution Considered by the Client	Solution Recommend ed by the Advisor	Solution Applied (if Known)
23	71 years Woman Retired	Monthly: \$1,526 Less than \$18 500 annually Prov. pension \$635/m Fed. pension \$822/m Home support allowance \$45/m Bell pension plan \$26/m	To recover family jewels from a pledge lender	\$466	Borrowing + repaying \$20/month.	Letting the jewellery go or requesting help from her children. Avoiding pledge lenders and doing a budget follow- up with the ACEF. DMAF application refused.	DMAF refused Pledge lenders again and gambling in the hope of recovering her property.
24	39 years Woman Single Immigran t Reduced mobility	Monthly: \$870 Less than \$10,500 annually Soc. assistance with inability to work + QPP disability benefits	Refrigerator and moving to low-cost housing	\$700	Referred to the Mutual aid Fund by her occupational therapist. Due to the \$500 max., seeks help in her network to move and get a loan for the fridge.	\$500 loan granted. Deposited in her account. Repayment over 12 months.	DMAF \$500 Found moving help in her circle. Refurbished fridge purchased and delivered.
25	22 years Woman Single parent and 1 child in school	Monthly: \$1,511 Less than \$18,200 annually Emploi-Québec \$957/m Fam. all. \$554/m	Moving to cooperative housing	\$400	Selected for a coop. Asked her school representative to help her. Referred to the Mutual Aid Fund for a loan.	The Fund helping her negotiate a price and reserve a moving service. \$350 loan covering the moving. Budget follow-up recommended.	DMAF \$350 to be repaid over 18 months.
26	63 years Woman Immigran t Widow 2 nd applicatio n 1 st loan repaid	Monthly: \$692 Less than \$10,000 annually Social assistance with temporary disability \$692/m	Kitchen stove	\$300	Using the Mutual Aid Fund, which she already knows as a credit tool instead of falling into the trap of instalments with hidden interest.	\$300 loan from the Fund to be deposited in her account.	DMAF \$300 She shopped for the best possible price and purchased her kitchen stove. Maintains her \$20/month instalments.

Montreal East ACEF	Client, Age and Gender	Net Income	Type of Need	Required Amount	Solution Considered by the Client	Solution Recommend ed by the Advisor	Solution Applied (if Known)
27	47 years Woman Mental health problems	Monthly: \$942 Less than \$11,000 annually S. assist. \$832/m Rent allow. \$80/m QPP dis. \$30/m Total: \$942/m	Moving	\$400	Asked Income Security for help but the amount was insufficient; too much paperwork for her to do.	Help from the Fund in negotiating the price and reserving a moving service. \$282 loan. Cheque to the mover. The Fund helps her with social assistance forms and discusses with the Income Security representative.	DMAF \$282 Moving loan will be repaid at \$13/m due to tight budget. Social assistance finally supported the moving due to medical reasons. Social assistance repaid the Fund with a \$200 cheque. So she has few remaining instalments to pay.
28	50 years Man Natural caregiver for four years...	Monthly: \$565 Less than \$10,000 annually Basic social assistance: \$565/m	Return to work. Intensive training (\$2 X 4 days) in pesticide application in order to work as an exterminator	\$575	Made several funding requests to Income Security, to return-to-work support groups, and finally to her member of Parliament, who referred her to the Mutual Aid Fund.	Verification of the validity of the course to be funded. Contacting the teacher. Cheque issued. \$573.14 loan from the Fund.	DMAF \$573.14 Loan repaid at \$31.86/m. He has succeeded in his courses. Visited to show his grades.
29	57 years Man	Monthly: \$708 Less than \$8,500 annually Social assistance with temporary disability	Rent and Hydro- Québec balance	\$700	Applied for a small loan at his caisse, which referred him to the Mutual Aid Fund.	Negotiation with Hydro-Québec and loan for the rent. Fund loan granted.	DMAF \$400 After negotiation with Hydro, referred to customized agreements, and \$400 loan to be repaid at \$19/m.
30	31 years Woman Single parent 3 children	Monthly: \$1,967 Less than \$23,500 annually Social assistance with temporary disability \$688/m QC fam. all. \$400 CA fam. all. \$879	Dental emergency (front tooth)	Approx. \$1,500	Tried to negotiate with her dentist... Applied to Income Security... They paid only for one extraction! A CLSC social work referred her to the Fund and accompanied her to the meeting.	Université de Montréal approached. \$760 loan. Fund loan granted.	DMAF \$760 Made appointments at Université de Montréal. All the dental work was done. Repay \$30/m for two years.

ANNEX 2 – DESJARDINS MUTUAL AID FUNDS

DMAF \$No.	Nb of Participating Caisses	Nb of Loan Applications	Nb of Loans	% of Loans vs Nb of Applications	Amounts Loaned	Average per Loan	Loan Amounts Written off	Recovery Rate
1	24	381	235	61.70%	\$95,300.40	\$405.53	-\$29,852.30	68.70%
2	9	461	186	40.30%	\$102,272.24	\$549.85	-\$15,281.60	85.10%
3	11	1045	349	33.40%	\$188,494.91	4540.10	-\$18,444.96	90.20%
4	4	514	248	48.20%	\$166,165.66	\$670.02	-\$8,032.44	95.20%
5	26	1150	189	16.40%	\$108,109.64	\$572.01	-\$16,210.53	85.00%
6	3	340	151	44.40%	\$111,427.07	\$737.93	-\$2,193.62	98.00%
7	6	285	52	18.20%	\$18,301.94	\$351.96	-\$483.17	97.40%
8	17	391	281	71.90%	\$111,947.13	\$398.39	-\$27,804.60	75.20%
9	2	350	97	27.70%	\$41,845.41	\$431.40	\$0.00	100.00%
10	2	84	24	28.60%	\$9,018.41	\$375.77	-\$474.57	94.70%
11	10	220	98	44.50%	\$73,072.95	\$745.64	-\$11,764.94	83.90%
12	8	164	42	25.60%	\$14,594.75	\$347.49	-\$805.85	94.50%
13	17	351	157	44.70%	\$74,539.76	\$474.78	-\$8,828.53	88.20%
14	15	593	282	47.60%	\$195,033.26	\$691.61	-\$14,691.98	92.50%
15	18	121	60	49.60%	\$37,982.45	\$633.04	-\$4,705.27	87.60%
16	10	259	126	48.60%	\$63,397.61	\$503.16	-\$2,495.07	96.10%
17	12	518	170	32.80%	\$113,838.18	\$669.64	-\$14,484.48	87.30%
18	3	66	44	66.70%	\$35,748.82	\$812.47	-\$3,114.84	91.30%
19	4	43	17	39.50%	\$7,690.86	\$452.40	-\$1,900.00	75.30%
20	5	95	34	35.80%	\$22,271.23	\$655.04	-\$4,067.34	81.70%
21	12	143	79	55.20%	\$35,503.56	\$449.41	-\$4,509.36	87.30%
22	3	23	7	30.40%	\$7,495.79	\$1,070.83	-\$300.00	96.00%
23	4	58	30	51.70%	\$27,255.71	\$908.52	-\$760.00	97.20%
24	27	143	55	38.50%	\$24,813.67	\$451.16	-\$1,471.28	94.10%
25	9	90	17	18.90%	\$13,677.69	\$804.57	-\$3,376.40	75.30%
26	10	28	6	21.40%	\$4,952.20	\$825.37	\$0.00	100.00%
27	7	63	15	23.80%	\$10,903.59	\$726.91	-\$1,000.00	90.80%
28	14	63	37	58.70%	\$20,155.46	\$544.74	-\$1,111.01	94.50%
29	9	10	0	0.00%	\$0.00	\$0.00	\$0.00	0.00%
30	4	14	5	35.70%	\$5,216.00	\$1,043.20	\$0.00	100.00%
total	305	8066	3093	dnk	\$1,741,026.35	dnk	-\$198,164.14	dnk
avg	19.53	525.03	198.37	37.89%	\$112,891.74	\$562.89	-\$12,215.87	88.62%