Small Loan Workshop: Summary of Proceedings and Recommendations

Held at: Menno Simons College, Winnipeg, Manitoba

On: January 27, 2016

Report compiled by: Jerry Buckland, Evan Sinclair and Kate Martin

Executive Summary

Payday loans are offered by fringe financial institutions. The literature argues that their popularity is partly the result of mainstream financial institutions (e.g., banks and credit unions) withdrawing from providing small loans, starting from the 1980s (Brennan, McGregor, and Buckland 2011). Thus one dimension to the response to the growth of payday lending is to examine the obstacles and opportunities for mainstream financial institutions ("FIs") to move back into the market for small loans. That was the impetus for this workshop which brought together a group of experienced participants in this field, drawing on the credit union sector. The focus was on credit unions as organizations well-positioned to discuss this issue considering their shared mandate to serve the people and communities where they are located. However, it is understood that other mainstream FIs, in particular banks, which control the lion's share of bank assets in Canada, could play a major role in addressing this challenge. This report provides a descriptive summary of the presentations, discussions, commentary and recommendations provided by the participants of the workshop.

The workshop was held on January 27th, 2016 and was attended by specialists from across Canada who convened in Winnipeg for a targeted discussion on mainstream FI alternatives to payday loans. The workshop provided an opportunity for various stakeholders of the financial community to share their thoughts and concerns surrounding the issue of payday lending. Participants included mainstream FI representatives running small loans programs or those planning to start small loans programs, and experts

involved in studying the sector. The FI representatives came from the credit union sector, which is particularly active in this field. However, it is understood that small loans products can also be offered by mainstream banks.

The objective of the workshop was to identify current mainstream FI products, and obstacles and opportunities for introducing an alternative product to payday loans that takes into consideration the long-term financial well-being of consumers in addition to their critical short-term needs. The workshop was part of the Manitoba Consumers' Experiences with Payday Loans Research Study being conducted by the Public Interest Law Centre for this hearing.

The day consisted of presentations on existing alternatives to payday loans from credit union specialists from across the country including, Catherine Ludgate[1], Teri Buckley[2], Courtney Hare[3] and Kevin Morris[4], followed by plenary discussions facilitated by Maia Graham-Derham[5] and Kate Martin[6].

The workshop began with presentations on products that are currently being provided in Canada, such as the Fair & Fast Loan and the Cash Crunch Loan, as well as internationally, such Tandas and Q Cash software. These presentations provided a platform for learning through past successes and shortcomings.

The group discussion that followed identified a variety of factors perceived to be obstacles and opportunities to making such a product available. Participants highlighted many factors to be taken into consideration, including availability of resources, provincial legislation on payday loans, potential for community partnerships and consumer behaviour. Despite these considerations, participants' experiences suggested that the

1 Manager of Community Investment at Vancity, located in Vancouver, and works extensively on programs aimed at financially empowering people living in poverty. She presented on Vancity's Fair & Fast Loan.

2 Community Brand Manager at Connect First Credit Union, located in Calgary, and is committed to helping Albertans to succeed in breaking the payday loans cycle. She presented on Connect First's and Momentum's Cash Crunch Loan.

3 Public Policy Manager at Momentum, an organization based out of Calgary, and is interested in addressing the root causes of poverty by engaging with low-income communities to promote economic development.She presented on Connect First's and Momentum's Cash Crunch Loan.

4 Senior Advocacy Analyst at Credit Union Central Manitoba and has attended the workshop to share his research on innovative alternatives to payday loans. He presented on international examples of alternatives to payday loans.

5 Manager of the Financial Access Program at Assiniboine Credit Union that is focused on financially empowering its members and their communities.

6 Policy Analyst and member of the Government Relations Advocacy Team at Canadian Credit Union Association where she works to advance the social and ethical performance of credit unions.

demand for an alternative to payday loans does exist, and that such a mainstream FI product can be mutually advantageous to the borrower and the lender.

Introduction

A one-day workshop was held to examine the potential for new and expanding small loan programs to be offered by mainstream FIs, particularly credit unions. The workshop was supported by CAC Manitoba Branch, Community Financial Counseling Services, Winnipeg Harvest and the Public Interest Law Centre. Specialists from the credit unions sector from across Canada joined academics and researchers to discuss obstacles and opportunities to providing small loans by mainstream FIs. Presentations providing examples from the current environment of alternatives to payday loans were made by Catherine Ludgate, Teri Buckley, Courtney Hare, France Michaud, Kevin Morris and Kate Martin. These presentations were followed by a group discussion facilitated by Maia Graham-Derham and Kate Martin, which allowed participants to share their unique perspectives in considering how to effectively address this complex issue in Canada and in Manitoba.

Following the workshop, a summary description of the presentations, discussion and recommendations identified by the participants was compiled into this report to be filed with the Public Utilities Board for the hearing on payday lending taking place in mid-April 2016. Elements identified during the workshop will also be used by participants of the workshop in their work developing an alternative product to payday loans provided by fringe financial institutions.

The Method

The workshop was held on one day, January 27, 2016, at Menno Simons College in Winnipeg, Manitoba. The agenda was agreed to ahead of time by a coordinating sub-committee. Notes were taken by 3 individuals and then one of them was assigned the task of pulling together a summary set of notes. These notes were then vetted by participants. This report includes these notes plus the introduction, conclusion, and recommendations written by the compilers of the notes.

The Issue

Payday lending is an important phenomenon across Canada and in Manitoba. Regulatory responses have varied across provinces. However, studies have found that regulating payday lending is one of two critical responses, the second being increasing the efforts of mainstream FIs to offer comparable products (Dijkema and McKendry 2016, Buckland 2012).

Participants agreed that payday loans are popular. However, this comes at a cost that may be inconsistent with consumers' long-term interests, particularly repeat borrowers' – those who become reliant on taking out many small loans in a short period of time. This has been identified in the academic literature as a concern (Pew Charitable Trusts 2012).

It was identified that payday lenders have an interest in repeat borrowing and to maintain as large of a client base as possible. This not only restricts the ability of borrowers to flourish financially, but communities and local economies as well, as payday lenders continue to provide financial assistance to those who are locked into a cycle of debt caused by high-cost borrowing.

Taking into account existing payday lending practices, the following examples of alternatives to payday loans represent an effort to meet the critical demands of consumers while also considering their long-term financial needs.

Session 1: Current Alternatives to Payday Loans

Fair & Fast Loan | Vancity

Catherine Ludgate presented the *Fair & Fast Loan* that was developed by a task force within Vancity's marketing department. Mandated by Vancity's board of directors, this task force identified a need for an alternative to payday loans when an internal study revealed that 15% of their members were using the services of payday lenders. With approximately 275 payday lending outlets across the province of British Columbia charging an average annual percentage rate (APR) of 599%, Vancity began to address this issue by asking who are payday loan users and why they use payday loans. The task force found that there were three main groups of users:

- the credit challenged, people whose credit rating was damaged so that they were unable to access small loans;
- the product seekers, people who are seeking small dollar loans for a short period of time; and
- the convenience seekers, people who are attracted to payday loans because of the ease –time needed, documents required, etc.-- in which they can be accessed.

Vancity established that they could not accommodate the convenience seekers because of such factors as hours of operation and a more involved application process. Thus, they decided to focus on the credit challenged and the product seekers.

Vancity's Fair and Fast Loan is a unique alternative to a payday loan. Compared to conventional payday loans, it is a low cost loan, offering the same interest rate that a credit card would (19% APR) for a term of up to 24 months. Loans range from $100 to $2,500 with flexible repayment terms. The Fair & Fast Loan also provides clients with the opportunity to build up their credit by helping those who use it to build a credit history – a feature that differs from conventional payday lending products.

The approval process is designed to be accessible and efficient, allowing the whole process to be completed in one visit that lasts approximately 60 minutes. Loan applicants are only required to provide identification and a current pay statement. To expedite the approvals process, Vancity empowered frontline staff to decide whether or not the applicant is eligible to receive the loan. Approvals are based on the applicant's purpose for requesting a loan, their credit score, and their current employment status. To access the Fair & Fast product, individuals are required to become a member of the credit union.

Vancity shared that approximately 50% of the applicants were approved during the first year and a half since the product was launched, which translates to providing 1,750 loans to members. The average size of the loans was $1,100 and the average time of repayment was fourteen and a half months. The total sum of loans disbursed amounted to $850,000 in what Vancity captures as impact lending (borrowers who would not have had access to that credit otherwise). Approximately 10% of the applicants for this loan during this period were new members, joining the credit union specifically to access this product.

The introduction of the Fair & Fast product also provided the opportunity to hold around 3,000 conversations with members about their credit. Vancity estimates that these loans resulted in nearly $3 million in savings for customers that would have taken out a comparable loan from a payday lending agency. Further, Vancity did not experience an increase in fraud or defaults during the first phase of the Fair and Fast Loan. Vancity indicated that this product is financially viable for the credit union.

Some significant learning that has contributed to the success of the product includes enhanced awareness of members' perceptions of the credit union when compared to a payday lending institution. Through closer engagement with their members, Vancity discovered that the way people were being treated at the credit union played a major role in determining whether they would turn to payday lenders' services in a time of need.

Through the experience of providing this product, Vancity concluded they should act as a friend rather than a parent to people experiencing a financial emergency. Whether this meant improving cash checking services and making their members' money more accessible, or providing financial literacy and assisting with long-term strategies, Vancity found that closer engagement with the community was a key aspect of the product's success. Vancity also sees future opportunities in increasing eligibility by balancing inclusivity and risk, enhancing accessibility and convenience, as well as building external market awareness.

Cash Crunch Loan | Connect First & Momentum

Teri Buckley from Connect First Credit Union and Courtney Hare from Momentum partnered to present the first phase of the *Cash Crunch Loan*. The two organizations became informal partners in 2011 based on a mutual commitment to helping those that are under-banked and the recognition that a cross-sectoral response was necessary to address issues faced by those who are under-banked in Calgary. The creation of an alternative to payday lending was identified as part of this response.

Connect First Credit Union's capacity to work with Momentum to design and offer an alternative payday loan product was driven by an anonymous donation to the credit union that protects the credit union from risk associated with this type of lending. As an organization that is dedicated to community economic development, Momentum had already formed relationships with suitable loan candidates, and was able to refer participants directly to Connect First Credit Union that were identified as being in need of the service.

During the first and pilot phase of the Cash Crunch Loan, from April to August 2015, applicants had to be referred by Momentum, limited screening of applicants was done and the product was designed as direct competition to payday loans. For Phase 1, the maximum candidates were eligible to receive was $1,500 with a 12% interest rate (APR) for a term of up to 18 months. The loan application took approximately 1.5 hours and the cash was distributed within 24 hours. In total 56 loans were provided for a total of approximately $75,000 for a range of purposes, such as basic needs, general debt, housing and paying off payday loans. The size and duration of this loan is similar to the Fair and Fast loan but the additional referral process adds a feature not found in the Vancity product.

One of the most striking outcomes of Phase 1 of the project identified by Connect First Credit Union and Momentum was overcoming the participants' barriers to banking. However, this not only required a change in practice, but a change in attitude as well. The partnership between the organizations established a workshop for credit union employees that helped them better understand people's situations and the factors that were preventing them from accessing financial services.

Consumers who approached them at critical points in their lives felt like they were being helped rather than judged. Further, it allowed Momentum to work directly with the participants to establish whether a loan was the best course of action, or whether referrals to other types of service could be provided.

For the second phase of the project, Momentum and Connect First will focus on providing Momentum facilitators with additional training so that they will be better able to assess whether applicants are ready to be referred for a loan. The participant's ability to repay will be examined more thoroughly, requiring that sixty days of banking history be provided along with a bank statement, ensuring that no participant's credit score is made worse off than before. Applicants will also be required to complete a money management course (offered by Momentum), demonstrate a sustainable budget, and have no pre-existing loan. The product will also be open to other community partner referrals.

Rather than try to compete with the convenience that payday lenders offer, Momentum and Connect First hope to direct their future efforts toward increasing communication between all stakeholders and forming new partnerships in the community to provide consumers with the product that best meets their needs.

Co-opme | Desjardins

The third small loan model that is the *Co-opme* program currently operating is offered by the Desjardin Federation in collaboration with participating *caisse populaire*. This loan is similar to the Fair and Fast loan and the Cash Crunch loan in size and duration. However, to obtain the loan, the borrower must work with a financial literacy counsellor.

France Michaud presented the *Co-opme* program, which was launched by Desjardins in 2011 in order to promote financial education and financial inclusion and offer new initiatives in this area. Among the Co-opme program is Desjardins solidarity-based finance initiatives. Solidarity-based finance is aimed at individuals who do not qualify for traditional financing. Desjardins works with nearly 100 community-based organizations, which act as the main entrance point to engaging with people who are experiencing financial difficulty.

Although payday loans are prohibited by law in Quebec, there still exist informal actors providing high-cost loans, which also offer convenience, speed, proximity and simplicity (e.g. Insta Cheques, www.comptant.com, Rapide Cheque).

In response to this trend, Desjardins introduced Mutual Assistance Funds, a solidarity-based product which offers budget counseling and, when needed, small interest-free loans for unexpected expenses related to essential needs; they are not meant to cover ongoing basic needs. The loans are paid directly to the service provider to whom the debt is owed (e.g. car mechanic, dentist, etc.) rather than to the individual. Although Desjardins provides the financing for these initiatives, the community organizations with which they partner are responsible for offering financial literacy, budgeting and loan allocation services. So far, this program has reached over 31,000 individuals.

Since the program was introduced, nearly 7,000 interest free loans have been provided that range between $500 and $1,000 with a 2-year repayment period. The average loan is $582 and the repayment rate is 84%. However, as these loans are meant to assist people in emergency situations, the organizations do their best to provide efficient service.

Currently the loans provided by the program are not registered with the credit bureau, but Desjardins hopes to change that so participants can improve their credit rating. Desjardins has recently announced that an additional $4.5 million will be invested from 2015-2017 to increase the program's reach and improve their quality of services, which will require closer coordination between partners and a more standardized approach to loan provision and monitoring. In the past months, increased efficiency has made the product more attractive and more credit unions are offering it.

International Examples

Kevin Morris from Credit Union Central of Manitoba presented a number of innovative alternatives to payday loans that have been developing around the globe.

- *Q Cash* is a type of software that interfaces with the core banking system of a credit union. Members are able to apply conveniently from their mobile device, online banking account or any branch location. The software pulls the banking data directly from the member's file and assesses their level of risk using an algorithm that checks ten years of credit history and other associated factors.

By making the entire process automated the developers have allowed the system to make the decision and have the money deposited into the member's account within one minute. The creator of the program, Washington State Employees Credit Union, books over 30, 000 loans annually while maintaining a loan loss rate in the 6-8% range that allows them to generate a considerable profit. This technology is not yet available in Canada.

- Founded in 2014 and based out of the United Kingdom, the *Churches' Mutual Credit Union* program was established to raise the profile of an alternative option to payday lending. Its development also coincided with a financial crisis that gave an added sense of urgency to providing a cost-effective form of credit. They offer fair rates that are based on the current socio-economic environment. The program is very small and membership is currently restricted to clergy and ministers, licensed lay ministers, and trustees and employees of the churches.

- Most common in Latin America, *Tanda*s (also known as informal rotating savings and credit association or ROSCAS) are short-term no-interest loans arranged among friends or community members to assist individuals who are struggling financially. They are organized in a number of ways, but normally involve a group of well-acquainted individuals who collect money on a weekly, monthly or yearly basis, which is then provided to one recipient in regulated intervals. The risks involved in the process are managed by trust and an investment of social collateral. There are start-ups in the UK and the US mimicking these models using the Internet.

- Founded in Germany in 2005, *Smava* is an online lending service that acts as an alternative to payday lending by facilitating peer-to-peer lending. Smava.de offers the potential for borrowers to obtain cheap credit by connecting them directly to private investor funds. The site also acts as a loan aggregator that provides comprehensive comparisons between all the conditions and interest rates of loans being offered by various lenders.

- The *Rio Grande Valley Credit Union* based in Texas has developed and tested an alternative payday loan product: Fast Cash Loan. Marketed as a very simple alternative to payday loans, it allows consumers to access loans that they otherwise would not be able to. One stipulation is that the potential borrower must have been a member of the credit union for a minimum amount of time while also maintaining a good credit history with them. In addition, borrowers are required to make a small $8 deposit into a frozen checking account that is held to pay off outstanding debts.

- Another example is the *Employer Sponsored Small Dollar Loan* that was founded in Toledo, Ohio. The concept requires select employer groups to partner with credit unions to offer small loans to their employees. The outstanding fee is withdrawn directly from the accounts into which their direct deposit checks are going.

Peer-to-Peer Lending

With the rise of peer-to-peer lending practices, the Canadian Credit Union Association and Filene Research Institute recently produced research outlining opportunities for credit unions to get involved in the area. Kate Martin, from the Canadian Credit Union Association, shared that there are three ways credit unions can engage with peer-to-peer lending models:

- the first is to become an institutional investor; the second is to bring retail sales to the crowd-funding stage; and
- the third is simply to create a credit union owned peer-to-peer platform.

For the purposes of this roundtable discussion, peer-to-peer lending platforms were considered as a strategy to attract new, non-traditional members; particularly those who may otherwise see payday lending or other fringe financial services as their only option. Research shared during the workshop showed that peer-to-peer lending platforms are already providing an alternative for borrowers who otherwise may have used payday loan services, high-interest credit cards or illegal loan sharks. Considering low overhead costs, peer-to-peer platforms could provide credit unions with a mechanism to provide low cost lending products.

Session 2: Obstacles

Despite the successes of some current alternatives to payday loans described in the presentations summarized above, many obstacles remain that deter FIs from introducing such a product to the services they offer.

The following obstacles to introducing alternative products to payday loans in Manitoba and Canada were produced from a group discussion facilitated by Maia Graham-Derham that encouraged input from all of the workshop participants.

Delivery Challenges

Convenience was a significant factor identified for customers choosing payday loans. At the payday lender you don't need an appointment; you simply need a loan. Most mainstream FIs (banks and credit unions) cannot deliver that kind of impromptu service. Owing to challenges such as established approval processes designed to mitigate risk and regulatory requirements when issuing a loan, for example, these mainstream FIs have not historically had the infrastructure to provide fast and easy access to credit.

How to deliver such a product without being seen as paternalistic was another factor identified. Assistance should come first from credit unions and advice after. An important challenge is whether financial literacy should be provided within the credit union or if it might be better provided by other organizations, possibly upon referral from FIs. Furthermore, there is currently very limited financial literacy material in school curriculum.

Another challenge identified was delivery in rural areas, especially in more remote First Nations communities. This can often be a significant challenge for FIs.

Profitability of Products

In order for mainstream FIs to offer an alternative payday loan product, the product must be profitable for the institution. There are considerations of pricing that must be taken into account for any product offered by FIs. Credit unions are risk averse, so risk of default and non-repayment are major deterrents in their willingness to engage on this issue.

Design Challenges

When considering product design, participants indicated that first identifying the market for these types of loans was necessary. Payday loans serve a very wide demographic, but two very different main groups of payday loan users can be identified.

The first is a low income group that uses the loan to finance their basic necessities and the second is a middle income group that uses the loan to finance a lifestyle they may not be able to afford.

The question becomes whether to design the product for middle income or low income? The low income demographic often possess adequate financial literacy, but may not have the capital to deal with emergency situations that pose high financial costs, while the middle income demographic might benefit more from educational services on saving and money management. The product design would need to take these differences into account.

The question of how to cater to newcomers who may not have any established credit and who may have different needs than other groups was also identified.

Another design challenge related to which department of the financial institution the product should be developed. The retail or marketing department can have more information about some aspects of what will make a product successful, while the community investment department is likely to have more expertise in what is needed within the community.

Lack of Reliable Data

Participants identified that it is difficult to understand the payday loans business and the context of their client base without access to data about the business. Participants were in favour of mandatory public disclosure of data by payday lenders, perhaps by collection through the provincial regulator and published in aggregate form. Participants noted the way a market economy should work is that consumers have access to such information to make informed and careful decisions.

It was noted that the two biggest payday lenders currently operating in Canada are privately owned by American companies, so that little information is available about them and the market, including things such as level of profit and degree and type of competition.

The lack of data on payday lender consumers is also a significant challenge in understanding the type of product that could be developed by mainstream FIs.

Working with the Credit Bureau

It is difficult for credit unions to work with individuals who have bad credit ratings and new-comers to the country who have no credit history. Although alternatives to payday loans present an opportunity to improve their credit, it should also be considered that while working with this demographic it is important to ‘do no harm’ so that credit ratings are not made worse by offering loans to those who are unable to pay them back. Credit is meant for empowering people to meet their economic needs so they can flourish and contribute to the economy.

Size of the Market

FIs are forced to consider the desired results of a product while trying to balance between meeting the critical needs of the consumer and earning a sustainable amount of profit. The dichotomy between high-touch and low-reach or low-touch and high-reach was mentioned numerous times in the discussion. High-touch is a safer approach to ensuring the consumer’s needs are met, while high-reach is offers a greater opportunity for the product to earn a profit.

Customer Service

Culturally, payday lenders work to create an approachable and comfortable environment as a tactic to attract customers. Payday lenders' employees are trained to make customers feel comfortable and give them what they need when they need it. They also have a sufficient margin for giving special treatment to customers that allows them discretion to wave small fees or forego first-time charges when they see fit.

In addition, there is also a major cultural barrier to overcome. The sense of informality or ‘anonymity’ that is portrayed throughout the payday loan process is advantageous given the often personal circumstances that lead people to require such a loan. Further, people do not always act rationally when they are in an emergency situation and the product that payday lenders offer provides a type of instant relief (with long term consequences) with which it is difficult to compete.

Although the obstacles to introducing an alternative product to payday loans in Canada – and more specifically Manitoba – cannot be ignored, there are many opportunities to support such an initiative that can be identified as well.

Session 3: Opportunities

The following opportunities for introducing an alternative product to payday loans in Manitoba and Canada were developed from the same group discussion facilitated by Maia Graham-Derham, as well as a group discussion facilitated by Kate Martin, that included the input of all workshop participants.

Partnerships with Community Organizations

FIs must work more closely with the organizations engaged in social issues that lead to payday loan use. This would allow credit unions to reattach their institutions to local poverty reduction strategies by investing resources into building the capacity of communities, rather than extracting resources from communities. Examples like the Fair & Fast Loan have suggested the key to successful lending is a 'high-touch' strategy that requires close engagement with participants and partnering organizations.

Partnerships with other Credit Unions

Credit unions can make use of existing networks within the sector to discuss initiatives and collaborate on alternatives to payday loans. As some institutions are much larger and have more resources than others, this would represent an opportunity to work together as a cooperative to serve people and meet their needs.

In recognizing the difficulty in arriving at a universal point of view on the matter, this does not suggest that one panacea be found for all provinces, but rather, building relationships to provide examples to one another. Thus, previous failures can be learned from through past experiences, which could cut down on costs and the potential for loss by using the best policies and practices of others.

One example that was discussed was the creation of a handbook or toolkit that the national central and regional centrals could lead that would showcase successes and challenges to small loan products and provide credit unions with a guide to developing small loan products as alternatives to payday loans.

Improving accessibility of financial services

As highlighted above, culture at mainstream FIs can be a deterrent. Quality of customer service is a major determining factor for where a person with bad credit or a financial emergency will turn to for assistance. There is a stigma that one will encounter judgment or an air of complacency if they approach a credit union (or a bank) in such a situation.

By training employees at credit unions to better understand barriers to banking, such negative perceptions can be avoided and the nature of the response improved upon. Members should not feel as though they will be treated differently according to their level of income, which might even require improving the process of introducing employees to the community members they are serving.

Exposing the Cost of Payday Loans

Participants discussed that providing information about the cost of payday loans is a major opportunity for influencing public opinion. However, payday lenders usually advertise the short-term fee, which makes the long-term cost to the borrower difficult to understand. Thus, the long-term cost of payday loans needs to be more clearly understood by consumers. Participants suggested that this may require a regulation be implemented that makes it mandatory for payday lenders to post information demonstrating the long-term cost of using their products.

In addition, credit unions can take such an opportunity to make visible the value in smart borrowing, long-term investment and a healthy credit rating.

Streamlined or Automated Processes

One of the barriers to providing small loans recognized by participants were overhead costs. To address this challenge, an entirely automated system can improve efficiency and reduce costs to increase profits (e.g. Q Cash). A major issue with delivering an alternative to payday loans is the investment of resources it requires for a low rate of return.

Efficiency and profitability are tied together, so if the amount of time staff must spend engaging in the loan process can be reduced, it is likely that the value of the product and the incentive for the institution to develop it will be increased. A more streamlined and efficient system would also give added incentive to the borrower.

The Mandate of Credit Unions

Participants agreed that credit unions were established out of a need for people to access financial services that they could not otherwise access through mainstream FIs. Today, a commitment to community education and member education are two internationally recognized cooperative principles that shape credit union business priorities and activities.

Considering credit unions' commitments to honouring cooperative principles and a history of providing access to affordable financial products, credit unions were seen in this workshop as well positioned to provide alternatives to payday loans. Providing members with access to affordable small loans is also an opportunity to differentiate from other FIs that do not place such importance on contributing to societal benefits. Other types of complimentary programs to the loan can be offered as well, such as matched savings accounts for eligible members.

The participants agreed that credit unions have the opportunity to meet a critical consumer need in a responsible way. By meeting this need, there is the potential for keeping money and resources in the community, thus helping to build local and strong communities.

It was also noted that many of the issues discussed fell within the broader poverty reduction strategy and cannot be resolved solely by providing an alternative to payday loans.

Regulatory and Legislative Developments

Legislation that regulates the amount that payday lenders, and other fringe financial services, can charge, the amount they can loan and the manner in which they must display fees can assist consumers in making educated financial decisions and in providing protection to consumers who use fringe financial services.

There are several opportunities on the horizon that have the potential to shift the legislative and/or regulatory treatment of payday lenders. Some of these opportunities could also create an enabling environment for credit unions to enhance their small loan offerings.

- In British Columbia, there is a public consultation on payday lending expected in 2016.
- In Alberta, draft amendments to the payday lending legislation are to be reviewed in 2016, as the current legislation expires in June.
- In Ontario, new legislation, the *Alternative Financial Services Statute Amendment Act* is anticipated for 2017 and will create rules for cheque cashing and alternative institutions.
- In Manitoba the *Consumer Protection Amendment Act* is set to come into force in September 2016 and targets high-cost credit products other than payday loans. The C*onsumer Protection Act* of Manitoba imposes regulations on payday lenders. The *Payday Loans Regulations* currently sets 30% of a borrower's net monthly income as the maximum that can be loaned, as well as a 17% maximum charge to the principal amount of the loan. These limits and other issues are set to be reviewed at the Public Utilities Board hearing in April 2016.

In addition, there have been recent shifts in approaches to financial consumer protection and financial literacy. A Comprehensive Financial Consumer Code is being developed to better protect consumers of financial products and ensure they have the necessary tools to make responsible financial decisions. There is also research being conducted on financial literacy from the Financial Consumer Agency of Canada.

These legislative developments are opportunities for organizations, including FIs, to get involved in the process. However, restricting the profits of payday loans companies and other fringe financial services is likely not enough. Shifts in approaches to consumer protection and financial literacy are necessary.

Availability of Capital

Access to capital for credit unions to introduce an alternative to payday loans was not considered the primary barrier to offering these services. However, as previous experiences would suggest, a program can be limited by how it is resourced. Therefore the development of such a product would have to become a real priority to the financial institution.

Establishing a loan loss reserve fund through private donation, such as in the case of the Cash Crunch Loan in Calgary, would be helpful for mitigating risk. Efficiency would also be important to ensure the sustainability of such a product.

In other cases, the provision of such a product would require significant support from the community, as well as extensive support from executive management to recognize it as an important part of a long term business plan. It was also mentioned that identifying partners who are willing to take a risk as a social impact investment could be useful. Important factors are timing, resources, what else is on the table, what can be learned from previous efforts, and largely, about doing it right when it gets done.

Conclusion and Recommendations

We understand that the mandate of the PUB is to review and update the regulation of the payday lending industry. Nevertheless we believe that a strong argument can be made that the existence, rise, and continued growth of products offered by payday lenders is evidence that the mainstream consumer financial system is inadequate. We think that the PUB has the opportunity, through its investigation and hearing, to gather the evidence needed to share with the Manitoba and Federal governments to advocate for improvements in mainstream banking for un- and under-banked people.

The workshop participants highlighted the point that there are long-term and largely undocumented social and economic costs to payday loans that are not taken into account when simply focusing on the lender-borrower transaction. While payday loans may be mutually beneficial for some, there are clearly other borrowers who have few options and who end up borrowing many times in a short duration, who are not benefiting. The resulting debt cycle hurts them, the communities they live in, and the entire society.

The materials flowing from this workshop demonstrate that there is both a ‘will’ on the part of members of the credit union and *caisse populaire* movements and ‘way’ through lending products such as the Fair & Fast and the Credit Crunch loans to address this issue. What is needed is for the major players, the Manitoba government, the Federal government, the Canadian Credit Union Association, the Desjardins Federation, and the Canadian Bankers Association, and interested mainstream FIs to enter into dialogue and to develop a strategy that enables FIs, particularly credit unions and banks, to offer small loans that will offer consumers an alternative to payday loans.

The following recommendations were compiled by the authors from the discussion on obstacles and opportunities at the workshop.

- A comprehensive study be undertaken to carefully calculate the economic and social costs and benefits of payday loans on individuals and communities. Particular attention should be assigned to issues such as repeat and internet borrowing.
- Identify ways to engage mainstream FIs in the small loans market and more generally in the area of financial inclusion.
- Develop a best practices document that can be shared with credit unions and banks. This document might make reference to the following points,
    - The role of partnerships: between credit unions and community organizations/among credit unions
    - Methods to improve customer service by improving the training of staff on select issues related to people who are under-banked or over-indebted
    - The importance of Board and CEO support for the model, at least in the early stages

    - Product design: is the small loan considered a lower cost substitute for payday loans, or is it to develop a model that is more constructive for lender and borrower?
    - Clarify the target clients: for instance, would the product be targeting the 'underbanked' or the 'over-indebted'?
    - Be prepared that developing the model will require a learning-by-doing approach that may involve early mistakes. This means that the organization must develop a learning culture to succeed.
- Careful consideration should be given to the use of new Information and Communication Technologies in terms of delivery of small loans. However, these should not be seen as a substitute for in-person delivery because of the advantages of the latter.

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Coordinators

Jerry Buckland | Menno Simons College (MSC) – Jerry is a Professor of International Development Studies at MSC and a leading researcher in the area of financial exclusion and fringe banking in Canada.

Katrine Dilay | Public Interest Law Centre (PILC) – Katrine is an articling student at PILC where part of her work relates to the legislation surrounding payday lenders in Manitoba.

Evan Sinclair | University of Winnipeg – Evan worked as a research assistant on the Manitoba Consumers' Experiences with Payday Loans project and is interested in further pursuing the study of social issues in an urban context.

Participants

Brian Dijkema | Cardus – Brian is the Program Director, Work and Economics at Cardus, and is currently developing a paper that considers a community oriented solution to the payday lending issue.

Rhys McKendry | Cardus – Rhys is a researcher at Cardus and is currently looking at providing an alternative to payday lending in Alberta that meets consumers' needs.

Maia Graham-Derham | Assiniboine Credit Union – Maia is the manager of the Financial Access Program at ACU that is focused on financially empowering its members and their communities.

John Silver | Community Financial Counseling Services – John is the executive director at CFCS that offers programs to communities in areas such as financial literacy and debt management.

Kate Martin | Canadian Credit Union Association (CCUA) – Kate is a Policy Analyst and member of the Government Relations Advocacy Team at CCUA where she works to advance the social and ethical performance of credit unions.

Catherine Ludgate | Vancity Credit Union – Catherine is the Manager of Community Investment at Vancity, located in Vancouver, and works extensively on programs aimed at financially empowering people living in poverty.

Byron Williams | Public Interest Law Centre – Byron serves as the director of the Public Interest Law Centre where he specializes in human rights, environmental and poverty law.

Kevin Morris | Credit Union Central of Manitoba (CUCM) – Kevin acts as the Senior Advocacy Analyst at CUCM and has attended the workshop to share his research on innovative alternatives to payday loans.

Christopher Scott | Alterna Savings – Christopher is a Senior Advisor at Alterna, a credit union based out of Ontario, and is currently working on the financial literacy aspect of a micro-financing product they are developing.

France Michaud | Desjardins – France is the Head of Communications at Développement international Desjardins, providing support to Desjardins' solidarity-based finance initiatives.

Gloria Desorcy | Consumers' Association of Manitoba – As the Executive Director of the Manitoba branch of CAC, Gloria is actively involved in addressing topics of emerging interest to consumers through research, education and provision of services.

Courtney Hare | Momentum – Courtney is interested in addressing the root causes of poverty by engaging with low-income communities to promote economic development as the Public Policy Manager at Momentum, an organization based out of Calgary.

Teri Buckley | Connect First Credit Union – Teri is the Community Brand Manager at Connect First, located in Calgary, and is committed to helping Albertans to succeed in breaking the payday loans cycle.

Louise Smith | Credit Union Central of Manitoba – Louise is a Vice President at CUCM and sits on the national Credit Union Social Responsibility Committee.

Marilyn Brennan | Credit Union Central of Manitoba – Marilyn is the Senior Vice President of Governance and Strategy at CUCM and has worked extensively on the issue of payday lenders in Manitoba.

Diane Bourns | Assiniboine Credit Union – Diane is the Vice President, Retail Sales & Service and is responsible for a majority of retail network and the services & products offered at ACU.