

**Affordable Credit Options for Vulnerable Consumers:
Identifying Alternatives to High-cost Credit in
Australia, Belgium, Canada, France, Germany, the UK, & the US**

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Table of Contents

Acknowledgements	2
1) Introduction	5
a) <i>The Scope of this Report</i>	5
b) <i>Credit Innovation and the Vulnerable Consumer</i>	6
i) Credit Innovation.....	6
ii) Vulnerable Consumer.....	7
iii) Consumer Debt.....	7
iv) Payday Loans	10
c) <i>Some Salient Characteristics of the 7 Countries in this Study</i>	11
d) <i>Methods</i>	12
2) Financial Services and Programs	14
Australia	14
<i>Service: No Interest Loans Scheme (NILS)</i>	14
<i>Service: Progress Loans</i>	15
<i>Service: Small Loans Pilot</i>	16
<i>Service: Step UP Loans</i>	18
Belgium	20
<i>Service: Crédit Social Accompagné (CSA)/ Guided Social Loan</i>	20
<i>Service: Overdraft protection for Social Bank Account</i>	21
<i>Service: Pawn loan</i>	22
Canada	23
<i>Service: Fonds d'entraide Desjardin/Mutual Assistance Fund</i>	23
<i>Service: Micro-loan (Implemented but now on hold)</i>	24
<i>Service: My Best Interest (Plan that was not implemented)</i>	24
<i>Service: Overdraft protection</i>	25
France	27
<i>Program: Loan guarantee from Fonds de cohésion sociale / Social Cohesion Fund</i>	27
<i>Service: Crédit solidaire / Solidarity Credit</i>	27
<i>Service: Crédit Mutuel Mid-Pyrénées with Secours Catholique</i>	28
<i>Service: Prêt sur gage/Pawn loan</i>	28
<i>Service: Social micro-credit</i>	29
Germany	31
<i>Service: Pawn loan</i>	31
United Kingdom	32
<i>Strategy: Financial Inclusion Strategy</i>	32
<i>Program: Community Banking Partnership</i>	32
<i>Program: Financial Inclusion Fund</i>	33
<i>Program: Eligible Loans Deduction Scheme</i>	34
<i>Program: Growth Fund</i>	34
<i>Service: Budget and Crisis Loans from Social Fund</i>	35
United States	36
<i>Program: REAL Solutions: Payday Loan Alternatives</i>	36
<i>Program: Retail Financial Services Initiative (RFSI)</i>	37
<i>Program: Small-Dollar Loan Pilot Program</i>	37
<i>Program: The Alternatives to Payday Lending Program (APPLE)</i>	39
<i>Service: Collateral loans</i>	40

Service: Direct Deposit Advance line of credit41

Service: Payday Alternative Loan (PAL) - North Side41

Service: Payday Alternative Loan (PAL) – Veridian42

Service: Salary Advance Loan (SALO)42

Service: StretchPay: A Credit Union Salary Advance Alternative43

Service: The Worker’s Loan Program44

3) Discussion45

4) Conclusion51

Bibliography55

Appendix A. Description of Project59

1) Introduction

a) *The Scope of this Report*

The topic of this study is affordable credit options for vulnerable consumers. The rationale for the study is the perceived –and in many cases real– growth in the types and amounts of consumer credit that is *unaffordable*. The growth in numbers of payday loan outlets in Canada is the most prominent example of this growth but other ‘fringe’ bank lenders –rent-to-own, auto and regular pawn, income tax refund advancers, and second-hand ‘buy-back’ schemes– also come to mind. In some contexts –for instance Canadian inner-cities– one finds a proliferation of fringe banks and a declining number of ‘mainstream’ banks or Financial Institutions (FIs) such as banks, trust companies, credit unions and *caisses populaires*.¹ But fringe bank –notably payday lender– outlets, and vulnerable consumers are found in city suburbs, towns and farms around the country.

This study focuses on affordable credit and thus is concerned with identifying alternatives to various types of fringe credit products such as payday lending, sub-prime credit cards, and pawn lending. These services may have certain attractive characteristics such as convenience and accessibility, but they may also have weaknesses such as higher fees, insufficient/complicated information disclosure, and lack of connection with developmental financial services.²

Affordable credit refers to a loan that is not too expensive. But what is too expensive? This question is beyond the scope of this paper but the sub-title for the report gives a clue:

‘alternatives to high-cost credit.’ Payday loans, rent-to-own arrangements, and pawn loans often involve fees that amount to 250% to 750% APR. ‘Affordable credit,’ refers in this study to products with fees that are closer to mainstream bank fees (i.e., single or low-double digit APRs) and that have other links (possibly through financial education) to mainstream banks.

‘Vulnerable consumer’ refers to a citizen relying to some extent on the market but who lacks some type of power –economic, social and/or political– directly or indirectly in relationship to the credit supplier. This consumer faces certain obstacles to using competitive or imperfectly competitive markets: lacking information about and access to financial services, or lacking social support or government protection. The result is a group of citizens who are unable to access mainstream credit markets.

The goals of this report are to provide an inventory³ and set of case studies of approaches taken in Canada, Australia, Belgium, France, Germany, UK and US to:

- 1) Provide lower-cost alternatives to high-cost small short-term loans (such as payday loans) for consumers, and
- 2) Encourage traditional financial institutions to offer such alternative services; such encouragements will focus on government incentives, such as the FDIC low-cost loan program in the US.

The outline of the report is as follows. The next portion of this introductory section will lay the groundwork for the results, presenting salient concepts and data. It will also explain the methods used in this research. Section 2 presents a discussion of affordable financial services and programs identified, section 3 discusses the results, and section 4 offers concluding comments.

¹ In the North End of Winnipeg, for instance, one finds plenty of fringe bank services and a paucity of mainstream bank services (Buckland and Martin 2005).

² The concern about these forms of credit is not a new one. It is a new chapter in the ‘poor pay more’ thesis argued by David Caplovitz in his 1967 book about the weak state of the market faced by poor New Yorkers.

³ See Appendix A for a list of program characteristics.

b) *Credit Innovation and the Vulnerable Consumer*

i) Credit Innovation

Credit innovation is an important process imbedded in our current market-centred economic system.⁴ Credit innovation is related to the process of financialization, which is a process of increasing the role and importance of finance in society (Epstein 2005 cited in Dore 2008).⁵ It is manifested throughout the economy from investment markets to consumer banking. For instance, in investment markets in 2007, over-the-counter derivatives were valued at \$US516 trillion, almost eight times the size of the world's national income of \$US66 trillion (Dore 2008, p.1099). Financialization is also manifested in consumer banking and credit markets.⁶ There are a growing number of credit products available on the market. Since the focus of this report is on vulnerable consumers we limit the discussion to products directed at that group.

Payday lending involves a 2-week unsecured loan, for perhaps \$350, with fees ranging from \$20 to \$30 per \$100 loaned, amounting to APRs from 300 to 750%. An exemption from section 347 of the Criminal Code (Criminal Rate of Interest) allows payday lenders to operate in jurisdictions that regulate such lenders. A typical pawn loan is for a 15- or 30-day term, the loan might amount to \$50-\$200, and it is secured by a consumer item ranging from a CD to a car. In Winnipeg, interest rates on pawn loans range from 250% to 500% APR. The loan is made for a fraction of the value of the item, and fees and interest are charged when the customer comes to claim the item. Pawn brokering is regulated, principally to stop the sale of stolen goods, at the municipal level. An innovation in pawn brokering is the growth in the number of Second-hand stores and franchises (such as Cash Canada and Cash Converters). Some of these firms offer what is sometimes called a 'buy-back' option. This amounts to a pawn loan as it allows the consumer to return to the store before the deadline to redeem –at a price– her item. In one case, fees for this service were higher than regular pawn fees. Rent-to-own is a means whereby the consumer immediately gets the product, say a piece of furniture, but pays for it over several months. In some cases in Winnipeg the fees for this service are very high leading to APRs up to 500%. Income tax refund advancers are companies that will complete your income tax return and immediately provide the client with his refund. There is a significant fee attached to it: for a \$500 10-day advance the fee amounts to \$55, for an interest rate of 286% APR. Sub-prime credit cards are simply credit cards that charge fees and interest –combined into an APR– that is 'sub-standard,' referring to an interest rate higher than what is charged by regular credit cards. These cards are often targeted at consumers with poor or no credit history.

⁴ Our current economic system is commonly referred to as neo-liberal. This is a term used to describe the set of policies that gained popularity, particularly in the US, the UK and Canada, since the 1980s. Neo-liberal policies have important but complex links to classical political economists such as Adam Smith and David Ricardo. These policies highlight the role of the market (and trade), and not the state, to meet the common good.

⁵ A commonly quoted definition of financialization is that it refers to "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies (Epstein 2005 cited in Dore 2008)."

⁶ The prime example of problematic financialization is the sub-prime mortgages leading up to the US sub-prime financial crisis and ultimately a global recession. In it we see both 'upstream' and 'downstream' aspects of financialization. But this report is focused on small loans such as payday loans so that the US sub-prime mortgage crisis is of less relevance here.

ii) Vulnerable Consumer

In the context of credit, the vulnerable consumer refers to a citizen relying to some extent on the market but who lacks some type of economic, social and/or political power, directly or indirectly, in relationship to the credit supplier. The vulnerable consumer concept highlights the individual's relative disadvantaged position. In Europe the concept of economic exclusion is more commonly used than vulnerable consumer. This concept conveys the diverse ways that citizens are vulnerable. Economic exclusion may be the result of imperfect or oligopolistic markets, asymmetric information; social exclusion may be the result of biases generated by class, gender, ethnicity or location; political exclusion may be the result of minority-status, and political oligarchy. More than one factor can affect a person or group of persons sometimes causing a multiplicative effect.

One common indicator of vulnerability is low income. In Canada this is most commonly measured by Statistics Canada's low-income cut-off, LICO⁷. This indicator shows a sharp rise in the numbers of low-income households through the 1990s. The number of families falling below LICO rose from 1.4 million in 1976 to almost 2.4 million in 1996, subsequently declining to just under 2.0 million in 2006.⁸ Income inequality is another indicator of vulnerability in the sense that it points to a changing relationship between rich and poor. One way to measure inequality is the Gini Coefficient.⁹ In Canada it rose from 0.377 in 1996 to 0.392 in 2000, representing a 4% increase towards inequality, and representing the highest level of inequality among the top 20 countries in the UNDP's Human Development Report list, with the exception of the US.¹⁰

What these data on income poverty and income inequality point to are the rise in the number of people facing vulnerability or exclusion in Canada. Data on financial exclusion find that in Canada at least 3% of adults have no bank account and the exclusion rate is at least 8% for low-income people. These data are not available over time so that we cannot identify a trend. But data from the 1999 and 2006 iterations of the Survey of Financial Security can cast some light on bank exclusion over time. The proportion of people without a non-zero bank account¹¹ showed little change over the period: it increased slightly from 12.0% in 1999 to 13.0% in 2006.¹² The proportion of people without a credit card showed some downward movement as it dropped from 21.8% in 1999 to 17.8% in 2006.

iii) Consumer Debt

In the last 30 years, consumers, particularly in the US, the UK and Canada, have been important drivers of economic growth. Montgomerie (2007) has coined the term *consumer debt-led growth*,

⁷ LICO is an estimated income threshold, below which families would be required to spend more than 20%, as compared with the average family, on the basic necessities of food, shelter and clothing.

⁸ Source: (Statistics Canada No Date, *LOW INCOME CUT-OFFS AFTER TAX, 1992 BASE; NUMBER OF FAMILIES; TOTAL FAMILIES IN LOW INCOME*).

⁹ The Gini Coefficient is the area between Lorenz curve and line of perfect equality over the combination of these two areas; 0 represents perfect equality and 1 represents perfect inequality.

¹⁰ Statistics Canada. No date. *Table 2020705 GINI COEFFICIENTS OF MARKET, TOTAL AND AFTER-TAX INCOME, BY ECONOMIC FAMILY TYPE* (table). CANSIM (database). Using CHASS (distributor). Last updated June 6, 2008. <http://dc2.chass.utoronto.ca/cansim2/english/catalogues.html> (accessed 19 June 2009).

¹¹ The publicly available data from the Survey of Financial Security did not include precise data on the unbanked question: it did not contain data on whether a respondent (a) had an account or (b) did not have an account. Rather, the data available was whether the respondent (a) had a non-zero account (i.e., an account with an amount more –or less– than zero) or (b) had a zero account or no account.

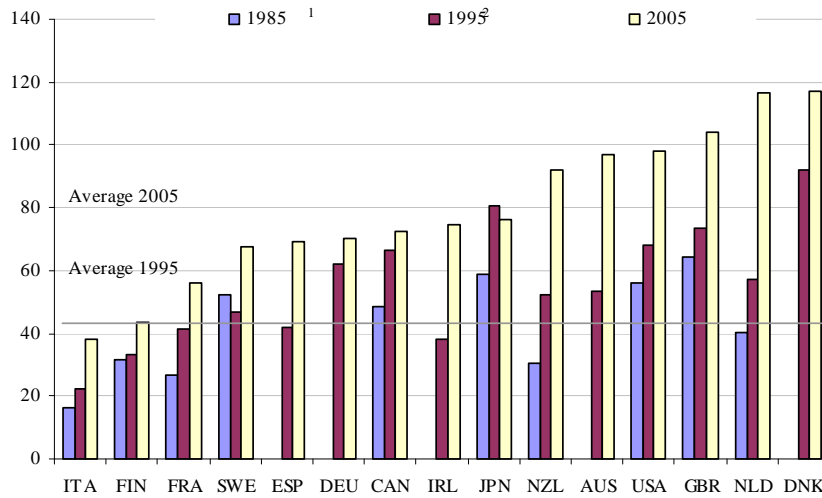
¹² This indicator is not highly useful for tracking financial exclusion because it includes people *without* a bank account *and* people with a zero balance bank account. It may be helpful in examining change over time.

referring to the debt-financed consumer spending being a chief instrument to stimulate macro-economic growth. She argues that the neoliberal goal of non-inflationary growth kept wage demands down and thus kept household incomes down. But consumers were encouraged to continue to spend to keep the economy moving, thus household debt increased (Cynamon and Fazzari 2008).

Thus, economic growth in the 1990s has heavily relied on consumer debt-led spending. Therefore, despite the claims made by the advocates of neoliberalism, policies of non-inflationary growth have not led to enduring prosperity. Instead, the over dependence on private individuals to continue consuming to drive the system forward have led to new prospects for instability and crisis (Montgomerie 2007, p.170).

Data on consumer debt support the consumer debt-led growth theory. Consumer debt in Canada has been steadily growing over the last several years rising to 121% by 2006 (Certified General Accountants Association of Canada, 2007, p.29), and 140% in 2008 (Globe & Mail, 15 June 2009). While Canadian households have accumulated substantial debt, they share this with neighbors in other Northern countries. For 2005, in terms of household debt as a share of national income (not disposable income), among a group of 15 OECD countries, Canada falls in the middle of the group (Figure 1). The US, UK, Australia and New Zealand all fall within the top 6 most indebted consumers. Only Netherlands and Denmark have higher consumer debt levels. German consumer debt levels were similar to Canada's while the levels in France were lower. Virtually every country's consumer debt levels have been rising from 1985 to 2005.

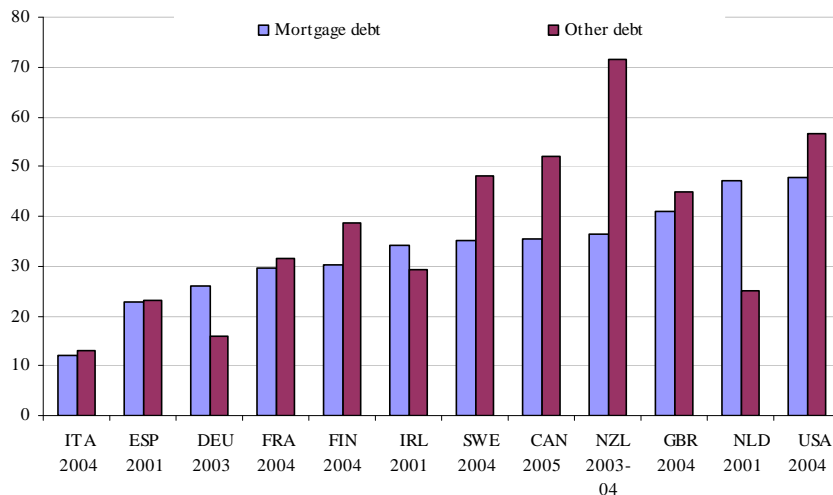
Figure 1. Household debt as a percentage of GDP



Source: OECD Economic Outlook: November 2006 No. 80 - Preliminary Edition - OECD © 2006 - ISBN 9264030964.

The proportion of households holding other (than mortgage) debt in Canada in 2006 was just over 50%, which ranks 3rd among 12 OECD countries, just behind New Zealand and the US (Figure 2). The proportion of French and German households with debt is much lower at just over 30% and around 15%, respectively. These data provide evidence to support the claim made above that Canada, the US, and the UK have relied particularly strongly on household debt to boost economic growth.

Figure 2. Proportion of households holding debt



Source: OECD Economic Outlook: November 2006 No. 80 - Preliminary Edition - OECD © 2006 - ISBN 9264030964

iv) Payday Loans

Payday lenders and loans have a short and forceful history in Canada. Today and in the past some employers have been willing to give employees payday advances. Some have linked the payday loan business to payday advances arranged by third parties and allowed by employers in the early 20th century (Robinson, undated; Caskey 1994, p.31). Payday lender numbers took off in Canada in the early years of the new millennium, from 2000. Historic data on payday loan numbers are not available for Canada but for three cities –Toronto, Vancouver and Winnipeg– their numbers grew by 149% between 1999 and 2005 (Table 1). According to the CPLA there are currently (in 2009) 1,451 (both CPLA member and non-member) outlets in Canada. From the early 1990s their outlet numbers grew rapidly in the US so that today it is estimated that there are over 22,000 outlets with payday loan volumes of \$US40 billion per year (Bair 2005).

Table 1. Payday loan outlet numbers, for Toronto, Vancouver and Winnipeg, 1999 and 2005*

	1999	2005
Toronto**	41	96
Vancouver***	24	38
Winnipeg	6	43
Total	71	177
Outlet Increase 1999-2005		106
Percent Change 1999-2005		149%

*Data collected by Daniel Liadsky (in Toronto) for both Toronto and Vancouver and Jennifer Braun (in Winnipeg) for Winnipeg and is taken from yellow page and business directories for 1999 and 2005.

**Toronto data are for pre-amalgamation municipalities, previously known as Metropolitan Toronto.

***Vancouver data are for Vancouver proper and exclude surrounding municipalities such as Burnaby and Surrey. From: Simpson and Buckland, 2009.

A major issue relating to payday loans is who the clients are. The best source of data for Canada is the 2005 Survey of Financial Security. Data from this survey found that respondents who used payday loans were slightly over-represented as compared to respondents who had not used payday loans, among families with income below \$30,000 (46.7% versus 35.9%) and among families with incomes below \$50,000 (68.6% versus 61.5%). Payday loan users' income levels were lower than non-payday loan users: "Mean family income in the [payday loan user] sample was \$40,200, compared to \$66,600 in the [non-payday loan] sample, a difference in mean family incomes between the two groups that is very [statistically] significant (Buckland *et al.* 2008, p.28)." Payday loan consumers, as compared with non-payday loan consumers were also more likely to live in larger families with children. Lower-income consumers used payday loans more often than other consumers: among households who used payday lending at least once a month, 52.4% had household income less than \$30,000 (Buckland *et al.* 2008, p.33).

While we know the number of payday loan outlets, lenders' loan volumes, revenues and profits are subject to estimation since many payday lenders are not publicly traded companies and are therefore not required to report this information. The two that are publicly traded –Money Mart (owned by US Dollar Financial Corporation) and Cash Financial Inc.– represent the majority of the payday loan outlets and thus provide important insights into the size of the sector. From these and other sources Robinson (2007) estimated that payday loan outlets in Manitoba do approximately 10-30 loans per day, averaging \$1.5 million (and ranging from \$700,000 to \$3 million) in loans per outlet each year. For a conservative estimate of the industry's loan volume, we multiply this average loan volume figure by the number of payday loan outlets, i.e., \$1.5

million/outlet/year x 1,451 outlets. This suggests an industry loan volume of \$2.2 billion/year. In terms of payday lenders' costs, Robinson noted that operating costs are the largest component of their operations. Bad debt costs are a much smaller component, usually ranging from 1% to 4%.

c) Some Salient Characteristics of the 7 Countries in this Study

The seven countries considered in this study are all relatively rich countries, and members of the Organization for Economic Cooperation and Development (OECD). Their national populations range from 10.6 million for Belgium to 301.2 million for the US (Table 2). Income per capita is among the highest in the world, ranging from \$31,766 in Germany to \$43,968 in the US. In terms of economic and social indicators, the countries' ranking in the Human Development Index (HDI)¹³ range from as high as #3 for Canada to as low as #23 for Germany. Growth in national income ranged from 2-3 percent per year and for the countries for which data are available, services are a major component of their national income, ranging from 69% for Germany to 77% for France. Finally, the share of the population without a bank account ranges from as low as 0.8% for Australia to as high as 9% for the US.

Table 2. National indicators for 7 countries examined

	Population (millions)	GDP/capita (PPP) ^a	Human Dev't Index Rank ^a	GDP growth (%)	Service value added (%)	Unbanked (%) ^b
Australia	21.0	33,035	4	3		0.8
Belgium	10.6	33,243	17	3	75	1
Canada	33.0	36,687	3	3		3
France	61.7	31,980	11	2	77	2
Germany	82.3	31,766	23	2	69	3
UK	61.0	32,654	21	3	76	6
US	301.3	43,968	15	2		9

a. UNDP Human Development Report 2008

b. EU members from EC 2008a; Canada from Buckland and Dong (2006); US from Hogarth, Anguelov and Lee (2005); Australia from Howell and Wilson (2005)

c. World Bank online database: <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers>, accessed: 27 Sept. 2009.

In terms of the banking systems in these seven countries, some interesting characteristics can be identified. A European Commission report on financial services in the European Union found important differences in the fringe or 'sub-prime' financial markets there (Anderloni *et al.* 2008). These differences were related to the dominant regulatory regime in each country. In Belgium, France and Germany there is a limited sub-prime financial market. The report commented that "countries with tighter regulatory regimes (such as Belgium, France, and Germany) seem to hinder the development of the sub-prime market (Anderloni *et al.* 2008, p.82)." An important exception is pawnshops, which exist in many EU states. However, the pawnshops in Belgium, France and Germany are publicly-run and often have explicit social and economic goals. Among EU states, Britain has the most extensive sub-prime credit market (Table 3). The report finds that this is, at least in part, the result of a neoliberal economic policy in the

¹³ The HDI was developed by the United Nations Development Program and is an index combining income per head, educational attainment, and life expectancy

UK. Among the other countries in this study –Canada, the US and Australia– they would be most similar to the UK with regard to this sub-prime credit market.

In Belgium and France, the consumer protection and the market regulation are quite high. The level of bank inclusion is also high and the use of credit much less developed than in English-speaking countries. Maximum interest rates, no subprime or illegal markets and registered lenders imply a less easy access to credit, and therefore, also, less inappropriate credit (Anderloni *et al.* 2008, p.79).

Table 3. Alternative Financial Credit Providers in Europe

Sub-prime market	EU countries with this sub-prime companies
Sub-prime lenders (or non-deposit lending companies)	UK; Ireland; Lithuania; Slovakia; Bulgaria
Sub-prime credit card companies	UK
Pay day lenders	UK; Bulgaria
Mail-order catalogues and rental purchase outlets	UK; Ireland
Sub sub-prime market	
Legal moneylenders (or doorstep lenders/home credit companies)	UK; Ireland; Poland*
Pawn brokers	UK; Germany; Norway; France; Ireland; Austria; Holland; Belgium
Illegal sub-prime market	
Unlicensed moneylenders (or loan sharks)	Likely to be occurring in most EU States

*Not regulated by financial authority or commercial law
From: Corr 2007.

The EC study also examined the broad structure of banking in the EU by categorizing the types of banking institutions found in different EU members. These categories included types familiar in Canada such as mainstream and fringe banks and included some less familiar in Canada including commercial—social-mission oriented FIs. Three continental countries had major FIs that were commercially oriented and had an explicit social mission. This includes Belgium’s postal banks, France’s cooperative banks, savings banks, and postal banks, and Germany’s cooperative banks. This was not the case for the UK where the credit unions were much smaller, and under the EU report’s classification, were considered as alternative providers.

d) Methods

The goals of this project were to identify and describe affordable loan programs for vulnerable consumers in 7 countries: Australia, Belgium, Canada, France, Germany, the UK and the US. The research for this report was completed in August through October 2009. The methods for this study involved reviews and communications. The research process began with a few initial lists of loan programs, resources and contacts. A literature review was conducted using an academic database (Econlit) and a review was done using the web. The resources and contacts were strongest for Canada, US, Australia and the UK. Early on in the review process an important European Commission study on financial inclusion was identified (Anderloni *et al.* 2008) which was based on a series of country studies including studies of financial inclusion efforts in France

(Gloukoviezoff 2007), Belgium (Jerusalmy 2007), and Germany (Sanio 2007). These reports provided background information and pointed to other resources for further research. Early on in the research process it was clear that written materials would not provide sufficient detail on the programs. So while resources were being gathered and processed, efforts were made, through e-mail and telephone, to communicate with people involved.

2) Financial Services and Programs

This section describes the loan services and programs identified in the research process. In this report, ‘program’ refers to an activity –either funding or research– that is intended to support the provision of loans, and ‘service’ refers to the loan scheme itself. These activities are grouped and presented by country and presented alphabetically, first programs and then services. Descriptions seek to include the assigned features (see Appendix for list) and provide other important contextual information. In most cases the description includes discussion of the organization(s) providing the service, the nature of the loan, and available data about program financing. Also included is reference to sources of information for each description including documents, e-mail messages, and websites.

Australia

There are four identified services offered in Australia and the data available for them were quite extensive. Where data were unavailable communications with program staff enriched this information.

Service: No Interest Loans Scheme (NILS)

Central Organization: Good Shepherd Youth and Family Services

The Good Shepherd Youth and Family Services (Good Shepherd) developed the No Interest Loans Scheme (NILS) in 1981, which is a loan scheme for low-income people. It is presently delivered by Good Shepherd in 3 locations in Victoria State and, through 280 community organizations, it is offered in States throughout Australia (Little 2009). NILS involves several organizations: National Australia Bank provides loan capital, State governments provide support for operating costs, and the loan agreement is between the community organization and the client. While there are no formal ancillary programs, Good Shepherd provides financial counselling to participants. Promotion is accomplished through word of mouth and referrals from community and government agencies. Microcredit programming is a major commitment for National Australia Bank and it recently pledged \$A130 million in capital to support low income groups in various ways, including the NILS service, the Step UP loans and the Small-loan Pilot Program (National Australia Bank 2009).

The Loan

The loan size ranges from \$800 to \$1,200, and it is smaller than the Step UP loan (average \$A2,700, see below). The average number of loans extended per year has been approximately 5,500. The number of loans is projected to increase in future from 6,500 in 2009 to 14,000 in 2012 (Table 5). To participate in NILS the client must be low-income and hold a Health Care Card or Pension Card (which means she/he receives welfare assistance). There is no interest charged on the loan which ranges in duration from 12 to 18 months. Characteristics of loan recipients are as follows: 72% female, 31% male; 21% Indigenous persons; 48% single parents; majority are on fixed income pension and 6% are employed; and the majority are aged 36-55 yrs old. The most common purposes for the loans are to purchase appliances (70%), and furniture (13%) (National Australia Bank 2009).

Table 5. Plan for loans for the Step UP program, 2009-2012

	2009	2010	2011	2012
Total schemes funded	110	140	200	210
Loans written in year	6,500	9,000	12,000	14,000
Loans repaid in year	1,500	3,500	6,500	10,000
Total loans written with NAB capital	7,000	16,000	28,000	42,000

Source: National Australia Bank 2009.

Program Finances

Loan default rates range from 3% to 5% (National Australia Bank 2009b). The bank has allocated \$A15 million to loan capitalization for the NILS and in 2008 the program lent over \$A4 million with 5,500 loans (National Australia Bank 2009). Once the capital is fully utilized lending will reach 14,000 people per year. As of May 2009 the following state governments had agreed to provide the following funds to support NILS: Victoria \$A4,700,000 (3 years); South Australia \$144,000 (12 months); New South Wales \$840,000 (12 months); and Queensland \$1,200,000 (2 years) (NAB 2009b). NAB calculated that with a default rate of 4.75% that loan capital would sustain the program for 20 years, leading to loans reaching a cumulative total of 200,000 people.

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Service: Progress Loans

Central Organization: ANZ Bank

The Progress Loan was first offered by ANZ Bank in May 2006. It is offered in three locations in Victoria State in Australia in conjunction with Brotherhood of St. Laurence, a charity with a base in Victoria. The Progress Loan is a small consumer loan intended "to enable low-income consumers to access affordable, fair and safe mainstream finance to obtain necessary items (Vawser and Associates 2009)." Advertising of the loan is done by the Brotherhood through its network and ANZ through its website (Millar). While there are no formal ancillary programs, the Brotherhood of St. Laurence Loan Officers provide considerable support for people from completing the application, screening applicants, and providing general financial literacy information, ensuring that repaying the loan is manageable on the person's budget (Millar 2009). For the Progress Loans, ANZ draws \$A1.5 million capital from their personal lending pool (Millar 2009).

The Loan

To qualify for the Progress Loan the person must have a Health Care Card or Pension Card which acts as an indicator of low-income. Clients must also have been in same residence for at least six months and not have rent or utility debt. Loans are intended for household goods and services, medical/dental care, transportation, and education. The loan term is from 6 months to 3 years. There is a \$40 application fee and the interest rate charged is 13.89%/year (2009). In 2009, 531 people received 598 Progress Loan ranging in size from \$A500 to \$A3,000, with an average size of \$A2,183 (Vawser and Associates 2009). The default rate on the loans was around one per cent. The loans are used for basic goods and services: 59% for household goods, and 28% for car purchase. Borrowers' characteristics are as follows: one-third of the clients are men and two-thirds are women; 49% are under 44 years of age; 94% rent their accommodations; and, all receive welfare assistance.

Program Finances

The 2009 default rate for the program's loans is 1.2% and Millar (2009) attributes this low rate to the careful support and monitoring done by the Brotherhood Loan Officers. The goal for the Progress Loan is for the loan scheme to be financially self-sufficient and the evidence so far is that it may be possible. The 'credit quality' and arrears levels are similar to levels in the ANZ's general personal loans. "Our most recent modelling indicates that the program will reach break-even when the loan volumes increase to a rate of 10 loans per loans officer per week."

References

- Documents: Roslyn Russell, e-mail message to the author, 3 September 2009; Kate Millar, e-mail message to the author 18 Sept 2009; Wilson undated; Vawser and Associates 2009.
- Websites: <http://www.anz.com/about-us/corporate-responsibility/community/financial-literacy-inclusion/programs/progress-loans/>

Service: Small Loans Pilot

Central Organization: National Australia Bank

The National Australia Bank is one of the 4 largest banks in Australia, and a major actor in micro-lending in Australia. In May 2008 it began a pilot program through Money Fast¹⁴ to offer small consumer loans. National Australia Bank provided \$A1 million loan capital and Money Fast delivers the loan service. The goal of the project is to demonstrate that small loans can be delivered at a fraction of the fees charged by fringe banks, as noted by a bank officer: "We want this pilot to spark debate about the excessive interest rates, fees and charges many payday lenders are charging (National Australia Bank 2008a)." The bank has organized an advisory group, including some civil society groups (e.g., Good Shepherd Family and Youth Services) to help monitor the program.

¹⁴ Its formal name is Mobile Finance Pty Ltd.

The Loan

The number of loans is rising through each quarter with 248 in the 3rd quarter rising to 328 in the 4/5th quarters. The interest charged on the loans is 28.25%/year ('comparison rate' or 15.85% 'flat rate'). The loan size ranges from \$A1,000 to \$A5,000 with the average size rising over time to \$A3,357 in 4/5th quarters. Repayment is over a one-year term by automatic debit in weekly, fortnightly, or monthly instalments. There are no ancillary programs offered with the loan.

The Clientele and Loan Use

The intended clientele for the small loan are people with low income. Many borrowers are single: 71% of borrowers have no dependents, and 77% do not live with a partner. The first quarter report found most borrowers were younger than 35 years and there was an even split between men and women. A large share of the loans go to pay of bills: in the fourth quarter it amounted to 24% of the total number of loans.

Program Financing

The goal of the program is to achieve breakeven. The default rates have been kept low: the default costs in the 4/5th quarters were estimated at 1.66% of total costs as compared with 4.53% in the 3rd quarter and 5.00% in the forecast (Table 4). In the 4-5th quarters it was estimated that the cost to administer the loan is \$A299/loan, which is higher than the forecast of \$A243/loan. Fee revenue has steadily increased each quarter: Q1: \$A1,050; Q2: \$A4240; Q3: \$A7884; Q4/5: \$A8,316.9. Total costs and revenue per loan were \$A631.20 indicating that the program was breaking even. The biggest cost item is administrative costs representing 60% of the total. The largest revenue item is interest income representing 81% of the total.

Table 4. Costs and revenue with National Australia Bank Small Loan Pilot Program

		Rate	Total for average loan	Total across pilot	Portion of costs
Costs	Administration costs (\$A/loan)	\$A299	\$A298.57	\$A120,322	60%
	Costs of funds (%)	7.30%	\$A103.78	\$A42,882	21%
	Default costs (%)	1.66%	\$A55.80	\$A22,489	11%
	Profit margin (%)	5.15%	\$A173.05	\$A15,744	8%
	Total costs (\$A)	n/a	\$A631.20	\$A201,437	100%
Revenues	Interest income (%/year)	28.25%	\$A535.49	\$A162,868	81%
	Upfront or compulsory fees (\$A)	\$A0	\$A0	\$A0	0%
	Additional fees (\$A)	\$A95.70	\$A95.70	\$A38,569	19%
	Total revenue (\$A)	n/a	\$A631.20	\$A201,437	100%
Revenues – Costs		n/a	\$A0	\$A0	

Source: National Australia Bank 2008a.

References:

- Documents: Roslyn Russell, e-mail message to the author, 3 September 2009; National Australia Bank 2008a.
- Websites: http://nab.com.au/wps/wcm/connect/nab/nab/home/About_Us/4/3/6

Service: Step UP Loans

Central Organization: National Australia Bank

The National Australia Bank, along with Good Shepherd Youth and Family Services, started to offer Step UP loans, a small consumer loan, and insurance, in 2004. The program draws lessons from the No Interest Loans Scheme (NILS) to offer the program in 21 locations in 6 Australian States. The goal of the Step UP program is to provide short-term assistance to low-income people and to bring people into mainstream banking. Good Shepherd, and its partners, through their Microfinance Workers, screen inquiries, assist clients to complete the loan application, and assist them to do a household budget. The loan agreement is between the client and the National Australia Bank. The bank has provided the loan capital and supports the operating costs. In addition to the loan, National Australia Bank also offers Step UP insurance, which includes home and car insurance. Promotion is accomplished through word of mouth and referrals from community and government agencies.

The Loan

Recipients must hold a Health Care Card or Pension Concession Card and have lived in their current address at least 3 months. The loans size ranges from \$A800 to \$A3,000 with an average size of \$A2,700. The program receives many inquiries, averaging 7,000 per year. By the end of 2007 there were 599 outstanding loans valued at \$1.46 million. Currently there are 1,650 outstanding loans (Millar 2009). The interest charged on the loans is 3.99%/year and the repayment periods are 1 to 3 years (Little 2009). The loans are used for consumer goods: 86% of all loans are used for purchases such as second-hand cars, car repairs and household items (i.e., fridges, washing machines, furniture) (Little 2009). The typical client of Step UP is low-income and receiving welfare assistance. Less than 10% of recipients are employed. The majority of recipients are women and many are young, aged 25-44 years.

Loan Defaults

While arrears rates are higher (roughly double) than National Australia Bank's overall personal loan pool –4% are in 90 day arrears for a total of \$52,000– they are within the bank's expectations (National Australia Bank 2008b). In total by the end of 2007, 14 loans had been written-off amounting to \$A34,500. At 180 days, loan defaults are reported to the credit bureau, but at that time none had been reported. The default rate is kept low through face-to-face meetings and mentoring with Microfinance Workers that includes creating a household budget.¹⁵

¹⁵ If a Step UP loan repayment is late, then the Microfinance Worker gets involved, and when the late period reaches 45 days then National Australia Bank gets involved.

These meetings “would be one of the main financial literacy/education components [of Step UP] as it provides the opportunity to discuss issues around credit histories/reporting, debt, issues around utilities bills, fees on bank accounts, etc. (Little 2009).”

Program Finances

National Australia Bank (2008b) reported that it provided loan capital and funds the management, the Microfinance Workers, marketing, processing and servicing loans, amounting to \$A610,000 for the year ending 30 June 2007. Program participants have concluded that Step UP is an expensive loan program. It is estimated that Microfinance Workers spend 6.5 hours for each loan as compared with one hour required on the automated NAB standard personal loan.¹⁶

“The Step UP program employs a “high touch”, supportive service model where every loan is managed by a Microfinance Worker. This is more costly and requires far more intensive up-front resourcing. The challenge now is to find ways to make the process more efficient while maintaining the supportive service approach (National Australia Bank 2008b).”

Assessment and Future Plan

Results of the program so far suggest that recipients are not likely to quickly move into a full relationship with a mainstream bank (National Australia Bank 2008b). However, the program has been an important means for bank-civil society collaboration: “As well as delivering the Step UP program, the partnership between NAB and Good Shepherd has been a valuable learning experience; helping to reduce stereotypes, overcome ethical differences, agree mutual aims and develop new skill sets (National Australia Bank 2008b).” The plan is for the program to examine expansion to Tasmania and Queensland, and to increase the lending volume to 600 and 700 loans per year.

References

- Documents: National Australia Bank 2008b; Wilson undated; Howell and Wilson 2005; Vanessa Little, e-mail message to the author 16 September 2009.
- Websites: http://nab.com.au/wps/wcm/connect/nab/nab/home/About_Us/4/3/4/?ncID=ZBA; <http://www.goodshepvic.org.au/www/385/1001127/displayarticle/1002414.html>

¹⁶ Staff cost is a major cost in the Step UP program as compared with other loans provided by NAB: “An important component of Step UP is the supportive service model provided to recipients. On average microfinance workers invest six and a half hours on each loan, which includes fielding enquiries, sending out information packs, following up enquiries, booking interviews, holding interviews, completing loan paperwork, referring clients to other services and contacting clients whose loans have been declined. By comparison, applying for a NAB personal loan is a largely automated process, requiring an average of one hour of staff time (NAB 2009).”

Belgium

There were 3 identified activities in Belgium. Data on loan services in Belgium were limited. Two important sources were the European Commission studies (Anderloni *et al.* 2008; Jerusalmy 2007).

Service: Crédit Social Accompagné (CSA)/ Guided Social Loan Central Organization: Crédal Plus: L'Argent Solidaire¹⁷

Crédal L'Argent Solidaire (Crédal Plus), along Dexia Bank Foundation,¹⁸ and regional governments offer *Crédit Social Accompagné* (CSA) (Guided Social Loan). Crédal Plus began offering small loans for businesses in 2000, introduced small consumer loans in 2003, and expanded the small consumer loans program in 2005. The CSAs are small loans packaged with financial advice and support designed to allow low-income individuals who are unable to obtain bank loans –because of low income, welfare receipt, etc. – to improve their daily wellbeing and overcome social exclusion. The loans were initially available in the Walloon Region but were then extended into the Brussels Region.

Partners' Roles

In terms of each partners' roles, Crédal Plus¹⁹ provides "assistance at the time of credit applications, budget analysis, checking access criteria and the purpose of the credit, monitoring during the repayment phase (Jerusalmy 2007, p.8)." Dexia Bank Foundation provides the loan capital and the backroom financial processing operations. It funds 35% of the program's operating costs (Lierman 2007). The regional government provides loan guarantees and pays a portion of the staff costs.

Eligibility and Screening

Clients must meet certain income conditions, and the loan must be for something that is "useful and necessary" to the borrower's daily life. Prospective participants are screened through an initial telephone conversation and then through an in-person interview.²⁰

The Loans

The loans are intended "[t]o satisfy basic needs (mobility, furnishings, basic comfort, training, etc.)" (Belgium Country Study 2008, p.8). Actual examples of loan use include "taking a drivers' exam or buying a used car to apply for a job, buying the bare necessities of furniture following a

¹⁷ Original summary of *Crédal Plus* project was written by David Clarke and was based on French language material.

¹⁸ From 2003 to 2007 the social credit program was supported by the Postal Bank. Once it withdrew its support in 2007 Dexia Bank Foundation began to support it.

¹⁹ *Crédal Plus: L'Argent Solidaire* was founded in 1985 as a credit cooperative based in French-speaking (Walloon and Brussels Regions) Belgium. Since its inception, the goal of *Crédal Plus* has been to combat social exclusion by using depositors' funds to provide finances for entrepreneurs, organizations and individuals.

²⁰ For instance out of 1004 calls received in the Wallonia region in 2008, 866 of the callers were deemed eligible under the criteria. Out of these 866 eligible, 71 were directed elsewhere, either to a debt mediation service, or a *Centre public d'action social* (a public service organization that can provide emergency funding). Of the 795 who were eligible for an interview with a counselor, over half did not make further contact, or did not show up for their interview, with the result that 356 interviews were ultimately carried out. Of those interviewed, 61 were directed elsewhere (Translated from, Crédal Plus 2008).

separation [or] repairing a roof (Crédal Plus 2008)."²¹ Debt consolidation is another possible loan use. Loan size ranges from €400 to €7,500, and averaged €2,700 in 2007 (BCS 2007, p.14) and rose to an average size of €3,000 by 2008 (Evrard 2008). Loan frequency is between 100 and 150 loans per year with a total of 400 loans by 2007 and 550 by 2008. The total amount lent since the program began is €1 million in 2007 and €1.5 million in 2008. Interest charges range from 4.5 to 6%, with an average repayment period of 28 months in 2007, and a maximum repayment period of 3 years. Repayment of the loan is in fixed monthly installments.

Program Finances

Data on loan defaults were as follows: 8% of loans were 'unpaid' and the loan loss rate was 1.5%. The 2007 program operating budget was €280,000 for which 64% came from public grants and the remaining 36% came from Dexia Bank Foundation (Evrard 2008). Volunteering is important to the sufficiency of the program. Lierman (2007) estimated that in 2007 there were a total of 18 volunteers contributing 1,080 days/year. Evrard (2008) concluded that the costs of instruction of participants are particularly heavy and that for the program to survive it requires multiple sources of funding.

Assessment

The program is growing in terms of number of loans, loan volume and regions covered by the program. The European Commission country study concluded that "this pilot project has been a clear success: good repayment rates, satisfying legitimate financing needs, a strong social impact through the financing provided (a better quality of life, enhanced self confidence and the enhanced employability of a substantial number of customers) and in terms of preventing over-indebtedness (Jerusalmy 2007, p.8)."

References

- Documents: Crédal Plus 2008; Anderloni *et al.* 2008, p.71; Jerusalmy, 2007; Olivier Jerusalmy, e-mail message to the author 17 September 2009; Lierman 2007; Evrard 2008.
- Websites: <http://www.credal.be/images/csa/rarw08.pdf>

Service: Overdraft protection for Social Bank Account Central Organization: Dexia Bank

Dexia Bank offers a basic bank account called 'Social Bank Account' that provides transactions services with a €20 overdraft facility. These accounts were developed for clients of the Public Centre of Social Action of Belgian Municipalities (CPAS). CPAS are social welfare providers

²¹ One study classified the use, and average size of the CSA loan into the following headings: (1) to promote mobility and employability: ranging from used car loans (average loan size €3,667), through car repairs (average €1,375), to purchase a computer (average €778); (2) for housing, with regard to access, quality and basic comfort: loans have ranged from rental deposits on an apartment (average €600 euro), through renovations (average €2,989 euro), furniture (average €1,207 euro) to heating (€3,983); (3) for other: including appliances (average €721), health care needs (average €300), and bringing families together (€2,891 euro).

and offer budget guidance and debt counseling. The account is intended for 'disadvantaged people' and is free of charge for welfare recipients (EC 2008a, p.63). 51,000 Social Bank Accounts have been opened. There is a 0% interest charge on the overdraft and the cost of the account is borne by the CPAS.

References

- Documents: Anderloni *et al.* 2008, p.71; Jerusalmy 2007; Olivier Jerusalmy, e-mail message to the author 17 September 2009.
- Websites: not available

Service: Pawn loan

Central Organization : Crédit municipal / Mont-de-Piété / Public Pawnshop

Public sector pawnshops in Europe have their origin in the 17th century. Mont-de-Piété has its roots in Italy and was a response to 17th century sensitivities around usury (Belgium Country Study 2007, p.12). It is the sole legal provider of pawn loans in Belgium. Public sector pawnshops in Belgium provide roughly 120,000 loans each year, offering a maximum of 70% of the estimated value of the pawned item with a minimum loan of €30. The applicant must be citizen of an EU state and must have proof of identity.

References

- Documents: Anderloni *et al.* 2008, p.71; Jerusalmy 2007; Olivier Jerusalmy, e-mail message to the author 17 September 2009.
- Websites: <http://www.montdepiete.be/EN/index.htm>

Canada

There were only two operating loan services in Canada. Two other services were identified as being under research or operating in the past but now on hold. The data for the Desjardins Federation program is quite extensive.

Service: Fonds d'entraide Desjardin/Mutual Assistance Fund Central Organization: Desjardins Fédération

With over 5.8 million members and \$144.1 billion of assets (2007) Desjardins Fédération is one of the largest financial institutions in Canada. Since 2000 Desjardins set aside \$500,000 for a series of 'solidarity' products including loans for small business *Microcrédit Desjardins aux entreprises* (loans for small business). The *Fonds d'entraide Desjardin* (Mutual Assistance Fund), a consumer micro-loan service has its roots at that time and has been running since 2002. In June 2009 the Mutual Assistance Fund was operating in 31 locations in Québec (and one in Ontario) involving 298 *caisses populaires*, 63% of all *caisses* in the Desjardins Federation network. The loan is made in conjunction with a local budget counselling organization of which there are 28 involved in the program. The objective of the loan is to assist people who do not have access to mainstream bank credit, and who are experiencing financial difficulty, through budget counselling, and an emergency loan.

The Partners

The project involves Desjardins Fédération, a local *caisse populaire*, and a credit counselling agency. The federation and local *caisse* contribute towards the loan capital, and the financial counsellor's salary. The local *caisse* agrees to maintain the loan fund by replenishing any loan losses. The budget counselling agency refers clients to the program, does pre-lending counselling, and monitors repayment.

The Loan

The loans can be between \$500 and \$1,000 and are offered by the local *caisse populaire* on a no- or low-interest basis. From its inception to June 2009, 3,456 loans were extended, valuing \$2 million, with an average loan size of \$571. In December 2007 data indicated that the typical borrower was between 25 and 54 years of age, often female, relying on social assistance and with annual income less than \$10,000. Participants must agree to become a member of the loan *caisse* and attend budget counselling sessions. All but one *caisse* charge no interest and that one *caisse* charges 5% interest. The average repayment period is 18 months.

Program Financing

The overall default rate is 10%. The program is not self-financing.

References

- Documents: Buckland 2008; Buckland, Hamilton and Reimer, 2006; Francois Gosselin, e-mail message to the author, 25 September 2009.
- Websites: http://www.desjardins.com/fr/a_propos/profil/engagement/fonds_entraide.jsp

Service: Micro-loan (Implemented but now on hold)

Central Organization: Community Financial Services Centre (CFSC)

The Community Financial Services Centre is a project of North End Community Renewal Corporation, a non-profit agency based in a disadvantaged area of Winnipeg. Assiniboine Credit Union (ACU) is a key partner in the project offering access to a credit union account. Clients to Centre come through referrals from participating community organizations. The project offers a series of basic banking services for low-income people to help them to develop a relationship with a mainstream bank. The services include free photo identification, access to an ACU account, no-holds cheque-cashing at ACU branches, and one-on-one financial counselling (optional for all clients but required in order to access micro-loans) including assistance in creating a credit history. In addition, the CFSC plans to offer group-based financial management training in the future. The Centre has a full-time manager and one staff member. As of June 2008 the Centre had 153 clients issued with photo ID cards, facilitated opening 136 basic accounts, completed 79 one-on-one counselling sessions, assisted in creating 8 credit histories, and issued 21 loans.

The Loan

The micro-loan program is now on hold, pending a review (Joyal 2009). The loan size could be between \$40 to \$100, with a fee of \$1 per \$20 borrowed. The Centre originated a total of 21 and these were all at \$100. Twelve have not yet been repaid. One concern expressed by clients was that there was considerable processing in order to get a \$100 loan.

References

- Documents: Debra Joyal, e-mail message to the author, 8 September 2009; Buckland 2008; Buckland; Hamilton and Reimer 2006.
- Websites: not available

Service: My Best Interest (Plan that was not implemented)

Central Organization: Vancity Credit Union

As recently as September 2007 Vancity Credit Union was exploring development of a small loan for vulnerable consumers. Vancity has experience with small loans for business, and with the growth of the payday lending industry it had identified a gap in mainstream banking for small consumer loans. Vancity had developed a product named 'My Best Interest (MBI), which was to respond to the need for a small loan, but not directly substitute for a payday loan. However this product was not implemented because it was felt that new payday loan regulations would control problematic aspects of payday loans, and because of financial limitations at Vancity (Geller 2009).

The Loan

The loan was to have an annualized interest rate of between 18% and 30% and a 6 month repayment period. The loans were to be accessible through partnering community organizations and clients would not have to be members of Vancity but the loan amount would be deposited on a cash card allowing access via a Vancity ATM. The loan transaction would appear on the consumer's credit reports. Financial literacy training would be available for clients but would not be a requirement of loan receipt.

Program Finances

The loan fees were to be sufficient to make the MBI program self-financing. The fees were intended to cover Vancity's capital costs and the costs to the community partners

References

- Documents: Elisabeth Geller, e-mail message to the author 22 September 2009.
- Websites: <https://www.vancity.com/>

Service: Overdraft protection

Central Organization: Pigeon Park Savings

Pigeon Park Savings (PPS) is a credit union operating in the Downtown Eastside of Vancouver. Pigeon Park Savings is a program of the non-profit organization, PHS Community Services Society, and a branch of Vancity Credit Union. With over 5,000 members it offers a basic account for \$5 per month, accessible through Vancity's ATM network, a free 2nd account, and counter cheques that can be used for bill payments. PPS has arranged a system of personal identification –using photocopied personal identification verified by their welfare office– with clients drawing welfare benefits. PHS provides the staff to manage and provide teller services while Vancity contributes backroom processing, computer system and technical support. Since its inception, Vancity has also financially supported some of Pigeon Park Savings' operations.

The Overdraft

In addition to the basic account, PPS offers a \$20 overdraft for some members. The overdraft comes at no charge but can be accessed only in-person and requires approval. The overdraft is very popular: approximately 85% to 90% of members have the overdraft today (PPS Manager 2009).

Program Finances

There is no separate financial analysis for the overdraft facility. In terms of PPS's overall finances, it pays no rent for its building, which is provided by the Coastal Health Authority. Some of PPS's operating costs are covered through service fees. But at least through 2007-2008, some operating costs have not been covered, and this has been paid for by Vancity Credit Union, amounting to approximately \$100,000 each year.

References

- Documents: Buckland 2008; Pigeon Park Savings Manager, interview with the author 24 September 2009.
- Websites: <https://www.vancity.com/MyCommunity/OurChangeProductsAndServices/FinancialLiteracyAndBasicBanking/BasicBanking/>

France

There were 5 identified loan programs or services in France. Two important sources for these data were the European Commission studies (Anderloni *et al.* 2008; Gloukoviezoff 2007). There was a modest amount of detail available for these programs.

***Program: Loan guarantee from Fonds de cohésion sociale / Social Cohesion Fund
Central Organization: Managed: Caisse des dépôts et consignation; Supervised: Comité d'orientation et de suivi de l'emploi des fonds(COSEF)***

Fonds de cohésion sociale/Social Cohesion Fund is a government program of loan guarantees and it began in January 2005. The loan guarantees are meant to encourage banks to provide credit to people who are otherwise lacking access to mainstream bank credit (Gloukoviezoff 2007, p.5). The purpose of promoting mainstream bank loans is to create employment and enhance social cohesion. Loan guarantees are available to cooperative banks, the postal bank, municipal pawn brokers, and some credit card issuers, but not commercial banks. The loan guarantee is structured so that it covers one-half the amount of the loan value (Gloukoviezoff 2007, p.5). It is planned that €73,000,000 will be available over 5 years (€4millions in 2005, €12 millions in 2006, and then, €19 millions in 2007, 2008 and 2009) (Gloukoviezoff 2007, p.5).

References

- Documents: Gloukoviezoff 2007.
- Websites: <http://www.fininc.eu/index,en.html>; <http://www.responsible-credit.net/>

Service: Crédit solidaire / Solidarity Credit²²

Central Organization: La Caisse Régionale de Crédit Agricole du Nord-est

The *Crédit Solidaire* (Solidarity Credit) is offered by the *Caisse Régionale de Crédit Agricole du Nord-est*. It is a consumer micro-loan that is available to vulnerable people in North-eastern France. The program is not a top-down model following a fixed process but rather it allows different partnering banks to develop their own method (Beaujouan 2006). The loan is available to people who face acute financial challenge due to some unforeseen event such as family illness, break-up or job loss. The loan is not seen as a way to overcome poverty but, if delivered carefully with financial counselling, it can assist a borrower overcome a short-term problem. Applicants are carefully screened to ensure that they can effectively use and repay the loan. In fact, the accompaniment of the borrower with a counsellor is a pillar of the program.

The Borrower and the Loan

Usually the borrower's monthly income is between €1,000 and €1,300. The loans are intended to assist the borrower to return to their financial position prior to the event and/or assist them to gain employment. From 2001 to 2005 a total of 732 loans were extended for a total value of

²² I would like to thank Elizabeth Buckland for assistance in translating a French language document about this program (Beaujouan 2006).

approximately €13 million. Most loans were repaid but 2.2% of the loan volume is delinquent (*crédits douteux ou litigieux*).

Assessment

The program faces a tension of (1) acting as a bank, and turning a profit, and (2) achieving its goal of assisting the clients. Beaujouan (2006) argues this tension can be resolved through an effective program and staff commitment. It is important for the success that staff “*mettre les mains dans le cambouis*” by understanding their clients’ needs and goals. The solidarity credit program is undergoing some changes such as reducing the loan committee and considering micro-lending for businesses. It is understood that solidarity credit will not realize immediate profit but can assist the bank to improve its image and strengthen consumer loyalty.

References

- Documents: Beaujouan 2006.
- Websites: <http://www.fininc.eu/index.en.html>; <http://www.responsible-credit.net/>

Service: Crédit Mutuel Mid-Pyrénées with Secours Catholique Central Organization: Secours Catholique (Caritas France)

According to Gloukoviezoff (2007), social microcredit in France has its inspiration, in part from a loan program structured to support victims of the AZF chemical factory explosion in Toulouse, France. The *Secours Catholique* (Caritas France) developed a loan scheme to assist victims.

References

- Documents: Gloukoviezoff 2007.
- Websites: <http://www.fininc.eu/index.en.html>; <http://www.responsible-credit.net/>

Service: Prêt sur gage/Pawn loan Central Organization: Crédit municipal/Public Pawnshops

As with other European countries, France has a system of public pawnshops with roots in the 17th century *Crédit municipal*. They offer pawn loans but with fees and rules different from commercial pawn brokers like those in Canada. According to Gloukoviezoff (2007, p.4), “[t]hey have a social mission.” Among other services (such as auctions), these pawnshops offer pawn loans, *prêt sur gage*. They are also involved in *mini prêt*/micro-credit, discussed below. There are approximately 15 public pawnshops across France including, Paris, Lyon, Marseille, Bordeaux, Nantes, Toulouse, and Dijon (Gloukoviezoff 2007).

The Loan

The interest charge for the loan is generally around 10% APR (Gloukoviezzoff 2007), as compared with 250% APR for some pawn loans in Canada (Buckland and Martin 2005).²³ At the *Crédit municipal de Paris*, the loan is extended for one year –not one month as with many pawnshops in Canada– for 50-70% of the value of the pawned item. If the loan cannot be repaid at the end of the first year then an extension for a second year can be arranged at a fee equal to the one year interest payment. If the loan is not extended or repaid then the item is sold. If the selling price is higher than the loan principal and interest then the difference is given to the borrower (if the selling price is lower than the loan principal and interest then the difference is *not* charged to the borrower). Extra revenue from the sale of pawned items in Canada does not revert to the borrower. According to *Crédit Municipal de Paris*, "[t]oday, 93% of objects left in pawn at the *Crédit Municipal de Paris* are recovered by their owners (website)."

Assessment

The public pawnshop pawn loan seems like a useful alternative source of credit for vulnerable consumers. Two caveats are that (1) it is not clear if the quoted APR includes all fees and, (2) data were not available on the program financing and whether the *prêt sur gage* program is self-financing or if there is some cross-subsidization. However, Gloukoviezzoff is critical about pawn loans: "But [*prêt sur gage*] can not really be considered as a proper answer to financial exclusion as first, they are not available in every town, and second, they are obliged to request an item (usually jewelry) as a basis for the loan (Gloukoviezzoff 2007, p.4)."

References

- Documents: Anderloni *et al.* 2008, p.70; Gloukoviezzoff 2007.
- Websites: <http://www.creditmunicipal.fr/accueil.html>; <http://www.fininc.eu/index,en.html>; <http://www.responsible-credit.net/>

Service: Social micro-credit

Central Organization: Cooperative Banks, Municipal Pawnshops, etc.

Social micro-credit is offered with support from the Social Cohesion Fund, which guarantees 50% of the loan and is offered by various participating institutions. Financial institutions that are involved in the program include cooperative banks, the postal bank, municipal pawn brokers, and credit card issuers. The purpose of the social micro-credit loan is to foster financial inclusion. The way it works is that the financial institution provides the loan to the client in conjunction with a community organization that assesses the risk, screens, and supports the clients (Gloukoviezzoff 2007, p.10). Under the *Credit Municipal de Paris*, the name given to this type of loan (with 50% guarantee from the Social Cohesion Fund) is *Microcrédit personnel*.

²³ It is not clear if the APR calculated includes all fees, including storage and insurance fees which are sometimes kept separate. The figure quoted for Manitoba includes all fees including storage and insurance (see Buckland *et al.*, 2003).

The Loan

The range in loan size is €300 to €4,000 with an average size of €2,250 (Gloukoviezoff 2007, p.14). Interest charges range from 4% to 8% APR, there are no administration fees, and the repayment period is 48 months. From its inception in 2005 to 2007 there were a total of 2,500 loans amounting to €3 million (Anderloni *et al.* 2008, p.71). Two-thirds of the loans are used for transportation purchases (e.g., to purchase a car) and another 15% are used for housing.

Assessment

Different participating FIs have used different systems to extend the social micro-loans. The variations have been described in the following ways: decentralised vs. centralised schemes; 'dedicated structure' vs. bank branch; universal vs. targeted approach (Gloukoviezoff 2007, p.11). For instance the decentralized scheme was followed by *Crédit Mutuel* that allows the *caisse* in different regions to choose whether to participate in the pilot phase of the project. The use of 'dedicated structures' involves the bank using office space in another, local institution. The targeted approach involves targeting a certain group, e.g., young people, for the loan. In his assessment of the social microloans, Gloukoviezoff noted:

The definition of who can or cannot access social microcredit is related to the criteria which are accepted by the Social Cohesion Fund. People who are in extreme poverty and who over-indebted are excluded...Nevertheless, some pilot projects go further than what it is expected by the Social Cohesion Fund. Some of them lend to over-indebted people with the agreement of the *Banque de France* which is already supervising their debt repayment plan (Gloukoviezoff 2007).

References

- Documents: Anderloni *et al.* 2008, p.71; Gloukoviezoff 2007.
- Websites: <http://www.fininc.eu/index,en.html>; <http://www.responsible-credit.net/>; <http://www.microcredit-municipal.fr/>

Germany

There was only one identified loan service for Germany which came from the European Commission's study on financial inclusion (Anderloni *et al.* 2008; Sanio 2007).²⁴

Service: Pawn loan

Central Organization: Public Pawnshop

The public pawnshop in Mannheim, Germany accepts a variety of consumer goods for collateral on a pawn loan. These goods include: jewelry, old china-ware, power-tools, electronic equipment, bicycles, music-instruments, cameras, and toys. The charges for the service are 1% interest and 2% fees per month. The repayment period is 4 months, with a possible one month extension. The pawn loan can be extended further by paying the appropriate fees. If the loan is defaulted and the good is sold, revenue in excess of the principal and interest is returned to the customer.

Resources

- Documents: Werner Sanio, e-mail message to the author 24 September 2009; Tobias Rackstraw, e-mail message to the author 29 September 2009.
- Websites: http://leihamt-mannheim.de/cms/front_content.php?idcat=127; <http://www.fininc.eu/index,en.html>; <http://www.responsible-credit.net/>

²⁴ The lack of identified programs, other than public pawnshops, from Germany may partly reflect the language challenge I faced. Based on a contact in Germany (Sanio 2009) I tried to contact two organizations: (1) The Federation of German Consumer Organizations, *Der Verbraucherzentrale Bundesverband e.V.* (VZBV), and the Institute for Financial Services-Hamburg, *Institut Für Finanzdienstleistungen E.V.*, (IFF-Hamburg) but I was unsuccessful to communicate with them.

United Kingdom

Data for the UK comes from several sources. Data on various government programs were more extensive but there were limited data on FI services. Salient work in the UK included the government financial inclusion strategy, four programs and one service.

Strategy: Financial Inclusion Strategy

Central Organization: HM Treasury

The beginnings of the current UK government Financial Inclusion Strategy go back 1997 with the formal strategy for 2005-2008 being unveiled in December 2004 and the 2nd round for the 2008-2011 period. The strategy includes a number of points, including getting banks to open more accounts, and assisting the 'third sector' (credit unions and community development financial institutions) to expand through the Growth Fund (a part of the Financial Inclusion Fund), and to increase loans through the Social Fund. The ultimate authority of the strategy is HM Treasury. The Financial Services Authority (FSA), and the Department of Work and Pensions (DWP) are other important departments involved. The negative impact of the sub-prime financial crisis on the UK economy seems to have re-affirmed this strategy, and in particular through increasing government funds available for consumer credit. In 2004 the government announced the goal to cut in half in two years the 2.8 million individuals in 1.8 million families who have no bank account (HM Treasury 2007). In terms of progress on the goal, it was found that in 2005-2006 that the number of unbanked people had fallen to "2 million adults, living in 1.3 million households, meaning that 800,000 adults had been brought into banking between 2002-03 and 2005-06 (HM Treasury 2007)."

References

- Documents: HM Treasury 2007; Christine Hewson, e-mail message to the author 15 September 2009; Boaz Nathanson, e-mail message to the author, 10 September 2009.
- Websites: http://www.hm-treasury.gov.uk/fin_inclusion_index.htm;
<http://www.financialinclusion-taskforce.org.uk/>

Program: Community Banking Partnership

Central Organization: Various, e.g., the New Economics Foundation

The New Economics Foundation, the National Association of Credit Union Workers (NACUW), the University of Salford, and Lloyds TSB (the funder) are one group investigating community banking partnerships. The purpose of the partnerships is to bring together financial expertise of banks and local knowledge to demonstrate ways to reduce financial exclusion.

References

- Documents: New Economics Foundation 2004; Dayson and Conaty 2005.
- Websites: http://www.neweconomics.org/gen/news_communitybankingpartnership.aspx

Program: Financial Inclusion Fund
Central Organization: Department of Work and Pensions

As a part of the UK government’s financial inclusion strategy it established the Financial Inclusion Fund, which is implemented by the Department of Work and Pensions. The goal of the fund is to reduce financial exclusion in three key areas: money advice, banking, and affordable credit (Hewson 2009).

The fund amounted to £120 million for three years, 2005-2008 (Table 6). For the next three year period, 2008-2011, the fund was increased to £130 million. Three-quarters of the total £265 million, 6-year fund is allocated towards training and employing money advisors (48% of the total), and administration and provision of the growth fund (30% of the total). The Growth Fund is designed to support credit unions and community development financial institutions to expand their provision of credit to under-banked people (see below).

Table 6. UK Financial Inclusion Fund allocation, 2005-2011

	2005-2008	2008-2011
Item	Millions £	
Employment and training of money advisers (500)	45	74 + extra 9
Growth Fund	36 + extra 6 = 42	38
Growth Fund administration (& the eligible loans deduction scheme)	10	
Pilot mechanisms of money advice outreach	6	
Financial Inclusion Taskforce	3	2
Campaign to overcome barriers to financial exclusion	20	
Financial inclusion “champions”		12
Debt advice in prison locations across England and Wales		2
Campaign to provide information about Christmas saving schemes, etc. (with Office of Fair Trade)		2
Total	120 + extra 6 = 126	130 + 9 = 139

Source: Hewson 2009

References

- Documents: HM Treasury 2007; Christine Hewson, e-mail message to the author 15 September 2009.
- Websites: http://www.hm-treasury.gov.uk/fin_inclusion_index.htm;
<http://www.financialinclusion-taskforce.org.uk/>

Program: Eligible Loans Deduction Scheme

Central Organization: Department for Work and Pensions (DWP)

This program is run by the Department for Work and Pensions (DWP) and it is a part of the Financial Inclusion Fund and began in December 2006. In the first three years of the Fund, 2005-2008, £10 million were allocated to the Eligible Loans Deduction Scheme (and for administration of the Growth Fund). The purpose of the scheme is to increase lending to financially excluded people by reducing the risk of borrower default faced by the lender (HM Treasury 2007a, p.33). The way it works is that once the lender has satisfied DWP that they have done all that they can to be repaid by a defaulting borrower, then DWP can deduct payments from the borrower's welfare income, and remit them to the lender.

References

- Documents: HM Treasury 2007a; Christine Hewson, e-mail message to the author 15 September 2009.
- Websites: <http://www.dwp.gov.uk/other-specialists/eligible-loan-deductions/>

Program: Growth Fund

Central Organization: Department for Works and Pensions

The Growth Fund is operated by the Department of Work and Pensions (DWP) and the Fund began operation in July 2006. It is a component of the Financial Inclusion Fund (see above). The value of the Growth Fund was £42 million for the three years 2005-2008 and £38 million for the 2008-2011 period. The purpose of the fund is to assist 'third' sector –credit unions and community development financial institutions– to provide affordable loans to vulnerable consumers. The goal of the fund is to raise the capacity of the third sector to promote financial inclusion and, in particular, by 2011 to double the number of loans delivered by that sector to 150,000, and to raise the value of lending to £60 million per year (HM Treasury 2007b). The Growth Fund seeks to target the loans towards low-income consumers and geographically poor regions (HM Treasury 2007b). The DWP is funding 100 organisations to deliver loans financed through the Growth Fund.²⁵

From July 2006 to August 2009, there were more than 182,832 loans made, valuing almost £80 million (DWP website). The average size of the loan was £435, and just over one-third of loan recipients opened a bank account during the loan process. HM Treasury estimated that 85% of the loans were received by low-income people in areas of highest financial exclusion (HM Treasury 2007b, p.19).²⁶

The monies received by participating organizations are to be used to capitalize their new lending to low-income people and is not repayable to the government (Hewson 2009). It is expected that the capital can be sustained even with some non-repayment, through revenue

²⁵ A list of organizations is available at: <http://php.dwp.gov.uk/other-specialists/the-growth-fund/growth-fund-contracts/contracts.php>.

²⁶ The government has geographically mapped areas of financial exclusion, see: http://www.hm-treasury.gov.uk/financial_credit_union.htm.

sources such as interest charges. Monies were also provided in the first three years to contribute to administration and operating costs of the projects.

A couple questions have been raised about the Growth Fund (Jones 2008). First, that the Fund might pressure credit unions to focus on financially excluded people, which is at odds with credit unions' general pattern of having a more diverse clientele (necessary for their financial viability). Second, that large capital infusions from the state can unbalance small credit unions, for instance because they are required to divert resources from core business to managing the new capital. Since the Fund is very new there is little evidence available to test either of these questions.

One example of utilization of the Growth Fund is Norfolk Credit Union, located in Norfolk UK, which is in the central-east part of England. Norfolk Credit Union receives funds from the Growth Fund and is presently contracted to provide 300 loans in 2009 (Squirrell 2009). The credit union is contracted to meet certain loan targets each quarter. The loan size varies from £150 to £1,600 and will average around £600. Borrowers must be low-income and loans are intended for basic necessities such as furniture, appliances, clothing, utilities and, in special cases, debt consolidation. Norfolk Credit Union has other funding streams that provide similar support for loans, e.g., rental assistance for tenants.

References

- Documents: HM Treasury 2007b; Christine Hewson, e-mail message to the author 15 September 2009; Jones 2008; Alan Squirrell, e-mail message to the author 6 October 2009.
- Websites: http://www.hm-treasury.gov.uk/financial_credit_union.htm;
<http://www.dwp.gov.uk/other-specialists/the-growth-fund/>; <http://www.norfolkcu.co.uk/>

Service: Budget and Crisis Loans from Social Fund

Central Organization: Department of Work and Pensions

The Social Fund, operated by the Department of Work and Pensions, was established in 1988. It includes funds for grants and loans to welfare recipients. A proposed reform would shift the lending component to financial institutions. Currently, eligible recipients include people receiving Pension Credit, Income Support, income related Employment and Support Allowance or income-based Jobseeker's Allowance, and who have been receiving the benefit for at least 26 weeks (DWP 2008a). Two types of loans are available: Budget Loans and Crisis Loans. In 2007-2008 over £500 million was allocated for Budget Loans and £120 million was allocated for Crisis Loans (DWP 2008a). There are no interest fees or other charges for these loans. During that same period there were a total of 1,168,000 Budget Loans valued at £511 million and 247,000 Crisis Loans valued at £139 million (DWP 2008a). The average size the Budget Loan was £433, and the average size of the Crisis Loans was £458. Budget loans are intended for households items such as appliances and furniture, and Crisis Loans are intended for dealing with emergency or disaster.

References

- Documents: DWP 2008a; DWP 2008b; Collard and Kempson 2005.
- Websites: <http://www.dwp.gov.uk/consultations/2008/social-fund-new-approach.shtml>

United States

There are a variety of programs (4) and services (7) presented here that are related to affordable credit for vulnerable consumers in the US. The data for the US activities are one of the most detailed among the 7 countries. Of the programs, one is a government one, and the other three are (were) run by industry associations. In total, the four programs offer details about 48 loan services. Also included below are seven services including four cases from one of the programs listed above and three other cases.

Program: REAL Solutions: Payday Loan Alternatives

Central Organization: Credit Union National Association (CUNA)

The program REAL²⁷ Solutions is a research project organized by Credit Union National Association (CUNA) and seeks to assist credit unions in the US to offer a range of financial services useful to “working families with low wealth and modest means.” Through REAL Solutions, in 2009, CUNA prepared an implementation guide for credit unions seeking to offer credit that is an alternative to payday loans. The guide features 10 case studies of credit unions offering payday loan alternatives.

This payday loan implementation guide is intended to help credit unions develop solutions that are appropriate for the credit unions and its members. It is not a turn-key answer, but some turn-key products are featured as examples (Pierce 2008).

This program includes a range of products from some that are very similar to payday loans to some that are qualitatively different –particularly in reference to fees, repayment timeframe, and link to mainstream banking– from them.

Most programs studied have loan sizes ranging from \$US50 to \$US500, loan terms vary from 14-days to 6 months, and criteria for application usually include 30-90 days membership with the credit union (Pierce 2008, p.8-10). Most of the products were structured to act as a kind of substitute to payday loans without some of the payday loan’s problematic features such as high fees.²⁸ Where data were available, loan volumes from relatively modest levels of 37 loans valuing \$US20,700 at Hershey Federal Credit Union to larger volumes of 44,101 loans valuing \$US13.6 million at Wright-Pratt Credit Union. Characteristics of borrowers vary across credit unions but for two, the majority of borrowers have household income less than \$US45,000. Well over three-quarters of clients in these two programs are between 18 and 54 years of age. The loan losses also vary across the credit unions, from 0.3% to 4.6%. Some of the programs are turnkey programs in that they are designed by another organization and then sold to the credit union for their use. The REAL Solutions report is silent on program financing but does make reference to the marginal profitability of such products:

²⁷ The acronym stands for: Relevant, Effective, Asset-building, Loyalty-producing.

²⁸ However, one loan program, Good Money Payday Loan, appeared to be very similar to a commercial payday loan in terms of the interest charge (257% APR) and the term (14 days).

Most credit unions will want to cover some or all of their operating expenses associated with the product as well. If the loan product is losing money, the credit union can make the decision how long it will continue to provide the loan as a loss leader or what changes to make to the product to increase revenue or to cut costs (Pierce 2009, p.109).

References

- Documents: Pierce 2008; Pierce 2009.
- Websites: <http://www.realsolutions.coop/solutions/loans-and-payday-lending/payday-lending>; www.realsolutions.coop

Program: Retail Financial Services Initiative (RFSI)

Central Organization: National Community Investment Fund (NCIF)

From 2003 to 2006 this project was run by National Community Investment Fund (NCIF), the Center for Financial Service Innovation (CFSI), and a group of 12 banks and credit unions. The program generated a guide that seeks to “increase the quantity and quality of financial services for unbanked and low- to moderate-income consumers (National Community Investment Fund 2005).” This includes an effort to develop alternatives to payday loans. The payday loan example used in the guide is the North Side Community Federal Credit Union, discussed below.

References

- Documents: National Community Investment Fund 2005; Rachel Schneider, e-mail message to the author, 23 September 2009.
- Websites: http://www.cfsinnovation.com/research-paper-detail.php?article_id=380

Program: Small-Dollar Loan Pilot Program

Central Organization: Federal Deposit Insurance Corporation, FDIC

The Small-Dollar Loan Pilot Program was started in February 2008 as a two-year case study designed to “illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost financial products, such as payday loans and fee-based overdraft protection (FDIC website).” Pilot banks can receive CRA credit although most participating banks have sufficient credit and are motivated more out of an eagerness to demonstrate it can be done (Miller 2009). In total, 31 small, local, and medium-regional sized banks are participating and they have a total of 560 branches located in 27 states. The 31 FIs’ assets range from \$26 million to \$10.4 billion, and 8 of the banks had pre-existing small loans programs. As a government-sponsored pilot project, this is a well-documented program. Fourteen of the 31 banks have a financial literacy component, many banks have general consumer education, 16 banks

required, and 4 encouraged a 'linked' savings scheme, and 5 banks contributed to the savings.²⁹ In terms of bank rationale, most see the small-dollar loans as a "cornerstone for long-term relationship-building that also creates goodwill in the community." However, as with all of these loan schemes, data were limited on program financing.

The Loans

Loans are grouped into two categories: small-dollar loans (SDL) which are less than \$US1,000, and nearly small-dollar loans (NSDL) which are between \$US1,000 and \$US2,500. FDIC (website) provides guidelines for loan characteristics including:

- Loan amounts of up to \$1,000
- Payment periods that extend beyond a single paycheck cycle
- Annual percentage rates (APRs) below 36 percent
- Low or no origination fees
- No prepayment penalties
- Streamlined underwriting
- Prompt loan application processing
- Automatic savings component
- Access to financial education.

To complete the loan application the banks required clients to provide proof of identity, address, income and credit report. Loans can be underwritten in 48 hours and if the client has the appropriate documents, application processing can be done in less than an hour. Underwriting was achieved in the following ways: 4 banks use credit scores, 9 banks required the client to have a deposit account, and 6 banks required direct deposit of employment income. Interest rates ranged from 11% to 36% APR, with an average of 18% APR. Fifteen banks charged an application fee, ranging from \$18 to \$61.50, and averaging \$34. Loan terms ranged from three biweekly instalments (six weeks) to 36 monthly payments.

Assessment after Year One

At the end of the first year the banks had provided 16,000 loans valued at \$18.5 million. Sixteen of the 31 banks targeted specific clients: 10 specified low- and moderate-income households, 4 specified military personnel, 3 specified college students, 2 specified Latino-Americans, and 1 specified Native Americans. In terms of loan default, 7.3% of SDLs were outstanding, and 3.4% of loans were charged-off (where the loan is completely defaulted) under the pilot. Delinquency rates (trouble paying on time) were 3 times higher with these programs as compared with typical bank lending. However charge-off rates (loan losses, loans that are written-off and are uncollectable) are at about the same rates as regular loans.

Success of the pilot projects was attributed to supportive bank leadership, bank commitment to the community, having a bank 'champion' to manage the program, good location, partnerships with non-profit agency, and word-of-mouth marketing. One of the biggest obstacles to the viability of the programs is the high operating costs particularly associated with the staff time to review and approve the application (Miller 2009). Most banks find that on its own, the small-dollar loans –particularly the SDL and less so the NSDL– do not generate a profit. But the small loan does bring new clients in who will eventually use other more lucrative bank products.

²⁹ The linked savings partially collateralized the loans.

Some banks operating in communities with large unbanked –particularly immigrant– communities have been able to generate a short-term profit:

Banks with existing programs were the most likely to report that overall relationships with SDL and NSDL customers are profitable. These banks indicate that costs related to originating and servicing an SDL or NSDL are similar to other loans. However, given the small size of SDLs and to a lesser extent, NSDLs, the interest income and fees generated are often not sufficient to achieve short-term profitability. Nevertheless, banks with existing programs have been able to generate long-term profitability through volume and by using the SDL and NSDL products to cross-sell additional products (FDIC 2009c).

References

- Documents: FDIC 2009a; FDIC 2009b; FDIC 2009c; FDIC 2009d; Herrmann and Tescher 2008; Rae-Ann Miller, e-mail and interview, September 2009.
- Websites: <http://www.fdic.gov/smalldollarloans/>

Program: The Alternatives to Payday Lending Program (APPLE)

Central Organization: National Federation of Community Development Credit Unions

The Alternatives to Payday Lending Program (APPLE) is a program of National Federation of Community Development Credit Unions. The program began in 2007 and it involves 6 case studies of payday loan alternatives at community development credit unions. The program was funded by JP Morgan Chase Bank and was evaluated by the Woodstock Institute in 2007 (Williams 2007). The purpose of APPLE was to develop a payday loan service that the credit unions can sustainably offer and that is appealing and helpful to consumers. This study provides the most detail, in comparison with other studies, about program financing.

The Loan

The loan sizes ranged from \$US100 to \$US5,000 with an average of \$US350 to \$US1,900. Almost one-half of the loans (46%) were used to pay overdue bills. In 2005-2006, 3,500 loans were made amounting to \$US1.6 million. Loan volumes for a 1.5 year period ranged from 55 loans valued at just over \$US100,000 at ASI Federal Credit Union to 2,254 loans valuing just under \$US800,000 at Faith Community United Credit Union. The client group is described as people who use payday loans. All credit unions offer financial education and some require clients to attend these. Interest rates range from 9-18% and there are often other fees, e.g., application fees. Commonly the loans are secured by requiring minimum membership tenure, calling for credit reports, and requiring direct deposit and automatic deduction. Repayment periods range from one to 18 months and may involve one or multiple instalments. Advertising is done through word-of-mouth of clients and tellers.

Program Financing

Five of the six banks have low delinquencies, ranging from 0% to 1.8%. One bank has high delinquencies of 40%. The loan charge-off rate ranges from \$US0 to \$US29/\$US1,000. All of the six programs had positive net income. Average net income (revenue less costs) for these programs averaged \$US47.99/loan and ranged from \$US6.77/loan to \$US127.58/loan. In the Woodstock Institute's evaluation of the programs it is concluded:

However, even including charge-offs, it is clear that the affordable PDLs [payday loans] are profitable for each credit union. This is particularly notable given the innovative nature of these loan products. Given more experience to refine underwriting standards and reduce loan costs, it is possible that each credit union has the capacity to increase gross margin percentages even more (Williams 2008).

Assessment

This study concludes that FIs can offer affordable credit for vulnerable consumers in such a way that program revenues compensate, with some margin for profit, for program costs. In addition, the study (Williams 2007, p.ii) argued that effective loan services should be designed with the following features in mind:

- to discourage 'over-borrowing' (too many loans in a short period of time) and to encourage savings during the repayment period
- to keep fees to a minimum, including interest rates no greater than 18% APR
- to use expedited loan application and processing
- to develop a long-term relationship with the borrower can lead to a long-term benefit for both client and FI
- to use care with regard to credit bureaus to both educate clients and help to build their credit rating.

References

- Documents: Williams 2007.
- Websites: <http://www.cdcu.coop/i4a/pages/index.cfm?pageid=902>

Service: Collateral loans

Central Organization: The Provident Loan Society of New York

The Provident Loan Society of New York offers pawn loans, on terms akin to European public pawn brokers, and different from commercial pawn brokers. The interest rates are lower than at commercial lenders and, if the item is not redeemed and subsequently sold, any extra funds (above the principal and fees for the loan) are returned to borrower. There are five outlets in New York City.

References

- Documents: not available
- Websites: <http://www.providentloan.com/>

Service: Direct Deposit Advance line of credit
Central Organization: Wells Fargo

Wells Fargo Bank has offered the Direct Deposit Advance, a line of credit, in California since 1994 and now offers it in 24 states. It is designed for overcoming an emergency situation like medical crisis, car repair, or emergency travel. Wells Fargo notes that it is an expensive form of credit and it is intended for particular emergency situations (Messick 2009). The cost of the loan is \$US2 per \$US100, which amounts to a 120% APR. The loan is available to Wells Fargo Bank clients who have direct deposit (minimum \$US100 per month), and an account in good standing. The maximum value of the loan is "the lesser of \$500 or half of the individual's monthly direct deposit income," and it must be repaid within 35 days. Clients have the option of speaking with a banker about financial literacy issues or use the Wells Fargo financial literacy tools on its website, but this is not a requirement to get the loan. Heavy use of the line by clients is discouraged.³⁰

References

- Documents: Herrmann and Tescher 2008; Richele Messick, e-mail message to the author, 14 September 2009.
- Websites: <https://www.wellsfargo.com/checking/dda/index>;
https://www.wellsfargo.com/help/faqs/dda_faqs

Service: Payday Alternative Loan (PAL) - North Side
Central Organization: North Side Community Federal Credit Union, Chicago
Example from: From the Margins to the Mainstream, Retail Financial Services Initiative's (RFSI).

The Payday Alternative Loan (PAL) program has been offered since 2002 by North Side Community Federal Credit Union in Chicago. The program was highlighted in Retail Financial Services Initiative's (RFSI) publication, *From the Margins to the Mainstream* (National Community Investment Fund 2005).

The loans are maximum \$US500 and as of July 2005 they had extended 3,531 of them. In order to be eligible the client must earn minimum \$US1,000/month and become a credit union member. There is an application fee of \$US30 and the interest charge is 16.5% APR. The repayment period is 6 months and the minimum payment is \$87/month. When the loan is almost completely repaid North Side will make the last payment or place the last payment into a savings account. Loan volumes were reduced in 2005 to approximately 676 loans per year.

The program is not self-financing, but it is believed that it could become self-financing with some minor changes (National Community Investment Fund 2005, p.2). However North

³⁰ Use of the product in more than 12 consecutive statement periods leads to a \$US100 credit limit reduction.

Side officials believe if these changes were made then the demand for the product would decline, which is not desirable to them. The product is seen as a way to bring in new members who will eventually use other, more profitable, credit union products.

References

- Documents: National Community Investment Fund 2005.
- Websites: http://www.cfsinnovation.com/research-paper-detail.php?article_id=380

Service: Payday Alternative Loan (PAL) – Veridian

Central Organization: Veridian Credit Union, Waterloo, Iowa

Examples from Payday Lending: A REAL Solutions® Implementation Guide

Veridian Credit Union of Waterloo, Iowa has been offering its Payday Alternative Loan, PAL, since March 2007. This is an example from *Payday Lending: A REAL Solutions® Implementation Guide*.

Underwriting Criteria

Clients must be 18 years old, be in good standing at the credit union, and have their income direct deposited. To be eligible members must not be delinquent more than 10 days on other Veridian loans. The client's credit bureau is also checked. The application can be done by phone, on the web or at a branch. If the client has all the information then the application process may take only 15 minutes.

The Loan

This is a closed-end loan ranging from \$US400 to \$US1,000, with a 6-month term with periodic repayments. One-half of the loan is frozen in a savings account until the loan is fully paid. The interest rate is 19% - 21% and there is an application fee of \$US20. In the period January through October 2008, a total of 2,752 loans were made for a total amount of just over \$US2.5 million. The average loan was \$US910. The interest income from the loans was \$US98,096, fee income was \$US50,574, and late fee income was \$US7,020. Delinquencies amounted to 1.8% of loans, or \$US44,432 as of October 2009. The breakdown of delinquencies by duration was: 10 – 29 days: 52 loans; 30 + days: 63 loans. The average delinquent loan balance was \$557.

Service: Salary Advance Loan (SALO)

Central Organization: North Carolina State Employees' Credit Union

Example from Bair (2005).

North Carolina State Employees' Credit Union began offering the Salary Advance Loan (SALO) in 2001. It is available to members who receive their pay through direct deposit at the credit union. It is a maximum loan of \$US500 and the interest rate is 12% APR, with no additional fees.

Bair (2005, p.21) points out that for a \$500 two-week loan the fees amount to less than \$US2.50. In order to encourage clients to save, there is a forced savings feature that requires 5% of the loan to be placed in a special savings account. The credit union has a total of 1.2 million members, and 40,000 members use the product (Bair 2005, p.22). The average size of the loan is \$US367 and, on average, it is repaid in 20 days. From 2001 to 2005 a total of just over \$US300 million in SALOs were made. This has generated just under \$US2 million in interest income, with loan losses (charge-offs) of just over \$US700,000, and a return to the credit union of 7.8% (Bair 2005, p.22). The savings component led to total savings of \$US6 million in 18 months. Credit union officials noted that “profitability [of the loan program] is heavily driven through members’ recurrent use (Bair 2005, p.22).”

References

- Documents: Bair, 2005.
- Websites: <https://www.ncsecu.org/Loans/SalaryAdvance.html>

***Service: StretchPay: A Credit Union Salary Advance Alternative
Central Organization: Wright-Patt Credit Union, Fairborn Ohio
(From Pierce 2009, p.11-12)***

Example from Payday Lending: A REAL Solutions® Implementation Guide

StretchPay is a payday loan-like service offered by Wright-Patt Credit Union in Fairborn, Ohio. It has features that make it similar to a payday loan (short repayment) and features that make it dissimilar to payday loans (low interest rate). This is a turnkey product which is purchased by the credit union from Credit Union Outreach Solutions, Inc. (CUOSI). It is an example from *Payday Lending: A REAL Solutions® Implementation Guide*

Underwriting Criteria

Clients must be at least 18 years old, a credit union member of a minimum of 69 days, and have a verified minimum income of \$US1,300/month. To be eligible clients cannot be delinquent on an existing loan. For a \$US500 advance, \$US50 is frozen in member’s share account until expiration of loan.

The Loan

The loan is an open-ended line of credit for either \$US250 or \$US500. To obtain it one must pay an annual fee: \$35 annual fee for \$250 line; \$70 annual fee for \$500 line. The interest rate is 18% APR, and the loan must be repaid in full in 30-days. There were 4,817 active StretchPay loans, and for the 10-month period ending in October 2008 there were 44,101 advances in total during the period, amounting to just over \$US13.5 million. Data show that members typically use the line seven-times per year and the average loan is \$US500. Total annual fees for the service amount to \$174,410 and these go to CUOSI. Loan losses amounted to \$US235,127 or 1.7% of total advances. Interest earned by the credit union was not recorded. Delinquency levels as of October 2008 were: 30 days: 1.76%; 60 days: 4.71%; 90 days and over: 2.70%.

Service: The Worker's Loan Program

Central Organization: Wilmington Trust, Wilmington Delaware

Source: Small-Dollar Loan Pilot Program, Federal Deposit Insurance Corporation, FDIC

The Worker's Loan Program is offered by Wilmington Trust in Wilmington, Delaware through collaboration with West End Neighbourhood House (WENH), a community organization working with low-income people (FDIC 2009c). This program offers a loan that ranges in size from \$US250 to \$US500, at an interest rate between 12% and 15%, with no additional fees. Loan repayment is over a maximum of four pay-periods. WENH screens applicants and collects requisite information (which is similar to what a payday lender requires). Once the application is completed, it is faxed to the bank, where the borrower can pick-up the money. In 2008 the bank originated 238 loans totalling almost \$US100,000. At the end of the 4th quarter, 13 loans were delinquent, and 14 loans had been written-off. The economic recession was a factor in these delinquency and charge-off rates. The partnership between the bank and the community organization was judged as a critical part of the success of this project. WENH staff were able to encourage repayment of the loan and to provide financial education to the clients.

Documents

- Reports: FDIC 2009c
- Websites: www.westendnh.org

3) Discussion

There are a significant number of affordable credit services for vulnerable consumers in the seven countries examined here. Some of these, the public pawnshops in Europe, date back to the 17th century, but most of them have relatively recent beginnings, starting in the early or mid 2000s. The numbers and sizes of the services or programs were most pronounced in the US, Australia and the UK; Belgium, France and Québec/Canada had a middle range of programs and services; and Canada outside of Québec, and Germany had few identified services.

In the US and Australia, FIs are actively engaged in providing these services. Most US cases were delivered solely by the FI. With one exception, the Australia FIs collaborated with nonprofit organizations to deliver these services. The UK situation appears to be more top-down than the situation in the US and Australia in that the government has established several funds to be used to capitalize loans and strengthen credit unions. The situation in Belgium, France and Québec builds on what Anderloni *et al.* (2008) called ‘commercial--social-oriented’ FIs including postal banks, cooperative banks, and *caisse populaire*. These services are commonly delivered with nonprofit and government agency support.

The US has the greatest number of loan programs among the seven countries (partly explained by it having the largest population³¹ and the largest payday loan industry). This research project identified four (research and pilot) programs in the US.³² When combined, these programs have research data for 48 loan services offered by banks, credit unions, or community development credit unions. The data from three of these programs (Small-Dollar Loan Pilot Program, the REAL Solutions Program, and the APPLE Program) are recent and quite comprehensive. The data for the services offered in Australia are also quite detailed. The top-down nature of the UK services affected the data availability. The data available were primarily from the government departments that established the funds. The data from Belgium, France and Québec were of modest quantity, and as mentioned above, there were virtually no data available for services in Canada outside Québec and Germany.

Based on this analysis there appears to be two types of consumer loans fitting the general category of affordable credit for vulnerable consumers:

1) The first type –let us call it a *social consumer micro-loan*– is often provided by a program that has economic and social objectives, either

- (a) larger loan (\$1,000-\$4,000) offered in Australia, Belgium and France, or
- (b) smaller loans (\$500-\$1,000) offered in Québec and the UK.

These loans are provided on generous terms (low interest rate, 0-10% APR; and long repayment period, 1-3 years), offered in collaboration by an FI and nonprofit and/or government agency. These services do not cover their costs and so require additional resources from elsewhere, often from the state and nonprofit organizations.

³¹ The US population is by far the largest of the seven countries: 3.7 times the German population to 12 times the Belgian population.

³² The four research or pilot programs include: the (1) 31 banks involved in FDIC’s Small-Dollar Loan Pilot Program, (2) 10 credit unions with CUNA’s REAL Solutions to Payday loans, (3) 6 community development credit unions involved in the Alternatives to Payday Lending Program (APPLE) of the National Federation of Community Development Credit Unions, and (3) 1 credit union with the Retail Financial Services Initiative (RFSI) of the National Community Investment Fund (NCIF).

2) The second type of loan, a *consumer micro-loan*, closer in character to a payday loan, is generally offered by an FI on its own, with terms that are close to those found with other mainstream bank credit products (e.g., credit cards and lines), including interest rates between 11% and 36% APR, sizes ranging from \$50 to over \$5,000, but most ranging from \$100 to \$1,000. In some cases these loans mimic the payday loan 2-week period and in other cases having longer repayment terms, say 3 to 12 months. These loans can be offered in ways that allow the FI to cover its costs or, for the business case to be made, through attracting new clients into the bank who will eventually use more profitable bank services, i.e., the loss leader idea. These loans are offered by a variety of banks and credit unions in the US and by NAB through their Small Loan Pilot program in Australia.

Overall, the loan schemes' data demonstrate a diversity of lending terms that are considerably more attractive than payday loans: for services offered in partnership with nonprofits (Australia, Québec, Belgium and France) interest rates are single-digit. For most services offered solely by an FI the interest rate is higher, ranging from 11% to 36% APR (with one bank, Wells Fargo, charging an interest rate amounting to 120% APR).

Loan volumes in terms of number of loans and quantity of loans range considerably across these programs. Some large programs include the European public pawnshops and the UK government funds (Table 7). However, the data on the value of loan volume for public pawnshops were not available. The data for the UK government loan funds and the French Social Cohesion Fund were not broken down by FI.

In terms of the social consumer micro-loan programs, loan volumes vary from smaller programs like Desjardins that, since its inception have originated a total of \$2 million in 3,456 loans, with approximately \$670,000 in just over 1,000 loans in the past year. The Australian programs ranged from the Progress Loans of around 200 loans valued at around \$320,000 (\$A300,000) per year to the NILS program of 5,500 loans valued at \$4.3 (\$A4 million) per year. The Belgian program annual volume was approximately 150 loans amounting to \$714,000 (€450,000) per year. These programs range in loan volume from 200 to 5,500 loans per year and valued at \$320,000 to \$4.3 million per year.

Consumer micro-loan volumes also range considerably. NAB's Small Loan Pilot Program is approximately 1,312 loans/year amounting to \$4.7 million (\$A4.4 million) per year. The US programs range from modest levels of 37 loans valued at \$22,500 per year (\$US20,700) (at Hershey Federal Credit Union) to larger volumes of 44,101 loans valued at \$14.8 (\$US13.6) million per year at Wright-Pratt Credit Union. These volumes are likely lower than some of the volumes for banks participating in the FDIC Small-Dollar Loans Pilot Program but those data were not available. These loan programs range in size from 37 to 44,101 loans per year valued from \$22,500 to \$14.8 million.

Table 7. Loan data: loan volume, terms of loan and default rate

Country / Name of loan	No. / amount of loans	Terms of loan	Default rate
Australia			
NAB Small Loans Pilot	328/4 th -quarter or \$A4.4 million/year (estimate)	28.25%/year comparison (15.85% flat); Fees for late payments & collections.	Default costs of 1.66% (4 th quarter)
ANZ Progress Loans	598 loans/3-years or \$A1.3 million/3- years (estimate)	13.89%/year (2009) + \$40 approval fee	Default rate 1.2% (2009)
No Interest Loans Scheme (NILS)	5,500 loans/year or \$A4 million/year (estimate)	No interest	Default rate 3 - 5% (2009)
Step UP Loans	599 (to end 2007) or \$1.46 million/year	3.99%/year (2009)	4% are in 90 day arrears (total \$A52,000); 14 loans written-off (\$A34,500) (end of 2007)
Canada			
Mutual Assistance Fund	3,456/total or \$2.0 million/total	No fees, only one of the DMAF charge interest rate (5%)	Default rate 10% (2009)
Micro-loan	21 loans (June 2008)		
Belgium			
Pawn Loan	120,000/year		
<i>Crédit Social Accompagné</i> (CSA) / Guided Social Loan	approx. 150/year or €450,000/year	4.5 - 6% interest rate	Unpaid loans 8%; loss rate 1.5%
Overdraft Protection		0% interest charge	
France			
<i>Prêt sur gage</i> / Pawn Loan		approx.10 % APR	
Social Microcredit	2,500 loans or €3 million/2-years (2005-2007)	4 - 8% (APR) with no administration fees	
Germany			
Public Pawnshops	1.1 million (2006)	1% /month + storage charge	
UK			
Growth Fund	46,000 or over £20 million (since 2006)		
Budgeting Loans (& Crisis Loans) from Social Fund	1,168,000 or £511 million Budget Loans; 247,000 or £139 million Crisis Loans (2007-2008)	No interest charge	
US			
Small-Dollar Loan Pilot Program (Generally data refer to 1 Year Monitoring)	16,000 loans with balance of \$18.5 billion (1 year)	Interest rates range: 11-36% APR, average = 18% APR; 15 banks charged application fee, \$US34 (average)	7.3% of SDLs outstanding; 3.4% of loans 'charged-off'
The Alternatives to Payday Lending Program (APPLE)	range 55 loans of \$US100,000/1.5-years to 2,254 loans or \$800,000/1.5-years	9-18%; other fees, e.g., application	5/6 banks low delinquencies 0% - 1.8%; 1 bank 40%; \$0 - \$29/\$1,000 loan charge-offs
North Side Payday Alternative Loan (PAL)	3,531 loans (July 2005)	\$30 application fee; 16.5% APR	
Wells Fargo Direct Deposit Advance		\$2/\$20 (120% APR)	

The repayment periods for the different loan schemes vary from a 'payday loan' term of two weeks up to four years. Typically, social consumer loans have longer repayment periods, usually between 1 to 3 years. The consumer loans have shorter terms: 2 weeks to 24 months, with most repayment terms ranging from 3 months to 1 year. In some cases repayment is one time, in other cases it involves several payments.

The loans are generally intended for vulnerable consumers. In the case of consumer loans the focus is on payday loan users. Social consumer loans are targeting low-income people more generally. Loan sizes range from just under \$500 to just under \$4,000 (Table 8). But many of these loans are of a size similar to payday loans (which often range from \$300 to \$500 in Canada). The loan programs have considerable variation in the size of their loans, in some cases up to \$6,500, an amount considerably higher than the average payday loan in Canada.

Many of the organizations offering these loan services also offer general education on household finances and/or particular counseling on their household finances. In some cases this component is required (as with Desjardins Mutual Assistance Fund, Crédal Plus' *Crédit Social Accompagné*, Crédit Agricole's *Crédit Solidaire*, and ANZ Bank's Progress Loans). Sixteen of the 31 banks involved in the FDIC Small-Dollar Loan Pilot require some type of financial education. In other cases the education component is a requirement for certain participants, as with North Side Community Federal Credit Union, if the client's credit score is less than 580. In other cases the education component is optional, as with Wells Fargo's Direct Deposit Advance. Fifteen of the banks in FDIC's Small-Dollar Loan Pilot did not require an education component and some of the credit union programs in the CUNA's REAL Solutions program did not require this.

Data on program financing was the most difficult to obtain, in part due to proprietary concerns of some of the FIs involved. Some data were available regarding loan losses (discussed below); there were some data available on overall costs (e.g., The APPLE programs reported in Williams 2007), but usually only qualitative statements were ever available on the breakdown of costs. These statements generally comment that the loan schemes have costs higher than regular loans schemes because they involve more staff time. Thus they have higher operating costs than for other loan schemes that are more automated.

Default or delinquency rates (loan repayment that is late) and charge-off or loan-loss rates (loans the FI has decided are not repayable) were generally kept to levels acceptable to the FI. In some cases the default rates were relatively higher than what the FI experienced in their overall consumer loan portfolio, but the loan-loss rates were similar to those of their general consumer loan pool. Data on default or delinquency rates were available in several cases and they ranged from 1% to 10%. Data on loan-loss rates were available in fewer cases and they ranged from 1.5% to 3.4%. These rates of bad debt are similar to those reported for the payday loan industry in Canada. The APPLE program reported that loan-loss rates ranged from \$US0 to \$US29 per \$US1,000. FIs reported that these rates were kept low through service design features (restrictions of amount of loan, etc.) and staff support of the client.

The research identified different financing models used for the credit services. It is generally understood that social consumer loans cannot cover costs with revenue from service fees. In these cases the FI, government and/or nonprofit resources are often involved. With the consumer loans, the goal of self-financing is more common, but it is not clear how many of the FIs have been able to achieve the goal. Two important sources for qualitative input on this question are the FDIC's Small-Dollar Pilot Program and the Woodstock Institute's (Williams 2007) examination of community development credit union efforts through the Alternatives to

Payday Lending Program. In regard to program financing the results of these two studies, on the surface, are somewhat at odds. While Williams concluded that all the programs are self-financing, FDIC concluded that most programs are not. Profitability data were also available in the case of the North Carolina Credit Union (Bair 2005), which reported a positive return on the service, and the National Australia Bank's Small Loan Pilot Program, which reported meeting break-even on the service (National Australia Bank 2008a). Beaujouan (2006) noted that *Crédit Agricole* is not achieving self-sufficiency with its loan scheme.

For the Small-Dollar Pilot Program, some of the banks have been able to achieve self-financing, or even generate a profit on their loan service (Miller 2009). These banks have unique locales with a large number of newcomers who are anxious to use bank services:

All of these banks [that are able to achieve profit in the payday loan alternative program] are located primarily in census tracts with high concentrations of LMI [low and modest income] households, immigrant households, or both, and have identified a need for small-dollar loan products among these consumers. In general, these banks are better positioned to generate higher transaction volumes and tend to impose interest rates and fees at the higher end of the range (FDIC 2009c).

However, for most of the banks participating in the FDIC pilot, self-financing is not the goal and the small loans are seen as a loss leader, a way to bring in new clients who will eventually use more lucrative bank services. However, there is evidence that some credit union programs have been able to cover program costs with fee revenue. Detailed revenue, cost and net income data were available for the APPLE project. All participating FIs reported positive net income, before and after charge-offs. After charge-offs are subtracted, net income ranges from \$US1.76 to \$US9.69:

However, even including charge-offs, it is clear that the affordable PDLs [payday loans] are profitable for each credit union. This is particularly notable given the innovative nature of these loan products. Given more experience to refine underwriting standards and reduce loan costs, it is possible that each credit union has the capacity to increase gross margin percentages even more (Williams 2007, p.14).

Table 8. Loan size: average and range

Country / Loan name	Loan size			
	Average (local currency)	Average (\$)*	Range (local currency)	Range (\$)*
Australia				
NAB Small Loans Pilot	\$A3,357	3,558	\$A1,000 - \$A5,000	1,060 - 5,300
ANZ Progress Loans	\$A2,183	2,314	\$A500 - \$A3,000	530 - 3,180
No Interest Loans Scheme (NILS)	< Step Up loan	< Step Up loan	\$A800 to \$A1,200	848 - 1,272
Step UP Loans	\$A2,700	2,862	\$A800 - \$A3,000	848 - 3,180
Canada				
Overdraft Protection	\$20	20		
Mutual Assistance Fund	\$571	571	\$500 - \$1,000	500 -1,000
Micro-loan	\$100	100	\$40 - \$100	40 -100
Belgium				
<i>Crédit Social Accompagné</i> (CSA) / Guided Social Loan	€3,000	4,761	€400 - €7,500	635 - 11,905
Overdraft Protection	€20	32		
France				
Social Microcredit	€2,250	3,571	€300 - €4,000	476 - 6,349
UK				
Growth Fund	£435	750		
Budget Loans from Social Fund	£433	747		
Crisis Loans from Social Fund	£458	790		
US				
StretchPay, Wright-Patt Credit Union, Fairborn Ohio	\$US500	544	\$US250 - \$US500	272 - 543
Payday Alternative Loan (PAL), Veridian Credit Union, Waterloo, Iowa	\$US910	989	\$US400 - \$US1,000	435 - 1,087
The Alternatives to Payday Lending Program (APPLE)	\$US350 - \$US1,900	380 - 2,065	\$US100 - \$US5,000	109 - 5,435
Salary Advance Loan, North Carolina State Employees' Credit Union	\$US367	399	Maximum \$US500	543

*Exchange rates with Canadian dollar, as of September 2009: \$A0.94; €0.63; £0.58; \$US0.92.

So what explains the different profit experiences between the FDIC pilot and the APPLE program? Without details from both programs it is impossible to precisely identify the reasons for the differences. However, there are important differences between the participating FIs including: different absolute sizes, different loan terms, and operating in different locales. Regarding the size of the FIs involved in these studies, they are considerably different. The FIs involved in the APPLE pilot are smaller than the banks involved in the FDIC study. The APPLE FIs range from \$US2 to \$US285 million in assets with the median being approximately \$US10 million. Banks

participating in the FDIC pilot range from \$US26 million to \$US10 billion in assets, with a median value of \$US403 million. Loan terms are quite different as well. Within the APPLE pilot the loan terms range from 1 month to 18 months with the average being 6 months. The FIs involved in the FDIC pilot have loan terms averaging 12 months for SDLs and 16 months for NSDLs. Interest rates were slightly higher for APPLE FIs (16%) compared with FDIC pilot FIs (SDL: 15.3%; NSDL: 14.0%) and two-thirds of APPLE FIs had additional charges as compared with one-half of the FDI pilot FIs. Finally, with regard to the locales of operation, the FDIC results found that FIs working in locales with higher proportions of low-income and immigrant Americans had profitable programs. By definition, the APPLE FIs, which are community development credit unions, are more likely than banks, to be working in these types of locations. Without more detailed data these results should be used cautiously.

Detailed data on borrower's social and economic characteristics are limited. For social consumer micro-loans, where data are available, the majority of the clients were often reported as female. This includes three of the Australian programs (NILS, Progress and Step UP) and the Desjardins Mutual Assistance Fund loans. The other two cases in which data are broken down by gender are consumer micro-loans. In the case of the Australian Small Loans Pilot Program, one-half of borrowers were female, and in the case of the service offered by Prospera Credit Union (with the REAL Solutions Program), 58% were female. Regarding age of the clients there is some evidence that the programs are more popular among young and middle-aged people. Two programs –Australia's Small Loan Pilot Program and the Step Up program referred to the majority of borrowers as being young, less than 35 years old or between 25 and 44, respectively. Two loan schemes within the REAL Solutions program included age data of borrowers: Prospera Credit Union and Missoula Federal Credit Union: just fewer than 90% were between 18 to 54 years old. For the limited data available, women and younger people appear to be important participants in some of these programs.

4) Conclusion

There is a surprising number and diversity of affordable loans schemes for vulnerable people in the seven countries studied. Two principal types of loan services were identified: social and regular consumer micro-loans. The research identified the largest number of services and programs in the US, followed by Australia and the UK. Belgium, France and Québec had a moderate number of programs, and Canada (outside of Québec) and Germany had few identified services.

The regular consumer micro-loan is often offered solely (or with limited assistance from a community organization) by the FI. The social consumer micro-loan is often a team effort involving FIs, nonprofits, and government. With the social loan, there is a common division of labour between the FI and the community organization. Financial institutions partner with nonprofits to develop products that are useful to non-typical clientele, they generally provide the service, and they sometimes support operating and capital costs. Community organizations act as a 'bridge' linking communities with FIs, provide financial education, and support clients through the loan process (including repayment). Government support plays a role in many of these services through loan capital or supporting operating costs.

The loans are generally directed at low-income households and/or people who rely on payday loans. Data are limited but in the cases where the data are available, women and young and middle aged people (between 18 and 54 years old) represent the majority of the borrowers.

This gender division was clearest for the social consumer micro-loan programs. The age division was found in all types of loans for which data were available.

Research and development (R&D) of new products for non-typical clientele emerges as an important issue. Many of these projects are 'pilots' or small-scale projects with the intention to be expanded once a proven model is established. The projects involve new products which are, at best, marginally profitable on their own. Thus FIs want to carefully design and test the product before they are replicated. The services in the US and Australia seemed to be the furthest along in the R&D process and so they would be the most helpful for anyone interested in setting up alternatives elsewhere.

Loan volumes range considerably across the sample. Some programs are offered through other institutions (UK and French funds) and some programs are offered through one or several outlets or branches so that it is difficult to make comparisons with commercial loan programs. In terms of the social consumer micro-loan programs, loan volumes ranged from 200 to 5,500 loans per year and valued at \$320,000 to \$4.3 million per year. Consumer micro-loan volumes also range in size from 37 to 44,101 loans per year valued from \$22,500 to \$14.8 million. By way of comparison, loan volume among Manitoba payday lender outlets ranges from \$700,000 to \$3 million per year, averaging \$1.5 million per year. It is estimated the industry lends \$2.2 billion each year. This suggests that one of the larger social or consumer micro-loan schemes is similar in size, based on value of loan volume, to one Manitoba payday loan outlet. The entire FDIC Small-Dollar Loan Pilot, with 31 banks, originated 16,000 loans for a value of \$20.1 (\$US18.5) million. This is just under 1% the value of the Canadian payday loan volume.

An important aspect of small and affordable loans is their financial viability. Are small loan programs able to generate sufficient revenue to compensate for their costs? Loan losses are reported to be at a reasonable level but some organizations reported that operating costs were higher than for more automated loan schemes. This is due to the staff-intensive nature of the programs.

Given data limitations, what can be said about program financing? One conclusion is that the social consumer micro-loans are not self-sufficient. They provide generous terms and involve in-depth staff support (e.g., financial education) such that they are not designed to, and do not achieve financial self-sufficiency. In terms of the more economically focused consumer micro-loans, the evidence presented here was limited and somewhat mixed. The best data available were the qualitative and general results from the FDIC Small-Dollar Loan Pilot Program (FDIC 2009c, Miller 2009), and from the Woodstock Institute study of the APPLE Program (Williams 2007). The former study argued that only a few banks were able to cover program costs and generate a profit while the latter study found that all six participating credit unions had self-supporting programs. In the previous section it was argued that these results are not necessarily in conflict. Factors such as the size of FI (the relatively smaller community development credit unions were more successful), loan terms (slightly higher fees and shorter repayment terms were found among FIs achieving self-sufficiency), and the location of the branch (both FDIC and APPLE projects in lower-income neighborhoods appear to have been more successful) may explain the different results. Without more detailed data these results should be used cautiously.

Most of the loan schemes offer or require clients to engage in some financial education. In some cases low default rates are attributed to the financial education and to the general support clients receive from staff through the application, receipt and repayment process. Considering the high levels of consumer debt in Canada the financial literacy component may be appropriate. However, it will depend on the client. It is not appropriate to assume that low-income clients lack

financial knowledge (see Buckland forthcoming). They may be very knowledgeable about their financial reality.

Since several types of organizations are involved in these programs, clarifying each one's role is important. Commonly the FI is the chief developer and provider of a new financial service, and the nonprofit serves as co-developer and link to vulnerable consumers and communities. The government roles seem to vary. Providing clear public policy, funding (capital and operations), and supporting research are common roles identified in this research.

A variety of types of FIs are involved in these loan schemes. In Australia two banks have played the central role. Banks have been important elsewhere, including in the US FDIC Small-Dollar Loan Pilot Project. But, in many programs in the US, and programs in France, Belgium and Québec the role of what Anderloni (*et al.* 2008) termed the 'commercial—social-mission' FI sector (cooperative banks, credit unions, etc.) is critical. These FIs have explicit financial and social objectives for their operations. Presumably it is this combination of objectives that has compelled coop banks and credit unions in Europe, the US and Québec to pursue affordable loans for vulnerable consumers.

This report has not provided insight into the significant role of nonprofits in the schemes they are involved. This is partly because the focus of this research project was to scan and describe key features (see Appendix for the list of features) of relevant loan programs in the seven countries. This report thus lacks a more textured presentation of the loan schemes. A critical aspect of the texture is how the service relates to its clients, and for many programs, nonprofits play a bridging role here.

Governments have been active in a variety of ways in these programs. Governments have funded loan capital and operations and they have supported research into payday loan alternatives. The French (Social Cohesion Fund) and UK (Financial Inclusion, Growth, and Social Funds) governments have established funds for loan capital or guarantees to participating FIs. There are no doubt challenges for this approach but since it is new it is hard to determine how effective it is (Jones 2008).

Regional and local governments have supported operating costs of loan services in Australia, Belgium and France. Government has also been active in research, most notably in the US through the FDIC Small-Dollar Loan Pilot Project, but it has also helped fund research for other projects (e.g., Winnipeg's Community Financial Services Centre). Along with research done by US credit unions (REAL and APPLE), the FDIC project is one of the best sources of data on payday loan alternative services. Of course the FDIC chairperson, Sheila Bair, brought with her to the position an expertise in bank action regarding payday loans in the US (see, Bair 2005). This may partly explain the FDIC's leadership regarding payday lending alternatives.

Overarching policy is an important issue that has not been addressed in this study. However, in investigating affordable credit options, the UK financial inclusion strategy stood out among the seven countries. The strategy has several components including encouraging banks to expand the number of bank accounts they provide, the expansion of credit union system and its ability to provide credit, and the expansion of financial education. Through the Office of Fair Trade the government is also examining issues of consumer protection related to financial services. It's too early to assess the success of the strategy, but it holds many elements that could make it successful. One weakness is that there is an appearance of a top-down approach. But this may not be the case in reality. Once the community-banking partnerships develop, the fruits of these efforts may appear.

The Desjardins Federation program demonstrates a substantial interest in Québec for this type of project. There are few loan schemes in Canada outside Québec. There is an overdraft

program at Pigeon Park Savings (Vancouver) and there was a small loan scheme through the Community Financial Service Centre (Winnipeg), but it is now on hold. The situation in Québec may be partly explained by the more federated nature of the *caisse populaire* system, as compared with the more competitive nature of credit unions in other Canadian provinces. The stronger tradition in the social-economy in Québec may be another factor at work. In Québec, payday loans have been virtually outlawed through the provincial usury ceiling.

It is unclear why there are not more loan services and programs in Canada outside Québec. Except for Québec, Canada has witnessed a rapid growth of payday lending, and there is a well-developed credit union sector in many of the provinces. One reason noted was that the absence of regulation of payday lending acted as an obstacle for FIs to get involved in small loans. This is changing now, as provinces unveil regulations. Another potential challenge for FIs interested in small loans is that regulations will vary between provinces. This might make national programming and inter-FI collaboration, so important in the US, more difficult. The example in the US is that associations (CUNA and National Federation of Community Development Credit Unions) played an important role in bringing individual credit unions together to engage in R&D on the affordable credit service. By working together they were able to find resources to engage in effective research and to develop products that are now commercially available. A final factor that might be at work is that credit unions have opted to invest program resources into other services such as asset building and financial literacy instead of consumer micro-loans.

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Appendix A. Description of Project

Affordable Credit Options for Vulnerable Consumers

Review of approaches taken in Canada and other jurisdictions to:

1. Provide lower-cost alternatives to high-cost small short-term loans (such as payday loans) for consumers
2. Encourage traditional financial institutions to offer such alternative services; such encouragements will focus on government incentives, such as the FDIC low-cost loan program in the US.

Other jurisdictions: US, UK, France, a selection of other European countries (such as Belgium, Austria, and possibly Norway and Germany), and Australia.

In reviewing each program related to item '1' the contractor will describe the program's functions and operations, examining where appropriate such issues as:

- What is the size of the program?
- How long has it been in existence?
- How many clients are served?
- Is there a specific target group?
- What is the size of the typical loan?
- Is there information on client profiles? E.g., what is the financial situation of clients, the reason for their loans?
- What are the criteria for acceptance of clients?
- Are there financial literacy, educational or budget counselling activities associated with the provision of the loan?
- What are the terms of repayment of the loan (time to pay, interest rates, opportunity to build savings)?
- How is the program financed? Is it self-funded, profit-making, subsidized by government or charitable organization?

The review will be largely a literature review. Where data not available there, the contractor will be asked to contact representatives of programs.