

Small Loans for Consumers: What to Do?

Executive summary
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In recent years, the traditional financial institutions have withdrawn from the small loan market, thus leaving the door open to the alternative consumer credit market, which has seen phenomenal growth.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 loans, payday loans, etc.) and makes credit available to people who otherwise would probably not have access to it (bad credit history, no bank account, etc.).

The present study identifies and examines alternatives that might be offered to consumers to give them adequate access to small loans without their having to use the alternative consumer credit market.

The first chapter draws a portrait of the current situation, including an evaluation of the small loan 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 examines 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 disappearance of small loans from traditional financial institutions, and the flourishing of an alternative consumer credit market, are not limited to Canada. We observe this in many other countries. Various solutions have been implemented to extend small loans to consumers: legislative initiatives, and programs offered by cooperatives, municipalities, communities, financial institutions, etc.

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 is made of a Quebec program in which consumer rights associations participate – Desjardins Mutual Aid Funds.

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

Currently, the major financial institutions, with the exception of Desjardins, don't appear willing to assume their social responsibility and re-enter the small loan sector. Setting up palliative programs therefore seems necessary in the short term, particularly to slow the development of the alternative consumer credit market; the latter is contributing to the impoverishment of consumers forced to use it, and it is locking them in a cycle of debt that eventually leads many of them to irreversible debt overload, and even bankruptcy. Based on the budget consultation files

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gathered in ACEFs and on the assessment in those files of the need for small loans, our study leads us to conclude that certain initiatives appear more likely than others to meet consumer needs.

The report concludes with recommendations addressed to the federal and provincial governments, particularly regarding an intervention that would compel all financial institutions to meet the credit needs of middle- and low-income populations. Recommendations are also issued to establish various small loan programs that would meet consumer needs until the financial institutions fill this niche.

French version available on our website.

The present document summarizes a research report published by the Union des consommateurs in 2009 as part of a research project funded by Industry Canada's Office of Consumer Affairs. This report is available in French on our website.