THE RISE OF FRINGE FINANCIAL SERVICES IN WINNIPEG'S NORTH END:

CLIENT EXPERIENCES, FIRM LEGITIMACY AND COMMUNITY-BASED ALTERNATIVES

A Report on the Research Study into Fringe Financial Services in Winnipeg's North End

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

SUMMARY

This report documents research undertaken over the past year through the Winnipeg Inner-city Research Alliance to examine the rise of fringe financial services in Winnipeg's North End. Fringe financial services include a variety of financial services such as loans and cheque-cashing that are offered by fringe banks. Although fringe banks are becoming more common today they generally operate on the margin of the mainstream banking and credit union system in Canada.

Fringe banks include pawnshops, cheque-cashing firms, payday lenders, rent-to-own firms, tax refund advancers, finance companies and 'white-label' automatic teller machine providers. This report explores client experiences with fringe banks, it examines the issue of fringe bank legitimacy and it develops a model and provides a preliminary feasibility assessment of an alternative model to fringe banks for low-income people. The research project has involved a series of methods including interviews with 41 North End fringe bank clients; interviews with 27 key-informants with special knowledge about fringe banks and North End resident's financial needs; outlet follow-up and sample transaction and two focus group discussions and a feasibility assessment.

The rise of fringe banks and their use is a complex phenomenon that is driven by broad changes in Canadian society and economy. Although many of the drivers of the fringe bank growth are broad processes, fringe banks have a particular impact on their clients, owners, employees and neighbourhoods. The research project, rooted in a community-identified issue, has generated a significant understanding of the social and economic impacts of fringe banking in the North End.

RESEARCH OBJECTIVES

Section one of the report summarises available academic and policy literature on fringe banking and describes the research objectives and methods of this research project. The research objectives were threefold:

- to understand the motives and experiences of North End fringe bank clients;
- to determine if fringe bankers overcharge their clients; and
- to develop a model, and complete a pre-feasibility assessment of a consumer financial services outlet that could offer an alternative to existing fringe banks.

NORTH END WINNIPEG

Section two reports on key social and economic indicators for households within the North End and in comparison with the rest of Winnipeg. This section demonstrates the relatively disadvantaged situation faced by households in the North End in general and within certain North End communities in particular. Indicators ranging from income, employment to dependence on social assistance demonstrate that North End residents experience greater deprivation than in Winnipeg overall. Considering that mainstream banks have shut down branches in the North End and that North End residents are more reliant on public transportation serves to compound the challenge for residents of the North End in meeting their financial service needs.

CLIENT EXPERIENCES AND MOTIVATIONS

The survey of fringe bank clients is reported in section three. This section documents client experiences and motivations in using various fringe banks, the reasons for using fringe financial services, different household strategies for obtaining informal credit and the social consequences of relying on fringe banks. This research found that the motivations for using fringe banks are quite complex, varying among clients and across types of fringe banks.

On the one hand, the clients we spoke with thought that fringe banks provided a service they needed. These financial service outlets, such as cheque-cashing firms and rent-to-owns, are easy to access for a variety of reasons: clients generally do not need a bank account or the personal identification required for a bank account. Moreover, fringe bank outlets are nearby and have convenient hours of operation. Pawnshops provide clients with quick access to cash to meet emergency needs when other sources (e.g., bank, family or friends) are not available. In general, clients of these services had low incomes. Payday lenders and finance firms were used by a smaller number of our surveyed clients. Clients of these services reported similar accessibility motives as did other fringe bank clients, but they had higher incomes. Firms that provide tax refund advances and local stores and bars that provide credit and cheque-cashing services were also described by some clients who were interviewed.

On the other hand, several of the fringe bank clients who were interviewed recognised that the services come at a high cost, in some cases deepening their debt load and aggravating a cycle of poverty. Some clients of cheque-cashing firms noted the high price they paid for this service. Some interviewed pawnshop clients were particularly aware of the relationship between pawning, debt and poverty. Several rent-to-own clients we interviewed noted the large difference between the retail price of the good as compared to the total payments they made for the good. While in many cases clients do not know exactly how the fringe bank fee compares to mainstream bank services, they do understand that fringe financial services are more expensive.

Among interviewed clients factors correlated with the use of fringe banks include, low income, low levels of formal education, single parenthood, limited access to a mainstream banks and bank services. Some clients have difficulty physically getting to the bank while others lack the personal identification required to open a basic account. Fringe bank clients we interviewed commented that they felt more respectfully treated and that they had a greater sense of control over their money at fringe banks as compared to mainstream banks.

These motives and experiences help to explain the rise of fringe banks in the North End. The client research also revealed a variety of informal credit strategies undertaken by fringe bank clients. These strategies involve informal credit through family and friends that complement or substitute for fringe bank credit. Section three concludes with a discussion of the social effects of fringe banking. It argues that fringe banking can trap low-income clients into a cycle of debt and poverty. This is aggravated by public policy that does not effectively address the causes of poverty and community-based supports that are inadequate to deal with the scope of the challenge.

THE NATURE OF FRINGE FINANCIAL SERVICES

Section four documents the number of fringe financial service providers, their services and the costs of their services in Winnipeg and the North End. The data demonstrate a rise in the number of providers in both Winnipeg and the North End in the last twenty years, but particularly in the last five years. Cheque-cashers, payday lenders, rent-to-owns and pawnshops are a growing sector. Over the last 10 to 15 years, the North End has experienced a transformation whereby the number of mainstream bank branches have declined precipitously while the number of fringe banks has grown rapidly.

This section also documents the types of services offered by fringe banks and examines the associated costs in terms of a lump-sum fee and annualised interest rates. The costs associated with these services are high in terms of annualised interest rates as follows: 450 percent for a $50–$100 pawn; 210 percent to cash a cheque (assuming it is equivalent to a five-day loan); 675 percent for a $100 payday loan; 305 percent for a rent-to-own agreement; and 286 percent for a tax refund advance (assuming it is equivalent to a two-week loan). Fringe bank service costs are far in excess of comparable services offered by mainstream banks through deposit accounts, credit cards and lines-of-credit. Moreover, fringe financial services meet only the immediate financial need; these services do not address longer-term financial needs of their clients such as savings and building a positive credit rating.

This section also reports on fringe banker perceptions of their clients' background. Many interviewed fringe bankers believe their clients have low-incomes. Pawnbrokers and rent-to-own respondents felt that the majority of their respondents are Aboriginal and rent-to-own respondents indicated 85 percent of their clients were recipients of Employment and Income Assistance. Because of data limitations, we were not able to determine whether fringe banks generated profits beyond what is considered to be a fair or competitive rate of profit.

FRINGE BANK LEGITIMACY ISSUES

Section five addresses and summarises the central issues raised in the key informant survey pertaining to fringe bank legitimacy, government policy and the relationship between fringe banks and the illegal economy. In terms of fringe bank legitimacy, views expressed by key informants varied. Fringe bankers made the case for legitimacy in a variety of ways, most importantly that they follow fair business practices and that other 'legitimate' businesses (e.g., corporations) also regularly charge high fees for services. Fringe bankers report that they are responding to a growing demand for their services and described their business practices as fair. (Note that we were only able to interview one cheque-cashing/payday lending firm.) The fees charged, according to the fringe bank respondents, were high because of the risky and time-consuming nature of their business. A business-client tension was identified when fringe bank respondents were asked why their clients used fringe financial services instead of mainstream financial services: several commented that their clients made poor decisions.

Section five included views expressed by other key informants about fringe banking policy and community impact. Government views of fringe banks were somewhat mixed. Views of provincial government respondents were particularly complicated, involving support in principle for fringe banks, but a willingness to address particular cases of fringe bank overcharging and when necessary, adjusting the fees paid by an individual to below the criminal rate of interest. The federal government respondent indicated that fringe banking is not in its jurisdiction in terms of policy, making the provincial perspective all the more important. Views expressed by community organisations were mixed regarding fringe bank legitimacy but a common concern was expressed that the relationship with fringe banks does not help clients move out of poverty.

ALTERNATIVE MODELS

Section six considers a variety of alternatives to fringe banks from around North America, examining them from a community economic development perspective. This section highlights the models, services and costs associated with a variety of firms around the continent including the Toronto's Cash and Save, Vancouver's Four Corners Savings Association, the Desjardins *Caisse Populaire* micro-consumer loan fund in Quebec and the Florida Central Credit Union inner-city projects. These models demonstrate the variety of approaches that credit unions, banks, governments and communities have developed to address financial service needs of low-income people.

This section concludes by arguing that successful financial service models for low-income communities must achieve a certain level of self-reliance. This means that they must face the need to partly pay for services through fees. To be successful, these models require good relations with the community, something community organisations can contribute. They also require institutional support, most likely from a credit union or possibly government. Finally, financial services to low-income communities should address short-term needs such as cheque-cashing and small loans, and long-term needs such as saving and developing a solid credit rating.

A COMMUNITY FINANCIAL SERVICE CENTRE

These models, along with the other research findings, helped to shape the idea of a community financial service centre that is described in appendix F. This centre would involve a physical outlet that would provide some core services including micro-consumer loans. In addition, the centre would be a part of a network that would include a mainstream bank or credit union in addition to other community organisations. The relationship with the mainstream bank would allow clients to borrow and save their way into a regular relationship with a bank or credit union. The other partners would provide other services such as character referencing, cheque-cashing and credit counselling. The feasibility assessment of this model is found in appendix G. The assessment demonstrates that various financial services can be self-supporting if core outlet costs are covered by other means.

RECOMMENDATIONS

Recommendations from the research fall into three categories: recommendations about services needed for North End residents; recommendations about government policy related to fringe and mainstream banking; and, recommendations about further research. The recommendations must be understood in light of the limitations of the research size and scope, discussed in the research methods section.

1. FINANCIAL SERVICES FOR THE NORTH END

The research has documented that access to mainstream financial services in the North End has been declining as availability of fringe financial services has been growing. Fringe financial services can address the very short-term financial needs of some North End residents. However, these services are expensive and do not provide a direct way for clients to participate in financial services that address long-term need, e.g., savings and longer-term credit. For this reason, the team believes that access to mainstream bank services must be improved. We recognise that simply establishing new mainstream bank branches is both unlikely, given the large-scale closures in recent years, and does not address the entire issue. Therefore, we propose the following:

1.1 **Community organisations might seek to raise awareness among North End residents about the costs, benefits and limitations of fringe bank services and the need to consider longer-term financial strategies.** This process could cast more light on client motives and generate social and political support for the development of alternative services that are more beneficial to clients in the long-term.

1.2 **That mainstream banks and credit unions remaining in the North End be encouraged and supported to establish outreach services for residents of the North End who do not use their services because of a lack of awareness of the benefits.** These mainstream banks could work with community agencies to better understand the needs of the North End clients and raise awareness among these potential clients about the benefits of mainstream banking. To be successful, the mainstream banks would need to address concerns expressed by North End clients about convenience, disrespect and control over their funds.

1.3 As discussed in section four, the costs and practices of fringe financial services vary considerably. **It might be sensible for community agencies to work with the fringe banks that offer the best rates and practices.** These collaborative fringe bankers might be approached to explore the possibility of building ways in which their clients can make a transition to mainstream financial institutions.

1.4 **That a community banking centre be established in the North End, somewhere close to Selkirk Avenue and Salter Street.** The model for this centre is described in appendix F that also includes a feasibility assessment.

1.5 **That fringe bank clients who are dependent on Employment and Income Assistance be made aware of the existing opportunities they have to save money.** Savings by these people might be facilitated by addressing point number 2 above, so that Employment and Income Assistance clients can establish savings accounts at mainstream banks.

2. GOVERNMENT POLICY

The research team has identified two general areas of government policy requiring reform. Poverty and stagnating incomes at the low end of the income scale has facilitated the demand for fringe financial services. Thus, the growing dependence on fringe banks suggests a need to re-examine broad social policy. Second, the rapid rise of fringe banking has meant that government policy needs to 'catch-up' with the economic reality. In Manitoba, regulation of fringe banking is limited and ad-hoc.

2.1 The research team believes that growing dependence on fringe banks is partly the result of poverty and stagnating or declining incomes. **Thus, policies and regulations effecting the incomes of low-income people must be addressed.** For instance, the provincial government could move to a guaranteed minimum income program. Alternatively, the government could raise the rates of Employment and Income Assistance. Additionally, the government could address the needs of low-income people through greater subsidies in housing, health-care and child-care.

2.2 Considering the use of fringe banks has been associated, through the client and key-informant survey, with a need for loans to finance gambling and substance abuse, **the research team suggests the provincial government discontinue operating gambling casinos, and more effectively address the issue of substance abuse.** In addition the government must work more pro-actively at reducing racism.

2.3 **The Manitoba government should seek to find ways to help people move from Employment and Income Assistance to employment. This transition can be facilitated if Employment and Income Assistance recipients can save in order to invest in education and employment.** The government should clarify with clients, and reform the rules for savings, to facilitate a transition out of dependence on Employment and Income Assistance.

2.4 **The Manitoba government should consider introducing a photo-identification card that could be used for mainstream bank identification.** Moreover, the province could require, as is done in British Colombia, that mainstream banks cash provincial cheques, e.g., Employment and Income Assistance cheques for free.

2.5 **The federal government must address the issue of declining availability of mainstream banks in inner-city neighbourhoods. This can be achieved by developing legislation that requires mainstream banks to contribute to these communities.** The Community Reinvestment Act (see Caskey 1994, p. 133) in the US is an example of this type of legislation. Of course, to attract people to a mainstream bank from a neighbourhood like the North End requires the physical establishment of the bank *and* outreach operations. Federal policy could require that all mainstream banks contribute to inner-city and rural communities across the country.

2.6 **The federal agency, the Financial Consumer Agency of Canada, should take a pro-active stance regarding the fringe bank phenomenon. The agency's mandate includes the education of consumers about financial services. Given the fringe bank rise, and the decline of mainstream banks in inner-city neighbourhoods, the agency must address the educational needs of inner-city residents.** This can be achieved through research and education programs offered, e.g., through community agencies and schools. It is unlikely that this education can be achieved through the agency's web page.

2.7 **The provincial government should introduce new legislation regulating all fringe banks, including pawnshops, cheque-cashers, payday lenders, rent-to-owns, income-tax refund advancers, finance companies, etc.** This legislation should establish a system of fair disclosure requiring firms to use a consistent system of pricing and advertising so that consumers can easily and understandably compare prices between firms. Regulations should also limit loan rollovers or extensions and restrict firm collection practices due to defaulted loans. The government might also introduce a recommended annualised interest rate for small-sum, short-term loans.[1] This could be based on further research, described below.

2.8 At present pawnshops in Winnipeg are more regulated than the other fringe banks. This regulation is undertaken by the city and deals with zoning and monitoring of transactions of stolen goods. Besides the issue of stolen goods, it is not clear why pawnshops face more regulation than other fringe bankers. Our research demonstrates that clients benefit from pawnshop services. **The research team recommends that fair disclosure legislation, described above for fringe banks in general, should apply also to pawnshops.** If the proposed Internet-based monitoring system increases the cost of pawning faced by consumers then the rationale for the program needs to be very clear. At present, even the best monitoring system is limited by people's propensity to keep records of their serial numbers.

3. FURTHER RESEARCH

With any research project, several questions are answered and many new questions arise. This is the case with the present research project. The research team has tried to address the three research objectives dealing with fringe bank overcharging, fringe bank client motivations and the feasibility of a community-

[1] In France the government posts usury interest rates at banks and financial institutions. Lenders cannot charge interest rates above this usury interest rate.

oriented alternative to a fringe bank. However, the team recognises that not all the questions on these issues have been addressed and that new questions have arisen.

3.1 Because the client research was conducted using a chain-referral method in the North End with only 41 respondents, the research project cannot make universal statements about the results. **There is a need for a broader survey of fringe bank clients across Winnipeg and possibly across the country.**

3.2 The research team could not find studies examining the fringe bank phenomenon generally in Canada. **There is a need for studies to examine the growth, services and costs of fringe banking across the country.** This study might include an examination of the connection with mainstream branch closures, argued by Caskey (1994) in the US case.

3.3 While this research project did not address fringe bank policy directly, it became clear that there is a need for more research in this area. **The team recommends that further independent research be conducted related to provincial and federal government policy regarding this sector with an eye to considering the impact on the low-income fringe bank consumer.**

3.4 Another policy issue indirectly addressed in this study relates to general social policy for low-income people. **There is a need for further research into the relationship between social policy and the demand for financial services.** What is the relationship between social policy and dependence on fringe financial services? How can social policy be reformed to encourage a transition towards mainstream financial services?

3.5 **Fringe banks are increasingly operating in middle-income neighbourhoods in Winnipeg. Research might examine this phenomenon and compare it with the rise of fringe banks in low-income neighbourhoods.** More generally, fringe banks are becoming more common and therefore more mainstream. A research study could examine the consequences for clients in this process of 'normalisation' of a new sector. A related question would be to examine the social perceptions in Canada towards fringe bankers.

3.6 **Research might be conducted into the costs of providing small-sum, short-term loans.** These data could be used to help consumers evaluate the options they face in terms of fringe financial services.

3.7 **Research might examine the impact of fringe bank establishments on a neighbourhood.** For instance a study might look at the consequences of the establishment of a pawnshop on a neighbourhood's businesses, sense of community, housing quality and prices, etc.

1.0 INTRODUCTION TO THE REPORT

1.1 CONTEXT OF RESEARCH TOPIC

I use [a Cheque-Cashing Firm] to cash cheques and get money orders. My bank places a hold on my cheque for five days. At the cheque-cashing facility I get my money right away. There is no extra paper work there either. It's just more convenient.

(client of a cheque-cashing firm)

We [pawnbrokers] provide a service…People won't pay [for the service] if the price is too high. Compare our profit with, for example, Robin's Donuts. We expect a [fair return] on investment.

(pawnbroker)

The two quotes[2] above come from research conducted from September 2002 through August 2003 with clients and owners/managers of fringe banks and other key informants. The quotes point to the mixture of motives involved with the rise of fringe banking in Winnipeg's North End. The research study explored why fringe banks are growing in numbers and types when they charge fees for services higher than mainstream banks. The research was particularly focused on understanding why clients use these services and whether fringe banks earn excessive profits. This section of the report introduces contrasting views on the legitimacy of fringe financial services, outlines results from recent studies on fringe banking in Canada and the US and describes the research objectives and research methods of this study.

Fringe financial service firms, or simply fringe banks,[3] are a growing phenomenon in Winnipeg and to varying degrees throughout Canada, the US and the UK. This industry includes pawnshops, cheque-cashing firms, payday loan firms and rent-to-owns, and more broadly can also include finance and loan companies. These fringe banks provide fringe financial services which include cheque-cashing, loans, money orders, and rent-to-own agreements. While pawnbroking is an historic institution, other fringe banks are newer entrants into the market for financial services. That is not to say that the services these newer fringe banks provide are new. Retailers have done cheque-cashing for many years and rent-to-own agreements have been offered by some retailers' in the past. What is new is the establishment of firms exclusively

[2] Quotes are based on information recorded during interviews. They may be written verbatim or they may be paraphrased.

[3] The name for this industry is of recent origin because of its rapid and recent rise. The term 'fringe banks' seems to be quite well accepted in the US where most of these firms, excepting pawnshops, have their longest history (see Caskey, 1994). In Canada 'fringe' (see Public Interest Advocacy Centre, 2002) and 'alternative' (see Ramsey, 2000) are adjectives that are used to describe this financial sector. Fringe financial service firm or fringe bank is used in this study because US and some Canadian research have established this as an effective name. The term is intended to describe a variety of firms that operate on the margin of the financial system - it is not intended to judge the firms or clients. Caskey (1994, p. 106) notes that another set of fringe banks, in this case associated with the high-income margin of the financial system, has also experienced recent growth in the US.

concerned with a certain type of financial service: cheque-cashing, payday loans, and rent-to-own agreements. These financial services generally involve some sort of loan that in comparison to mainstream credit –from banks, credit unions and credit card companies– is small in size and very costly. Fringe financial service users tend to be low-income people.

The dependence of low-income people on fringe banks has generated a major concern regarding the rise of fringe financial services. From an anti-poverty perspective, voiced by community development practitioners, these services further impoverish low-income people. Pawnshop loans and expensive cheque-cashing are the only option for a low-income person particularly as mainstream banks close their branches in the inner-cities. The service charges for the loan or cashed cheque eat into a low-income person's limited budget. These charges compound the debt-poverty cycle often faced by a low-income person. A pawn loan allows a person to meet a daily need or want today but repaying the loan and interest in one month reduces their income at that time or requires an additional loan. This places further economic and psychological strain on the low-income persons. This strain can lead to a further deterioration of the person's economic and social wellbeing.

On the other hand, from a market perspective, the rise of fringe banking represents the growth of innovative new financial services that were previously unavailable to people. Financial sector liberalisation, i.e., reduced regulations and national protection, and the development of new technologies, i.e., communications and information processing, have generated new services and firms. These processes are associated with the recent deepening of economic globalisation reflected in international and regional trade agreements. The result, according to industry proponents, is that these services and firms can meet the needs of a particular set of consumers in a way that, for instance, mainstream banks have previously been unable to. The case for pawnshop loans is somewhat different given its long history. That said, industry proponents argue that pawn loans are an efficient way to provide credit to people with little or no collateral.

The idea for the study that informs this report originated with several community-oriented organisations primarily based in the North End,[4] an inner-city neighbourhood in Winnipeg. These community organisations are involved in anti-poverty work in general and particularly address the difficult economic situation faced by inner-city and North End Winnipeg residents. These organisations are involved in a number of programmes from micro-enterprise development through 'asset-building' (individual savings) programmes to general neighbourhood revitalisation. They are also actively engaged in dialogue with policymakers and politicians and connected through various research projects, this one included, to the academic community. These agencies reflect both pragmatic and radical perspectives on poverty and community development. These perspectives have in common a concern for the local area and addressing poverty, but they differ in terms of understanding about the fundamental causes of, and solutions to, poverty. The pragmatic approach accents economic and social causes of poverty

[4] The North End refers to what used to be the northern quadrant of the city of Winnipeg. The title "North End" continues to be used for this area even thought it is now situated in the core area of Winnipeg – the inner-city. The geographic boundaries of the North End, as determined by the North End Community Renewal Corporation, is north of the CPR tracks, south of Caruthers Avenue, east of McPhillips Street, and west of the Red River. The city neighbourhoods included in this definition of the North End include: Burrows Central, Dufferin, Dufferin Industrial, Inkster Faraday, Lord Selkirk Park, Luxton, North Point Douglas, Robertson, St. John's, St. John's Park, and William Whyte.

and sees solutions in bridging the social and economic barriers. Radical analysis accents the political causes of poverty and searches for political solutions. Both of these views are found within the organisations that identified the fringe bank as an important issue in the North End. The idea for this research study is one outcome of these groups' efforts.

1.2 STUDIES OF FRINGE BANKING

The literature on fringe financial services is thin, particularly in Canada. Scholarly examination of fringe financial service firms in the US grew in the 1990s (Caskey 1991, p. 85). The following data point to the recent growth and current significance of pawnshops, cheque-cashers and payday loan firms.

The number of pawnshops in the US is up, having increasing to between 9,000 to 13,000 (Caskey 1994, p.47; Johnson and Johnson, p. 7). It is estimated that in 1988, US pawnshop credit reached $689 million, less than one percent of total US consumer credit. At that time there were roughly one-half as many pawnshops as today suggesting that pawn loans may have reached closer to two percent of total consumer credit in the US.

The number of cheque-cashing outlets in the US grew from approximately 2,000 in 1986 to 5,500 in 1997 reaching 11,000 in 2002 (Squires and O'Connor 2001, p. 142; Lynch 2002, p. 3). The number of payday loan firms in the US in 2001 is estimated at 8,000-10,000 (Elliehausen and Lawrence 2001, p. iv; Lott and Grant 2002, p. 12). Note that there is some overlap between payday loan and cheque-cashing firm, so that the total number of cheque-cashing firms and payday loan outlets in the US would be less than 19,000.

Based on a small-scale household survey undertaken by the Public Interest Advocacy Centre (PIAC) in 2002 (p.34-35), it was estimated that almost 200,000 Canadians had used a pawnshop service and between 1-1.4 million Canadians used some type of fringe banking service in the last three years. Ramsey (p.11) found the largest number of pawnbrokers across Canada in Quebec, followed by British Colombia, Alberta and Ontario. Money Mart, the largest payday loan and cheque-cashing firm in Canada, claimed to have established 254 outlets by 2002. The PIAC study estimated that approximately 550,000 Canadians had used a cheque-cashing or payday loan service in the last three years. However, Ramsey reported that the 1998 research study for the Financial Services Task Force found that 8 percent of the Canadian population (approximately 2.4 million) had used a cheque-cashing firm's service. Ramsey (p. 5) notes the highest number of cheque-cashing firms per capita in Canada is in British Colombia, followed by Alberta and Ontario. Quebec had a low per-capita number of cheque-cashing firms. Caskey (1994, p. 64) estimated that in 1990, US cheque-cashing firms cashed 128 million cheques with a combined value of $38 billion, earning the industry $700 million in fees.

Fringe bank clients come from a variety of socio-economic backgrounds. That said, there is evidence that clients of some fringe banks, particularly pawnshops and cheque-cashing firms are generally characterised by low income and limited access to mainstream banks. Caskey (1994, p. 68-73) found evidence for this in his interviews of firm operators in the US. The PIAC survey supported this view regarding pawnshop clients.

Payday loans are another matter. Evidence from the US suggests that payday loan consumers come from a socio-economic group with a lower middle-income level (Elliehausen and Lawrence 2001, p. iv). The PIAC (p. 36) study commented that broadly defined fringe financial services, including previously mentioned firms plus finance companies, loan brokers and tax rebate discounters, are not used predominantly by low-income people. PIAC estimated that only 15 percent of the consumers within this broadly defined fringe banking market would fall below Statistics Canada's low-income cut off.

Studies confirm that fringe financial services are relatively expensive. Annualised interest rates of 100-500 percent are common while one estimate found that payday loans' annualised interest rates amounted to 3000 percent (Lewison 1999, p. 3). At the same time, many studies have found that clients use fringe banks because of convenience related to hours of operation, proximity and quick service (Squires and O'Connor 2001, p. 154). This report provides further evidence in relationship to both of these issues.

In terms of explaining the growth of fringe banking, various factors have been identified in US and Canadian studies. Broadly speaking, these factors fall into two categories. On the supply-side of the fringe bank equation, various factors influencing the supply of mainstream and fringe bank services. Several factors relate to changing financial sector regulations, which is itself related to broad processes such as financial sector liberalisation and technological change. On the demand-side as well, several factors influence peoples' demand for mainstream and fringe bank services including stagnant incomes at low-income levels, growing debt ratios, declining state interventions and racial discrimination.

In his examination of fringe banking in the US, Caskey (1994, p. 84) argues that a chief reason for their rise is the increase in the number of households without bank accounts, rising from 9.5 percent of the US population in 1977 to 13.5 percent in 1989. He finds this is the result of processes effecting banks (supply-side) and bank clients (demand-side). On the supply-side of the equation, Caskey argues that changing bank regulations have led to the introduction of bank fees and the closure of bank branches in low-income neighbourhoods that have reduced accessibility of bank accounts. On the demand-side of the equation, bank clients and potential clients have faced pressures making holding a bank account less advantageous. Caskey points to several factors here including the stagnant or declining real incomes of low-income people; an increase in the number of people falling below the poverty line; and, reduced savings rates. Other factors associated with the rise of fringe banking include, the rise in consumer credit risk related to high levels of debt-servicing and personal bankruptcy; contraction in the bank and finance company supply of non-revolving, unsecured loans; growing numbers of people with higher credit risk due to increased legal and illegal immigration to the US; the increase in gold prices; the growing awareness among entrepreneurs of the profits in fringe banking and the growing demand for instant credit on the part of consumers.

Ramsey points to a similar set of factors for the rise of fringe banking in Canada. Ramsey (2000, p. 2) points out that between 650,000 and 900,000 adults do not have a bank account and that 8 percent of households with incomes less than $25,000 do not have bank accounts. This varies considerably across the country as households in Quebec, with its extensive *caisse populaire* system, have better access to mainstream banks. Ramsey points out that the decline in supply of small unsecured loans, due to the development of credit cards and lines-of-credit is a factor in the rise of fringe banking. He points to rising debt-to-income ratios among Canadians in general, and low-income people in particular; lower rates of savings; racial discrimination; and rising income inequality in Canada as explanatory factors on the demand-side of the fringe bank equation. The debt-to-disposable income ratio for Canadians rose on average from 78 percent in 1992 to 100 percent in 1998. The PIAC (2002, p. 38) study, drawing on fringe bank clients' perceptions of their economic circumstances found that only pawnshop clients perceived their debt levels to be higher than the average. Considering average debt load has been rising this is not surprising.

1.3 RESEARCH OBJECTIVES FOR THIS STUDY

The objective of this research is to study the fringe banking firms, the consumers, and the relationship between them to better understand the rise of these services. Among other processes, poverty, the feminisation of poverty and unemployment affect low-income consumers while fringe financial service providers are affected by financial sector deregulation. The study will examine the interaction in the fringe financial services sector in light of these broader processes. Examining the social motivations, as well as market features behind fringe financial services will inform the process of designing solutions that meet consumer needs and are more compatible with community economic development approaches. The data will be used to understand whether a community-based agency could offer these services in a way that benefits low-income consumers. As well, we will seek to understand how public policy could support such an approach. The research project has three principal goals:

A. To explain the economic reasons for the changing market dynamics in the fringe financial sector. Do fringe financial services overcharge low-income customers? Or do their high costs reflect high risk and high transaction costs?

B. To explain the sociological and political reasons for the growth of the fringe financial sector. What motivates low-income users of these services? Are these consumers behaving in an economically rational way?

C. To examine whether a community-owned non-profit service that could offer lower fees and interest rates has prima facie feasibility and to examine whether alternative models to provide these financial services show any basic evidence of market feasibility while striving to meet the social and economic needs of users.

1.4 RESEARCH METHODS

Besides the literature and database reviews, the research project involved several field methods including, key informant interviews, sample transactions and outlet follow-up, client questionnaire, focus-group discussions and feasibility assessment. The literature review was undertaken of existing secondary materials related to the size, profitability and client motivations of fringe financial services in Canada, the US and beyond. For the field research tools, an initial test was conducted in the fall of 2002 with a small group of respondents to ensure the questions were practical and understandable. Revisions were made to the instruments as necessary.

The first objective of the research was to explore the economics of the fringe financial sector and to determine whether the sector overcharges low-income customers. Besides the secondary research review, this research involved a series of key informant interviews, sample transactions and some outlet follow-up. Key informants were purposely selected based on their special understanding of fringe banks and fringe bank customers. This included key informants from the fringe financial sector, community agencies, banks and credit unions, and government. A total of 27 key informant interviews were undertaken during the fall and winter 2002-2003. The key informants were asked a sub-set of the questions contained in the key informant schedule (Appendix B). These questions asked about the size, profitability and motivations of the fringe financial sector as well as the scope for community-based alternatives. Not all key informants were asked all the questions in the schedule. For instance, the police pawnshop patrol was asked specifically about city regulations and perceived adherence to these regulations. Dr. Jerry Buckland undertook the majority of these interviews with Brendan Reimer and Nancy Barbour.

For some fringe financial services there was insufficient secondary and key informant data. In these cases it was necessary to run sample transactions and do some outlet follow-up to determine the procedures, costs and benefits. One sample transaction was undertaken with a fringe financial service firm in the North End. Once the sample transaction was completed we informed the firm in writing about it and our results. Particularly in the case of cheque-cashing and payday loan firms, who refused to participate in the key informant study, some additional data were collected through outlet follow-up. This included telephone calls or in-person visits to determine services, cost and procedures. Dr. Jerry Buckland carried out this additional work with assistance from Nancy Barbour and Brendan Reimer.

The second goal of this research was to explore the sociological and political reasons behind the fringe bank boom. In particular this research component sought to understand fringe bank client experiences and motivations. This research was guided by Dr. Jerry Buckland and Dr. Thibault Martin and undertaken by three student research assistants, Rana McDonald, Amelia Curran and Brendan Reimer, and both of the community research assistants, Nancy Barbour and Kathleen Bremner. This field research involved a survey of 41 North End adult (at least 18 years of age) clients of fringe financial services in the fall of 2002. We used the 'chain referral' sampling method ensuring that one-half of the respondents were female (to ensure fair gender representation).

Kathleen Bremner took the lead in contacting the initial respondents through personal contacts or by talking with clients outside of the fringe financial firm's outlet. These contacts were interviewed and asked to refer other clients for the interview, and so on. Flyers were also posted in strategic locations to attract additional responses. Arrangements were made to interview the majority of the clients over a four week period at the offices of the North End Community Renewal Corporation and North End Community Ministry. The clients were asked a series of questions outlined in the client questionnaire (Appendix B). These questions relate to the client's use and motivations behind the use of fringe financial services. Clients were asked to discuss their interest and ideas about community-based alternatives to fringe financial services.

Respondents were compensated for childcare, travel and incidental costs at a rate of $20 per interview.

The research was supplemented with two focus group discussions (Appendix C). One focus group involved fringe bank clients and further explored their experiences with fringe banks and their ideas about alternatives to fringe banks. The second focus group involved community organisation key informants who helped to develop a model that formed the basis of the feasibility assessment.

The firm and client research results were brought together to develop a community-based model that formed the basis of a feasibility assessment. The feasibility assessment (Appendix F) relates to the third objective of the study. The feasibility assessment developed preliminary financial analyses of a community financial services firm that would provide North End residents with an alternative to dependence on fringe financial services.

1.5 OUTLINE OF THE REPORT

This report is composed of six sections. The first section, written by Rana McDonald establishes some basic characteristics of Winnipeg's North End. This is done by summarizing available socio-economic indicators for the North End and comparing these data with data for Winnipeg as a whole.

The second section co-authored by Dr. Thibault Martin, Rana McDonald and Amelia Curran reports on the survey of fringe bank clients in Winnipeg's North End. This section documents fringe bank clients' experiences with fringe and mainstream banks and explores their savings strategies and reasons for using fringe financial services.

The third section, written by Dr. Jerry Buckland, Brendan Reimer and Nancy Barbour reports on a survey of fringe bank outlets, services and costs in Winnipeg and the North End. The next section co-authored by Dr. Jerry Buckland, Nancy Barbour and Brendan Reimer reports on the key informant survey that addresses, among other points, the question of fringe bank legitimacy.

The fifth section, written by Brendan Reimer summarises a series of models the research team identified that strive to provide a community-oriented alternative to fringe financial services. The report ends with a summary and presentation of a series of recommendations developed by the research team. This includes reference to a community banking outlet that seeks to address fringe and longer-term financial service needs of North End residents, found in appendix F. The preliminary feasibility assessment of this community banking outlet was done by Blair Hamilton of Dungannon Consulting Services. This report was edited by Brendan Reimer and Jerry Buckland.

2.0 SOCIAL AND ECONOMIC INDICATORS OF WINNIPEG'S NORTH END

2.1 INTRODUCTION

To gain a better understanding of the nature of Winnipeg's North End, this section describes statistics on the community's social and economic make-up. By providing data on income and employment levels, ethnicity, family structure, education level and access to transportation this section seeks to provide an understanding of the North End, on its own and in comparison to other Winnipeg communities.

The Pawnshops and Community Development study examines fringe banking in the area in Winnipeg referred to as the North End which is bounded by the CPR tracks to the south, Carruthers Avenue to the north, McPhillips Street to the west, and the Red River in the east and includes the neighbourhoods of Burrows Central, Dufferin, Dufferin Industrial, Lord Selkirk Park, Luxton, North Point Douglas, St. John's, St. John's Park, Robertson, and William Whyte. The definition of the North End provided by the North End Community Renewal Corporation. This area is a unique community within Winnipeg that encompasses a high density of fringe banking facilities in comparison to other areas of Winnipeg.

The composition of the population in the North End can be examined through the area's social and economic indicators. This section of the report will specifically focus on the following indicators: population size, age, race/ethnicity, education, employment, income, marital status and transportation. For the purposes of this demographic study, six of the 11 neighbourhoods will be analysed: Burrows Central, Dufferin, Dufferin Industrial, Lord Selkirk Park, North Point Douglas, and William Whyte. These six neighbourhoods, which make up the southern half of the North End, are considered to be the more socio-economically challenged neighbourhoods in the North End. The social and economic indicators will provide an overall view of the population of these North End communities. These North End demographics[5] will be compared to those of Winnipeg[6] in each respective characteristic using statistical information from the 1996 census. This will enable the comparison of indicators that reflect between the two area's populations. These individual North End neighbourhoods will also be examined in relation to each other and

[5] This demographic information of Winnipeg's North End is composed of statistical information found on the City of Winnipeg web site at www.city.winnipeg.mb.ca/interhom/about_winnipeg/profile/census.stm. This information is based on the 1996 Census Data. The "Winnipeg's Neighbourhood Profiles" are based on Non-Institutional Population and 20% sampling as provided by Statistics Canada. This means the data does not include people living in hospitals, nursing homes, prisons, etc. As well, one in five dwellings were surveyed; the results were then multiplied by five to arrive at representative data for the whole community. Only the "Total Population" data is based on the results of surveying all of the dwellings and including all of the population, both non-institutional and institutional." (City of Winnipeg, 2003)

[6] The statistics for Winnipeg include all of the individual areas/communities and include the areas to which they are being compared.

to Winnipeg. This will facilitate an enhanced understanding of the processes underlying the unique socio-economic structures that exist in the North End.

2.2 POPULATION

The North End has a total population of 17,295. This represents approximately 2.8 percent of the total population of Winnipeg. Within the North End, the William Whyte neighbourhood has the highest population containing 6,230 people. The city of Winnipeg has a total population of 618,475 that has increased by 0.5 percent from the previous census in 1991. However, between 1991 and 1996, the population of the North End has decreased by 6.4 percent from a total of 18,485. The population in the North End has been steadily decreasing as the population in Winnipeg has, for the most part, been constantly rising.

Table 2.1 Population

TOTAL POPULATION	WILLIAM WHYTE		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
	Number	% Change from Previous Census	Number	% Change from Previous Census	Number	% Change from Previous Census	% Difference
1996 Census	6,230	-5.9%	17,295	-6.4%	618,457	0.5%	-6.9%
1991 Census	6,620	-4.0%	18,485	-2.9%	615,215	3.5%	-6.4%
1986 Census (2)	6,895	1.7%	19,045	1.7%	594,555	5.3%	-3.6%
1981 Census (2)	6,780	-20.1%	18,720	-15.8%	564,745	0.6%	-16.4%
1976 Census (2)	8,490	-15.1%	22,245	-20.3%	560,875	4.8%	-25.1%
1971 Census (2)	10,005	N/A	26,750	N/A	535,100	N/A	

*Source City of Winnipeg website “Community Profiles”

2.3 INCOME

Income of individuals in a community is also a key demographic factor used to determine the community’s socio-economic status. The North End has a household[7] income that is lower in comparison to Winnipeg’s overall household income. In Winnipeg the average household income is $44,937, in comparison to the North End in which the average household income is $22,320. The difference of $22,617 indicates an income disparity in Winnipeg. These disparities are notable in the North End where the majority, 33.1percent of households in the area, are found

[7] Household - “Refers to a person or a group of persons (other than foreign residents) who occupy the same dwelling and do not have a usual place of residence elsewhere in Canada. It may consist of a family group (census family) with or without other non-family persons; of two or more families sharing a dwelling; of a group of unrelated persons; or of one person living alone.” (Statistics Canada, 1996) “The dwelling unit may be a house, a suite in a townhouse or apartment, or a mobile home etc.” (City of Winnipeg, 2003)

in the $10,000-$19,999 category in comparison to Winnipeg, in which only 17 percent of its households are found in the $10,000-$19,999 category.

In the North End, 28.2 percent of its households are in the $30,000-$100,000 income category compared to Winnipeg in which 60 percent of the households fall into this income category. The North End has 16.1 percent more households in the $10,000-$19,999 income category and 31.6 percent less households in the $30,000-$100,000 in comparison to Winnipeg. Within the North End, the lowest income households are found in Lord Selkirk Park in which the average income is $16,513 which is 63 percent lower than Winnipeg's average. Even the highest income area of the North End, Burrows Central, is 29 percent lower than the Winnipeg average further signifying the financial disparity between the North End and Winnipeg.

Table 2.2 Household Income

HOUSEHOLD INCOME	LORD SELKIRK PARK		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Under $10,000	115	22.8%	1,520	22.2%	21,055	8.6%	13.7%
$10,000-$19,000	295	58.4%	2,265	33.1%	41,795	17.0%	16.1%
$20,000-$29,000	40	7.9%	1,125	16.4%	35,210	14.3%	2.1%
$30,000-$39,000	10	2.0%	745	10.9%	32,605	13.2%	-2.4%
$40,000-$49,000	15	3.0%	430	6.3%	28,425	11.5%	-5.3%
$50,000-$59,000	10	2.0%	360	5.3%	25,200	10.2%	-5.0%
$60,000-$69,000	10	2.0%	180	2.6%	18,550	7.5%	-4.9%
$70,000-$79,000	0	0.0%	70	1.0%	13,315	5.4%	-4.4%
$80,000-$89,000	10	2.0%	90	1.3%	9,165	3.7%	-2.4%
$90,000-$99,000	0	0.0%	40	0.6%	6,380	2.6%	-2.0%
$100,000 and over	0	0.0%	15	0.2%	14,475	5.9%	-5.7%
Total	505	100.0%	6,840	100.0%	246,175	100.0%	0.0%
Average Income	$16,513		$22,320		$44,937		

*Source City of Winnipeg Web site "Community Profiles"

Incidence of low-income is measured as a separate variable. Incidence of low-income, "Refers to the position of an economic family or an unattached individual 15 years of age and over in relation to Statistics Canada's low-income cut-offs (LICOs)" (Statistics Canada, 1996).

For Winnipeg the 1995 LICO table is:

Table 2.3 LICO

FAMILY SIZE	LICO
1	$16,874
2	$21,092
3	$26, 232
4	$31,753
5	$35, 494

*Source Statistics Canada 1996

The incidence of low-income in private households in the North End is 64 percent, for Winnipeg it's 24 percent. This indicates that the incidence of low-income is 39.7 percent higher in the North End than in Winnipeg. The lowest incidence of low-income in the North End is 40 percent, which is found in Burrows Central and is 16 percent higher than Winnipeg. The highest incidence of low-income is 39.1 percent higher than Winnipeg. It is found in Lord Selkirk Park, whose incidence of low-income is 78.8 percent. These lower income levels are correlated with the levels of employment in the area as well as other social factors such as formal education.

Table 2.4 Incidence of Low-Income

INCIDENCE OF LOW-INCOME	BURROWS CENTRAL	LORD SELKIRK PARK	NORTH END	CITY OF WINNIPEG	DIFFERENCE NORTH END to WINNIPEG
	Number	Number	Number	Number	% Difference
Total Population in Private Households	4,865	990	16,340	606,770	
Low-Income	1,945	780	9,8.5	147,425	
Incidence of Low-Income -%	40.0%	78.8%	64.0%	24.3%	39.7%

*Source City of Winnipeg Web site "Community Profiles"

2.4 EMPLOYMENT

The North End's lower overall income suggests that the rate of unemployment is a more relevant demographic factor to be examined in this area. The lowest unemployment rate is found in Burrows Central at 13.8 percent. The highest unemployment rate of 33.3 percent is in Lord Selkirk Park. In total, the North End's unemployment rate is 23 percent, in comparison Winnipeg's 8.2 percent unemployment rate. This indicates that the North End has a 14.8 percent higher concentration of unemployment than Winnipeg. In Burrows Central the unemployment rate is 5.6 percent higher than in Winnipeg and in Lord Selkirk Park the rate is 25.1 percent higher. There is no one area in the North End that has an equal or lower unemployment rate than the Winnipeg average, suggesting an overall higher percentage of unemployment in all of the North End. In relation to income, 43.1 percent of the North End population receives government transfer payments[8] compared to 13.9 percent of Winnipeg. This reveals that 29.3 percent more people in the North End receive some form of government transfer payment. The North End's higher unemployment rate and higher recipient rate of government transfer payments contribute to the North End's overall lower income and to a lower overall position of the North End in the socio-economic structure of Winnipeg.

Table 2.5 Employment

LABOUR FORCE	BURROWS CENTRAL	LORD SELKIRK PARK	NORTH END	CITY OF WINNIPEG	DIFFERENCE NORTH END to WINNIPEG
15 Years and Older					
In Labor Force	2,170	230	6,295	325,045	318,750
Employed	1,875	150	4,920	298,390	293,470
Unemployed	300	75	1,370	26,655	25,285
Not in the Labor Force	1,650	530	6,295	163,420	157,125
Unemployment Rate %	13.8%	33.3%	23.0%	8.2%	-14.8%
Employment to Population Ratio %	49.7%	19.7%	36.5%	61.1%	24.6%
Participation rate %	57.5%	29.6%	46.8%	66.5%	19.8%

*Source City of Winnipeg Web site "Community Profiles"

2.5 AGE

The North End contains more economically dependent youth than the rest of Winnipeg. 24.9 percent of the population of the North End are 14 years or younger. The highest concentration of this population is in Lord Selkirk Park, where 28 percent of the population is in this age group. The lowest number of youth are found in Dufferin Industrial, where 12.5 percent of the population is 14 years or younger. In Winnipeg, only 20.2 percent of the population fall into the 14 years and younger category, which is 4.9 percent less than in the North End. Despite the large variation in age groups within the North End, it contains more residents under the age of fourteen than Winnipeg does on average. Youth who fall into this age category are economically dependent on others.

Over the age of eighteen, the majority of the North End population falls into the 30-34 category as does the overall population of Winnipeg. The population at the age of retirement, 65 and over, often receive a reduced income, therefore the percentage of the population in this age category is an important factor when examining the income levels in a community. The largest segment of the retired population of the North End, 25.6 percent, resides in Lord Selkirk Park. 14.6 percent of the total population in the North End has reached the age of retirement. This figure is 1.6

[8] Government transfer payment- Refers to: Old Age Security, Guaranteed Income Supplement, Canadian Pension Plan, Unemployment Insurance, Federal Child Tax Benefit, and other income from government sources (Federal, Provincial, and Municipal). (Statistics Canada, 1996)

percent higher than the Winnipeg average, indicating that the North End contains a larger percentage of retired population. Lord Selkirk contains a population of the age of retirement that is 15.2 percent higher than the Winnipeg average. The higher number of persons at the age of retirement and a large number of youth results in a large group of dependants residing in the North End.

Table 2.6 Age

POPULATION BY AGE (Non-Institutional)	DUFFERIN		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
Age Group	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Less then 5	190	9.4%	1,640	9.8%	41,965	6.9%	3.0
5-9	190	9.4%	1,430	8.6%	41,455	6.8%	1.8
10-14	102	5.9%	1,090	6.5%	39,745	6.5%	0.0
15-19	170	8.4%	1,075	6.4%	39,310	6.4%	0.0
20-24	120	5.9%	1,070	6.4%	44,925	7.3%	-0.9
25-29	140	6.9%	1,265	7.6%	46,035	7.5%	0.1
30-34	110	5.4%	1,415	8.5%	52,640	8.6%	-0.1
35-39	120	5.9%	1,180	7.1%	52,335	8.6%	-1.5
40-44	115	5.7%	1,130	6.8%	48,215	7.9%	-1.1
45-49	125	6.2%	980	5.9%	43,695	7.1%	-1.3
50-54	95	4.7%	730	4.4%	32,280	5.3%	-0.9
55-59	60	3.0%	620	3.7%	25,475	4.2%	-0.4
60-64	105	5.2%	620	3.7%	24,210	4.0%	-0.2
65-69	80	3.9%	580	3.5%	23,005	3.8%	-0.3
70-74	85	5.3%	675	4.0%	22,285	3.6%	0.4
75+	205	5.8%	1,185	7.1%	34,050	5.6%	1.5
Total	2,030	100.0%	16,685	100.0%	611,625	100.0 %	0.0%

*Source City of Winnipeg Web site "Community Profiles"

2.6 RACE AND ETHNICITY

Race and ethnic diversity, which contributes to the uniqueness of an area, is also a factor upon which income is dependent. The North End contains a large self-identified Aboriginal population in comparison to the Winnipeg average. The Aboriginal population comprises 31.1 percent of the total population in the North End. In comparison, the Aboriginal population represents 7.1 percent of the total population in Winnipeg. The largest Aboriginal population is found in Lord Selkirk Park in which the Aboriginal population is 47.9 percent. The lowest Aboriginal population in the North End is 12.2 percent in Burrows Central. However, this is still 5 percent higher than the Winnipeg average.

Table 2.7 Aboriginal Population

ABORIGINAL POPULATION	BURROWS CENTRAL		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Aboriginal Population	590	12.1%	5,235	31.1%	43,460	7.1%	24.0%
Non-Aboriginal Population	4,285	87.9%	11,585	68.9%	568,170	92.9%	-24.0%
Total	4,875	100%	16,820	100%	611,630	100%	

*Source City of Winnipeg Web site "Community Profiles"

Other visible minority groups are also represented in this area, but are less prevalent than the Aboriginal population. Other visible minority groups include "person other than Aboriginal peoples who are non-Caucasian in race or non-white in colour. This includes the following categories: Black, South Asian, Chinese, Korean, Japanese, South Asian, Filipino, Arab/West Asian, Latin American, Visible Minority (not previously stated), and Multiple Visible Minority" (Statistics Canada, 1996). Visible minorities, which make up 16.5 percent of the total population of the North End, comprise a smaller percentage, 11.9 percent, of the total population of Winnipeg. There are fewer minorities found in the Lord Selkirk Park area than in Winnipeg by 2.8 percent. However, Dufferin Industrial has a minority population of 41.1 percent that is 29.5 percent higher than Winnipeg. Overall, the North End has a 4.6 percent higher minority percentage. The North End represents a racially and ethnically diverse segment of Winnipeg.

Table 2.8 Visible Minority Population

VISIBLE MINORITIES	LORD SELKIRK PARK		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Visible Minority Population	95	9.1%	2,760	16.5%	72,690	11.9%	4.6%
Non-Visible Minority Population	950	90.9%	14,010	83.5%	538,945	88.1%	-4.6%
Total	1,045	100%	16,770	100%	611,635	100%	0.0%

*Source City of Winnipeg Web site "Community Profiles"

2.7 FAMILY STRUCTURE

Socio-economic status is also indirectly related to family structure. Income is directly related to the number of income earners contributing to the family. Typically, the higher the number of incomes contributing to a household, the greater likelihood of a higher household income. Overall, 66.4 percent of the North End's population is in a common-law or married relationship, in contrast to 83.4 percent of Winnipeg's population. Within the North End, the highest percentage of couples reside in the Dufferin Industrial area (80 percent). The lowest percentage of couples are found in William Whyte (62.4 percent). Both of these areas contain a lower percentage of couples when compared to Winnipeg. Based on the fact that there are more couple relationships in Winnipeg, Winnipeg has a higher possibility of housing families with dual incomes. The North End is less likely to have as many dual income households.

Table 2.9 Family Structure

CENSUS FAMILIES	WILLIAM WHYTE		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
Family Structure	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Married Couples	625	44.8%	2,005	51.5%	121,850	74.6%	-23.1%
Common-law Couples	245	17.6%	580	14.9%	14,325	8.8%	6.1%
One Parent-Female	425	30.5%	1,090	28.0%	23,155	14.2%	13.6%
One Parent-Male	100	7.2%	215	5.5%	3,985	2.4%	3.1%
Total Families	1,395	100%	3,890	100%	163,315	100%	0.0%

*Source City of Winnipeg Web site "Community Profiles"

Single parenthood is also a factor that reduces the likelihood of a dual income household. In the North End, 47.4 percent of families are single parents with children. In Winnipeg the percentage of single parent families is 25.4 percent. Therefore, the North End contains 22 percent more single parents than Winnipeg. Within the North End, Dufferin has the largest percentage, 66.4 percent single parents, while Dufferin Industrial has the lowest percentage of single parent families at 33 percent. Females typically head these single parent families. Single parents, specifically women, are more likely to experience poverty. They often have fewer financial supports than women in dual parent homes. In the North End, 39.6 percent of families with children are headed by single females compared to 7.8 percent headed by single males. In Winnipeg, 21.7 percent of these families are one-parent-female compared to 3.7 percent single-parent-male families. Both Winnipeg and the North End have more female single parents than male single parents. However, the North end has 17.9 percent more female single parent families with children. Within the North End, the lowest percentage of female single parents is 29.8 percent, found in Burrows Central. Even the lowest incidence of female single parents in the North End is 11.9 percent higher than the Winnipeg average. The highest occurrence of female single parents is found in Lord Selkirk Park, revealing a disparity of 40.2 percent between this area and Winnipeg. The North End has a higher occurrence of female single parents, in comparison to Winnipeg, regardless of the individual community examined.

Table 2.10 Single Parents

CENSUS FAMILIES	LORD SELKIRK PARK		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
Family With Children	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Married Couples	50	32.3 %	1,160	42.1 %	73,225	68.6%	-26.5%
Common-law Couples	15	9.7%	290	10.5 %	6,355	6.0%	4.6%
One Parent-Female	90	58.1 %	1,090	39.6 %	23,155	21.7%	17.9%
One Parent-Male	0	0.0%	215	7.8%	3,985	3.7%	4.1%
Total Families with Children	155	100.0 %	2,755	100.0 %	106,720	100.0%	0.0%

*Source City of Winnipeg Web site “Community Profiles”

The number of economic dependants a family supports is correlated to the financial requirements of families. Families supporting a large number of children typically have greater financial responsibilities and less disposable income. Families in the North End are 7.1 percent more likely to have three or more children, whereas families in Winnipeg typically have two or less children. The area with the fewest number of children per family in the North End is Dufferin. On average, 50 percent of the families in Dufferin have one child. On the other end of the spectrum, Lord Selkirk Park has the highest number of children per family with 35.5 percent of families having three or more children, which is 17.5 percent higher than the Winnipeg average. The North End’s lower income and larger number of dependent children indicates a greater financial strain for these families.

Table 2.11 Number of Dependants

CENSUS FAMILIES	LORD SELKIRK PARK		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
Number of Children Per Family	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
One	40	25.8%	1,140	41.8%	45,485	42.6%	-0.9%
Two	60	38.7%	905	33.2%	42,035	39.4%	-6.2%
Three or More	55	35.5%	685	25.1%	19,205	18.0%	7.1%
Total	155	100.0 %	2,730	100.0%	106,725	100.0%	0.0%

*Source City of Winnipeg Web site "Community Profiles"

2.8 EDUCATION

The attainment of formal education is an important factor when looking at the demographics of an area. Formal education is also correlated with socio-economic status. Education is a form of socialisation that teaches a wide range of knowledge and skills that prepares people for potential occupation. A higher level of education is directly linked to higher socio-economic status.

The majority of the population in the North End has obtained an education between the levels of grade 9 and grade 12 with no certificate obtained. However, the North End did have a lower overall level of education compared to Winnipeg in regards to education beyond grade 12 with no certificate.[9] 64.8 percent of the population of Winnipeg has obtained an education beyond this level compared to only 38.9 percent of the population of the North End.

The community containing the highest levels of education within the North End is North Point Douglas. 4.8 percent of the population of North Point Douglas has obtained a university degree. However, this community has 10.3 percent fewer people with a university degree than Winnipeg. In regards to lower levels of education within the North End, the highest percentage of people with less than a grade nine education is found in Dufferin Industrial. In comparison to Winnipeg, Dufferin Industrial has 29.4 percent more people with less than a grade nine education. These lower levels of education in the North End correlates with lower levels of employment, lower incomes, and an overall lower socio-economic status.

[9] This includes Grade 9- 12 with secondary certificate, non-university (without certificate or diploma), non-university (with certificate or diploma), and university without degree, university with degree.

Table 2.12 Formal Education

FORMAL EDUCATON ATTAINMENT	NORTH POINT DOUGLAS		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
(15 Years and Older)	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Less then Grade 9	385	21.8%	2,785	22.1%	44,420	9.1%	13.0%
Grade 9-Grade 12 without secondary certificate	655	37.1%	4,915	39.1%	127,140	26.0%	13.0%
Grade 9-Grade 12 with secondary certificate	130	7.4%	1,265	10.1%	56,680	11.6%	-1.5%
Non-University-without Certificate or Diploma	160	9.1%	750	5.6%	27,065	5.5%	0.1%
Non-University-with Certificate or Diploma	220	12.5%	1,630	13.0%	96,450	19.1%	-6.2%
University without Degree	130	7.4%	915	7.3%	66,130	13.5%	-6.3%
University with Degree	85	4.8%	365	2.9%	73,590	15.1%	-12.2%
Total	1,765	100%	12,580	100%	488,475	100%	0.0%

*Source City of Winnipeg Web site “Community Profiles”

2.9 TRANSPORTATION

While, the socio-economic status is not likely determined by the mode of transportation used by a household, it often is reflective of the socio-economic status of a community. Mode of transportation is also of specific interest in this study in relation to bank locations. With banks moving out of the North End, modes of transportation to and from banking locations is a key concern.

In the North End, the mode of transportation most utilised by the population is a car, truck or van (as a driver). This mode of transportation is, however, utilised 15.7 percent more frequently in Winnipeg on average. Public transit is also more widely used in the North End, 23.2 percent of the population use this form of transportation, in Winnipeg only 15.5 percent of the population use public transportation. The population of the North End that either walks or uses a bike as a primary mode of transportation is 4 percent higher than the Winnipeg average.

In the community of Lord Selkirk Park, 40.7 percent of the population walk as a primary mode of transportation, indicating that 33.6 percent more people in Lord Selkirk Park utilise walking as a primary mode of transportation in comparison to Winnipeg. The population of the North End is also more likely to be a passenger in a vehicle, as opposed to the driver, than is the overall population of Winnipeg.

These statistics indicate that the population of the North End is limited in terms of vehicle mobility, as a driver, but more diverse in their usage of other forms of transportation. This indicates a lower level of socio-economic status. The limited form of transportation in the North End would make accessing remote banking locations more difficult for residents of the North End in comparison to other residents of Winnipeg.

Table 2.13 Mode of Transportation

MODE OF TRANSPORTATION	LORD SELKIRK PARK		NORTH END		CITY OF WINNIPEG		DIFFERENCE NORTH END to WINNIPEG
(15 Years and Older)	Number	% Of Total	Number	% Of Total	Number	% Of Total	% Difference
Car, Truck, Van-as Driver	35	25.9%	2,410	50.9%	188,630	66.6%	-15.7%
Car, Truck, Van-as Passenger	20	14.8%	605	12.8%	25,950	9.2%	3.6%
Public Transit	25	18.5%	1,100	23.2%	44,015	15.5%	7.7%
Walk to Work	55	40.7%	420	8.9%	18,220	6.4%	2.4%
Bicycle	0	0.0%	130	2.7%	4,125	1.5%	1.3%
Motorcycle	0	0.0%	10	0.2%	145	0.1%	0.2%
Taxicab	0	0.0%	10	0.2%	605	0.2%	0.0%
Other Methods	0	0.0%	50	1.1%	1,375	0.6%	0.5%
Total	135	100.0 %	4,735	100.0 %	283,365	100.0 %	0.0%

*Source City of Winnipeg Web site “Community Profiles”

2.10 SUMMARY

The North End is found to have a lower socio-economic status in comparison to Winnipeg. The steady decline in the population of the North End demonstrates this. This low socio-economic status is in part correlated with the income disparity that exists between the North End and the rest of Winnipeg. The North End has a considerably lower average income than Winnipeg. Incidence of low-income is also higher in the North End than in Winnipeg partly due to higher levels of unemployment and high levels of government transfer payments.

A high percentage of the population in the North End also falls into an unemployable age category, indicating less overall income potential for the area. Income is also correlated with ethnicity. Aboriginal people and visible minorities often have lower incomes. The North End’s large representation of Aboriginal and visible minority people is, therefore, correlated with low incomes and lower socio-economic status in the area. The higher percentage of single people, single females with children and a higher number of children per family in the North End, is also correlated with low socio-economic status, which is due to the reduced potential for dual incomes and the heightened financial requirement of the providers. Socio-economic status is also directly correlated with level of education. The North End’s low levels of education correlates with lower employment levels, lower income and, therefore, lower socio-economic status. The overall lower socio-economic status of the North End is reflected in the modes of transportation utilised by the population. The usage of a car, truck or van is lower in the North End than in Winnipeg.

Overall the North End has lower socio-economic status compared to Winnipeg as a whole. In sum, lower socio-economic status of the North End is correlated with its declining population, low income, high rates of unemployment, high levels of government transfer payments, high percentage of children and seniors, large number of minorities residents, prevalence of single income families, a high number of children per family and minimum levels of formal education. The heightened usage of public transportation in the North End is reflective of the lower socio-economic status of the area.

To summarise, the North End is an impoverished neighbourhood with a declining population. Declining state services and market deregulation are likely contributing factors to this neighbourhood's poverty.

3.0 FRINGE BANKING IN WINNIPEG'S NORTH END: THE CONSUMER PERSPECTIVE

3.1 INTRODUCTION

In order to determine the relationship between fringe banks —include local stores and bars that provide credit or cash cheques, pawnshops, rent-to-own firms, cheque-cashing businesses, tax preparation services with refund advances and independent financing companies— and the community, a number of questions are asked in the client questionnaire regarding the usage of each of these banking facilities. The following analysis intends to describe the specificity of each of these types of institutions and the type of relationship that the residents have with them.

The responses provided by respondents are here categorised into each separate fringe banking facility to see if there are any patterns that appear with the categories and/or between the categories. This section will mainly focus on the type of credit provided, the conditions associated with these services and the frequency of usage in relation to each type of credit provided. As identified by the informants, the problems or limits of these fringe services, as well as the reasons for choosing to have recourse to these institutions, will also be discussed. However, the main discussion concerning the socio-economic factors influencing the use of fringe banking facilities will be covered in section 3.3 entitled "Criteria Contributing to the use of Fringe Banking."

3.2 Fringe Banking

3.2.1 Cheque-cashing Outlets

Although, there are a small number of respondents who did not use any of the services provided by cheque-cashing facilities overall, it was common to find that respondents in the survey used cheque-cashing outlets for cashing cheques. The respondents who indicated using cheque-cashing outlets to cash cheques can be divided into two groups; frequent users and infrequent users.[10]

The first group is comprised of respondents who frequently used the cheque-cashing services provided by the cheque-cashing outlets. Respondents indicated that they used these facilities approximately 2-4 times a month. This was dependent on how frequently they received cheques. This group was also representative of those respondents who don't have access to bank accounts.

[10] Some respondents in both groups were also found to have access to check cashing at local stores and/or bars. These respondents indicated that they required the services of check cashing outlets when their local store/bar was unable to provide the service. This was typically due to the lack of funds available at the local store and/or bar at the time the respondent required the check cashed. Therefore, frequency in both groups is also dependent upon access to local store and bar for check cashing for those who utilise this service.

There are a number of reasons expressed by respondents as to why they used cheque-cashing facilities. The two main reasons were the lack of access to bank accounts and the lack of identification required to cash cheques at banks. One respondent expressed this:

> I have to use a local cheque-cashing facility. I have no ID and no bank account. I need to cash my cheques somewhere.[11]

As noted earlier, this is a common theme among the respondents in this category. The next most common reason given for using cheque-cashing outlets was their convenient locations and close proximity.

A larger number of respondents fell into the second group, which were less frequent/occasional users, typically using cheque-cashing facilities one to three times a year. This group had access to bank accounts and/or access to cheque-cashing services at the banks. This limited the respondent's dependency on cheque-cashing outlets for their cheque-cashing services. Their foremost reason for having used the cheque-cashing outlets, which is similar to the previous group, was also convenience as noted by the following respondent:

> I use [X Cheque-Cashing Firm] to cash cheques and get money orders. My bank places a hold on my cheque for five days. At the cheque-cashing facility I get my money right away. There is no extra paper work there either. It's just more convenient.

This respondent expressed a commonly noted incentive for using cheque-cashing outlets: fast cash. Another reason noted by respondents was the hours of the cheque-cashing facility. Respondents indicated they primarily used the cheque-cashing outlets after normal banking hours to cash cheques. Other reasons noted included their convenient location and their lack of personal identification requirements.

Respondents in both groups were found to have an average income of approximately $10,000[12], although less frequent users have higher incomes. The respondent's low income limited their ability to live from cheque to cheque, resulting in the immediate need for finances from time to time. This made convenience, specifically fast cash, hours and location, a benefit for using cheque-cashing outlets. However, respondents often felt that the charges of the cheque-cashing outlets were high. One respondent indicated this:

> I don't want to have to pay that much to cash a cheque but I had too. I needed the money right away.

[11] Quotes are based on information recorded during client interviews. They may be written verbatim or they may be paraphrased.

[12] Income is the income reported by the respondent in the process of the interview and may not reflect actual income. Rental expenses paid directly to landlords may not be included. As well, totals may reflect net income rather than gross income for those who are employed and have deductions taken from their paycheques.

Respondents indicated dissatisfaction with having to pay these high costs. However, respondents understood that the manner in which these services are provided creates a greater expense to the cheque-cashing outlets (due to diminished ID requirements, longer hours of operation, and the provision of immediate cash without a five-day hold) and that these expenses are in turn passed on to the customer through higher costs for services.

Respondents less frequently used other services such as payday loans (see section 3.2.5 "Payday Loans") provided by cheque-cashing facilities. The respondents who used these services also typically used the cheque-cashing services provided by the facility. Other services more typically used included money orders and money transfers. The reasons given for acquiring money orders through cheque-cashing outlets varied. A common reason noted was convenience, either due to the extended hours of service, close proximity, or the speed of service provided. Respondents also indicated that the reason they used cheque-cashing outlets for money orders was that they believe the service to be cheaper at the outlet than at a bank. For those respondents who did not have an account at a bank, their options for obtaining a money order were limited, and therefore utilised the services of cheque-cashing outlets based primarily on their lack of alternatives.

3.2.2 Cheque-cashing at Stores/Bars

Respondents were also able to cash cheques at local stores, bars and pharmacies. These respondents indicated that they had no personal relation to the pharmacy or its owners. ID was typically required to cash cheques if the staff was not familiar with the respondent. According to the respondents, the pharmacy charged a flat rate of $2.00 to cash a cheque. This minimal fee suggests that the drug store is not receiving a large profit by providing this service. The drug store is providing the cheque-cashing service to draw customers into the store in the hopes of facilitating purchases and increasing overall profit, signifying that the drug store's motives for providing this service may be rooted more in a market strategy as opposed to community reciprocity.

Another commonplace to cash cheques was at the respondent's local store. The stores usually did not charge a fee. It was, however, expected that the respondents would buy items such as groceries at the store in order to get the cheque cashed. In this instance, cheque cashing was used as an incentive to persuade consumers to purchase products from their establishment. There were other locations in which respondents indicated cashing cheques. These locations were less common and included businesses such as bars and pawnshops. In these cases, respondents usually frequented these establishments. Establishments can be assumed to cash these cheques for the respondents to maintain good customer relationships and to facilitate future business with the customers. These establishments also base cheque-cashing services on a market strategy. However, these establishments provide cheque-cashing services to a minimal number of customers with whom the owners have developed a relationship, indicating the establishment's cheque-cashing service also contains an element of community reciprocity.

3.2.3 Pawnshops

Respondents commonly indicated that they have used a pawnshop at some period in their lives. It is typical of these respondents to have used a pawnshop in the last year. Respondents usually have one to two regular pawnshops that they visit. Respondents frequented the same pawnshop(s) based on the fact that they were familiar with the prices and the people there. The following was an explanation given by one respondent as to why she uses a specific pawnshop:

> I pawn things at [X Pawnshop] because they are close, have convenient hours, and I know what they will give me for my stereo.

Items typically pawned consist of electronics such as televisions, DVDs, VCRs, CD players, video game units, video games and movies. There were a few instances in which jewellery was pawned. These items were taken into the pawnshops and exchanged for cash. Haggling over prices was a rare occurrence:

> When you bring something in to pawn, you are pawning it for a reason: you need money for groceries or for a bill so you know how much money you need and that is what you ask for. Usually you'll get close to that amount. You want the least amount of money for the item you brought in so that when you get it out of pawn it doesn't cost as much.

This extract of testimony illustrates that respondents used pawnshops in a rational way and anticipated the consequences of their decision to pawn items. Respondents know that borrowing money from a pawnshop is very expensive. They do not try to get the highest dollar value for their items, because the interest on larger amounts of money results in a higher cost to them when reclaiming the item. Respondents typically asked for a monetary amount equal to the amount needed to overcome the crisis they were going through. However, the amount of money received for the item was also dependent on the size and market value of the item being pawned. The typical amount of money received by the respondents from the pawnshop ranged from $25.00 for less expensive items to $80.00 for more expensive items.

Once an item was pawned, there was usually a hold placed on the item for fifteen days. The item could be reclaimed up to one month after it was pawned. When the item was reclaimed, the respondents were required to pay back the money lent plus interest. Interest rates varied from one location to another. Ordinarily, respondents were unaware of exactly what the interest rates were but knew what it would cost to get their items out of pawn. The following is an example of a respondent's assessment of the cost of a transaction:

> I took my stereo in for $40.00 and I had to pay $54.00 to get it out.
> I get $20.00 for my movies and pay $29.00 to get them out.

The interest rate on the items varied. But according to the amounts given by respondents on the money lent and the amount they have to pay back, the average interest rate on pawned items was around 34 percent for the first month. However, in the respondent's mind, what mattered was not the interest rate, but the extra dollar amount they would have to add to the amount borrowed ($9.00 for a $20.00 loan, and $14.00 for a $40.00 loan etc.). Respondents were typically accepting of the fees charged by the pawnshops:

> The fees that I'm charged at the pawnshop are expected for the type of service that they provide. They charged a lot of interest, but I got the cash fast, and I couldn't wait to get the money.

Respondents commonly mentioned a preference for lower fees for these services. However, respondents typically allocated the high fees and interest rates presently charged at pawnshops to the cost of the services they provided; small loans based on collateral and the extension of these loans.

If respondents were unable to claim the items after the first month, they got an extension on the pawn. The extension was to ensure that the pawnshop would continue to hold the item. An extension could be for a week or for a month. There was a charge of approximately $7.00 per week on the item or $25.00 a month for a $100.00 pawn loan. This extension charge was in addition to the fees charged in the first month. The respondents said that they typically reclaimed their items and did not get extensions. Not claiming back the item was an irregular practice in these cases. The following respondent explained how they preferred to get their belongings back as soon as possible and only obtained an extension when they could not avoid it:

> I always reclaim my items. I won't ever leave anything there. I usually get an extension once or twice per item. (That is one or two week extension on each item). In the last six months I got an extension about four to five times.

Respondents indicated a wide range of reasons for using pawnshops. The most frequently mentioned reason was lack of finances. Indeed, pawnshop users are typically of lower income as reflected by the respondents in this study. Pawnshops are conventionally used when respondents do not have money for necessities such as food, childcare, and emergencies and for everyday conveniences such as bingo. The following is an example of an emergency, explained by a respondent, which required her to utilise a pawnshop:

> I don't like to use pawnshops, but it was an emergency. I needed money for a funeral. I needed the money fast and couldn't wait to get it anywhere else. None of my family or friends had that much money. I couldn't wait for a loan.

In this case, the respondent also noted that pawnshops provided quick funds in emergencies when finances from friends and family were unavailable. It was common for respondents to first turn to friends and family for money. However, getting support from family was not easy as frequently noted by respondents, since their relatives and/or friends were also typically facing financial shortages.

In other cases, respondents preferred to go to pawnshops as opposed to asking family or friends for money. This was due to a variety of reasons such as the shame associated with asking for money, the need for privacy, or the prolonged lack of resources of friends and family. It was interesting to note that pawnshops were used first in all instances where respondents indicated requiring the finances for the purchase of drugs and/or alcohol.

There was a smaller group of respondents who indicated having used pawnshops in the past, but who were not currently using them. It is important to study this group of respondents, specifically in terms of what changed their financial lifestyle. This provides clues as to the reasons why other respondents continue to use pawnshops. Greater financial knowledge and financial stability were noted as important reasons for no longer requiring or using pawnshops. Respondents often indicated that they no longer used pawnshops due to their expanded knowledge in money management. Indeed, the respondents who had in the past used pawnshops, but did so no longer, were of higher income then those currently using pawnshops. The following illustrates that an improvement in overall financial situation was the main reason for no longer using pawnshops:

> I had to pawn things when I was on welfare. Welfare doesn't give you much money. You have to pawn things. Then you don't have enough money to get them out. I lost my stuff. I found a job now and I don't have to pawn stuff any more.

This respondent indicated income as a significant determinant of pawnshop usage and demonstrated that respondents found it difficult to function financially on EIA totals. Respondents' profiles indicated that they were maintaining bank accounts but were limited in their participation in mainstream banking due to accessibility, and turned to pawnshops as an alternative way to obtain small loans.

Past pawnshop users also indicated having financial support from friends and family. Respondents specifically indicated that, to some degree, a greater reliance on friends and family resulted in their lack of need for pawning.

Another influential factor for no longer requiring pawnshop services was the recovery from substance abuse. As noted earlier, pawnshops were, in some cases, the primary source of funding for drugs and alcohol. Once a respondent was no longer abusing the substance, there was no longer a need for the loan provided by pawnshops. The following is an example:

> I used to pawn things about two years ago. I used to be an alcoholic. I'd try to keep the prices down just enough so I could buy beer. I needed the money so I did what I had to, I pawned my television, my stereo, anything I could. Once I quit drinking, I didn't need to pawn stuff to buy alcohol.

Some respondents indicated that they had never used a pawnshop. The group of non-pawnshop users contained a wide range of incomes from approximately $10,000 to $40,000 per year. The respondents indicated a variety of reasons for not using pawnshops. Some of the respondents stated that they had sufficient incomes and did not require the services of a pawnshop. Respondents also noted that access to mainstream banking systems such as an account and credit cards prevented them from requiring the financial services provided by a pawnshop. Other respondents indicated that support provided by family and friends was enough to avoid pawnshop use, as illustrated by the following respondent:

> I don't use pawnshops. I have a friend to borrow money from if I need to. Pawning is a vicious circle that always makes you short on cash. I have to try hard enough as it is to get by. I don't need to spend more to pawn stuff.

This respondent alluded to the cycle of financial dependency that can be created by pawning. This was the most popular response given by respondents for not using pawnshops. There was also a small group of respondents who stated that they had nothing worth pawning and, therefore, pawnshops were not an option.

On the other hand, respondents from all categories indicated purchasing items from pawnshops. Items routinely purchased from pawnshops included movies, CD's and video games. Other items purchased included televisions, VCRs, stereos, and video game units. Respondents rarely expressed the concern that goods sold at pawnshops were stolen. Respondents were typically aware of a fifteen-day hold placed on items and indicated that this hold period was so that police could run a check on the serial numbers of the items. This seemed to have reassured the respondents, as they indicated confidence that the goods that they purchased were in fact legitimate for resale. The main reason given for purchasing items at pawnshops was the lower prices, as noted below:

> I buy second hand stuff there for my kids. I buy them movies and video games. It's way cheaper than buying new.

The reduced price of the used item, compared to prices for new items, combined with the respondents low income were the primary motives given by the respondents for buying items at the pawnshop. For those respondents who used pawnshops to gain small loans through pawning, the additional items purchased became a type of savings or investment. Items were generally bought at a pawnshop when respondents had a surplus of money. The surplus of money was invested in an item and/or collateral, which could then be pawned at a later date, if necessary, to obtain finances when funds were scarce. The respondents used pawnshops as a facilitator for both loans and investments through the acquisition of additional collateral. These investments are unconventional compared to the higher-value market investments available through mainstream financial institutions. However, the principal of these investments is the same; to have extra money saved for a rainy day. What differs is the object of the investment, as well as the amount required for the investment. This indicates that pawnshop users participate in financial investing, but are limited in terms of the types of investment available to them and the type of firm that facilitate these investments.

3.2.4 Rent-to-Own Facilities

Rent-to-own facilities make it possible to purchase large household items such as furniture, appliances and electronics through rent-to-own agreements. The respondents' experiences with the rent-to-own process varied, but with basic similarities. All of the respondents indicated that they signed a contract in order to rent-to-own, although none of the respondents were able to recall the contract's specific information. Respondents did state that, generally, the contract contained the basic monthly payments to be made by the respondent and the time period in which the contract was valid. The payment varied in relation to the item rented as well as the time frame in which the contract was valid for. The time period of the respondents' contracts were typically 18 or 24 months.

Until the respondent had completed the payments or bought out the contract, the items were rented to the respondent. The buy-out portion of the contract enabled respondents to exit the contract at an earlier date. There was no reference, by the respondent, as to the monetary cost or benefits of the buy-out. Respondents also mentioned a late fee of approximately one dollar per day for every day the pre-arranged monthly payment was late. After a pre-determined time period, if the payment was not made, the rented items were repossessed with no refund, as explained by the following:

> I have paid the 22 months of my 24-month contract. My payment is only a few days late. The rent-to-own company came and took the items I rented back. They said if I paid for the items and the late fee I could get my things back. They also expected me to pay for the time when they held the items.

Typically, respondents were able to complete the payments or buy out the contract and the items became their property.

Respondents indicated a variety of items that they had obtained through rent-to-own contracts. The most popular items mentioned were washer and dryer combinations, furniture, and televisions. In one extreme case, a respondent obtained a total of seven items from a rent-to-own facility. Respondents typically obtained one to two items through rent-to-own facilities as shown by the following:

> I have bought a couch and a dishwasher through a rent-to-own plan. The dishwasher is $88.00 per month for six months. The couch is $120.00 per month for two years. I figure the couch is worth about $2200.00. I ended up paying over $2500.00 through the rent-to-own plan. If I would have known it is going to cost that much, I wouldn't have used rent-to-own service.

Respondents often made reference to how much more they paid for the items through rent-to-own programs in comparison to directly purchasing the items. Although the respondents were unaware of the interest rate, they indicated paying close to double what they thought the actual price of the item was. This indicates that most of the respondents utilising the rent-to-own services were unaware of the total cost of the services when they first signed up, as illustrated by the following:

> The interest rates, for the rent-to-own programs, are way too high. They don't advertise their program properly. Their ads are very misleading. They make you think you are getting a good deal when you really aren't.

This respondent, and respondents with similar experiences, had chosen not to use the rent-to-own programs in the future due to the misleading presentation of the service and its resulting high cost.

However, other respondents indicated they would continue to use rent-to-own programs because of the monthly payment plan and no-money-down. These options were typically seen as a benefit to respondents due to their limited access to banks for loans or credit, low income, and their inability to save large sums of money required for the deposit on, or purchase of, large items. This reasoning for using rent-to-own programs was expressed by the following:

> It's hard to save that much money to buy new stuff. This looked like an easy way to get new stuff. I could get the stuff right away without having to wait till I saved the money. I have to try it out.

It appears that, despite the high cost of the rent-to-own facilities, respondents did use them and will continue to use them, because it is the only way for them to acquire expensive, but necessary household items. Although, the respondents using rent-to-own services were typically able to obtain minimal finances through family and friends, these resources were not sufficient to provide funding for large, higher-priced items such as electronics and furniture. This indicates that low income, lack of access to other banking services (i.e., loans and/or credit cards) and minimal funds from friends and family contributed to respondents utilising rent-to-own facilities. In relation to the services provided by the rent-to–own facilities; low monthly payment plans, no money down, and lack of realisation of total cost were also factors that contributed to respondents' utilisation of rent-to-own facilities. It is, however, unclear whether a more transparent disclosure of the cost would discourage people to rent in order to own, as no other options are available for respondents to acquire large, and typically expensive, household items.

3.2.5 Payday Loans

A payday loan is another service provided by cheque-cashing outlets and other firms. There are a small number of respondents who used this service. These respondents had typically dealt with cheque-cashing outlets for cheque-cashing services. The respondents who acquired payday loans used the service infrequently; approximately once within any given year. The typical amount of money respondents indicated receiving was between \$150.00-\$200.00 per transaction. Most of the respondents were unaware of the charges for this service. One respondent explained the rates and interest as follows:

> I got a \$170.00 payday loan. I borrowed \$170.00 and I have to pay back \$192.00. I know that for a \$45.00 payday loan you have to pay with a \$50.00 cheque.

According to this respondent, the combined fees and interest rates totalled \$22.00 for a \$170.00 loan (interest rate of 13 percent per week) and \$5.00 for a \$45.00 loan (interest rate of 11 percent per week). A respondent described the process of receiving a payday loan:

> When you go to get a payday loan you have to write a cheque. You post-date the cheque for when you are expecting to get paid. Your cheque has to cover the money you want to borrow and the charges. Then you get your payday loan.

Respondents indicated a variety of reasons for needing a payday loan. A reoccurring theme among respondents for requiring a payday loan was the development of an emergency:

> The first time I got a payday loan was because my car had broken down. I needed money to repair it. Once I needed it (a payday loan) for my daughter's tuition. I also used the money for unforeseen medical expenses and prescriptions.

Other respondents indicated that they required payday loans to cover everyday expenses such as groceries and medication. Respondents that used payday loans were employed, since that is one of the conditions for obtaining a payday loan. Most of the respondents were employed part-time and had an average income of $20,000-25,000 per year. It is, however, interesting to note that medication prescriptions were routinely noted by the respondents as the reason for needing a payday loan. This indicates that low-income people experience financial difficulties when they have to pay for medical expenses. In this respect, the absence in Manitoba of a public insurance that covers medication (as the one existing in Quebec) can contribute to impoverishment of people, especially those with children and of low income.

In order to receive a payday loan, respondents were required to write a cheque addressed to the payday loan firm for the amount of the loan plus the associated fees. Therefore, respondents had to have a bank account in order to receive a payday loan. A bad credit rating can also result in the inability to obtain a loan through a bank and was a reason why some respondents required a payday loan. Respondents frequently indicated having limited access to loans or credit cards through banks. These circumstances, therefore, necessitated that they obtain loans through fringe banking facilities such as payday loan establishments.

Circumstances such as the lack of sufficient funds, access to services such as loans that are provided by banks, lack of credit available through credit cards, and lack of access to funding through friends and family made payday loans the only option to these respondents. These respondents also dealt with other fringe banking facilities such as pawnshops; however, respondents typically used payday loan services when the money needed at the time exceeded what respondents could obtain from a pawnshop. Based on larger dollar amounts required by respondents, payday loans were the only option available to these respondents.

3.2.6 Advance on Income Tax Refunds

Tax preparation, in this analysis, refers to tax preparation services provided to respondents through firms that offer cash-advances on income tax returns. The issue of concern is the tax refund advance, as this is a particular type of loan. The firm provides the individual with instant access to the refund that is due to them – minus the firm's fees – and then collects the individual's income tax return when it arrives. Essentially, the firm loans the individual the money for the two-to-three week period it would take for the refund to arrive and the fees are the "interest" that they collect on the loan. But since these quick refund services can only be accessed by also using the basic tax preparation services, respondents were asked questions about both aspects of tax preparation firms.

Respondents who indicated using tax preparation services could be divided into two groups based on the types of services they received. The quick refund service was a preferred service of respondents who had their tax returns filed by the tax preparation establishment. This response illustrates the quick refund process:

> I got the refund the next day. I'm not sure how much it cost or what the interest rate is. I remember that they (X Tax Preparation Establishment) took $100.00 off my $400.00 rebate (from income tax). I ended up with $300.00

Typically, respondents were unsure of the fee, but all could give an approximation of how much money the tax preparation establishment retained from the respondent's original return. According to the respondents, tax preparation establishments either charged a flat rate, or a percentage of the total return. Other respondents thought the charge was a combination of a flat rate and a percentage of the total return. This indicates that tax preparation establishments do not use a common system of charging for the services they provide. It is, therefore, difficult for respondents to compare prices between tax preparation companies and to make cost effective decisions.

The quick refund service offered by the tax preparation establishments is more expensive than the regular tax preparation, but was popular among respondents. Respondents used this quick refund option because they required the money as quickly as possible. The following expresses this reasoning:

> It's like a habit; I've always gotten a quick refund. I don't know how to do them myself…where else can I go…I need the money back fast. One of my kids also needed a new bed and I have to pay for day-care.

Respondents typically noted that the additional cash was often needed as soon as possible to cover unplanned expenses such as childcare and household items. Respondents that used quick refunds tended to be of low income. This limited income, combined with unforeseen expenses, resulted in the need for fast cash.

Respondents specifically noted childcare/day-care as an unplanned expense that required the use of the quick refund service. For instance, many day-cares will accept and/or continue to accept children while waiting for payment. This is, however, not always the case. In cases where the day-care requires payment immediately, respondents were unable to wait for the regular tax refund and required the quick refund. Income tax does provide some tax credit to individuals who have children in day-care; however, respondents felt that this credit was insufficient in relation to the cost of day-care programs.

Respondents generally indicated being satisfied with the fee charged for the quick refund service. The respondents who were not satisfied with the fees of the quick refund services often found alternatives:

> I used to use it (the tax preparation quick refund service). I think they used to charge me 15 percent of my total refund. I thought that is way too much. Now my husband does my taxes.

The second type of service that respondents received at tax preparation firms was basic tax preparation. The fee for the regular tax preparation service was relatively cheaper than the quick refund service. The respondents indicated that in most cases the charges for tax preparation were a flat rate, ranging from $25.00 to $35.00. These respondents often could not do their own taxes. This, combined with a lack of alternative places that provide regular tax preparation services, left tax preparation establishments as their only choice. This lack of alternatives often left respondents with a feeling of resentment. This resentment was related to the respondent's perception of the unavoidable high fees charged by the tax preparation establishment, as expressed by the following:

> It's way to high (the fee for regular tax preparation). I pay $35.00 for fifteen minutes of work. And I usually don't get a refund.

Respondents commonly expressed annoyance at paying for tax preparation services when not receiving a refund. Respondents who did receive a refund, however, were not as unsatisfied with the fees charged as indicated by the following:

> It (the fee for regular tax preparation) didn't matter when I got a refund.

It should also be noted that the use of basic tax preparation services was not dependent on the respondent's income, access to banks, or available funding from friends and family.

The remaining respondents indicated that they did not use tax preparation services. These respondents, who did not use tax preparation services, had the lowest average income. These respondents had found alternatives to the tax preparation services. Typically, respondents noted asking a friend or a family member to complete their taxes. There was no mention of any charge for this service by the respondents. The next most popular form of alternative tax preparation services was accessed through community organisations. One community organisation provided a free tax preparation service for respondents, while another provided it for a small fee. The exact cost for this service was unknown, but respondents stated that it was cheaper than the services provided by the tax preparation establishments. In other cases, respondents opted to complete their own taxes. Other respondents had chosen not to have their income tax forms completed. These low-cost alternatives may have been more attractive due to the respondent's limited income.

In relation to tax preparation quick-refund services, access to banks was not linked to the respondent's usage in any category. Friends and family, knowledge and access to alternatives to tax preparation services, as well as income were factors that contributed to respondent's use of tax preparation quick-refund services.

3.2.7 Private Financing Companies

Private financing companies were the fringe banking facilities that were reported by respondents as the least used. Finance companies typically provided small loans to respondents to purchase household items such as furniture, appliances and electronics. Respondents were also able to finance vehicles and obtain mortgages through private finance companies. The interest rate charged by these companies varied from 18 percent to 32.8 percent annually according to the respondents, who also commented that these rates were too high. None of the respondents were able to provide further details on the contracts of these loans or mortgages.

The respondents provided a variety of reasons for using the services of a private finance company. The following is a common reason:

> The financing companies ask fewer questions than banks, it's less invasive. They are also quicker than banks when it comes to approval. They tell you right then-and-there that you are either approved or not approved.

Respondents who had access to bank accounts, loans and credit cards stated that they preferred the anonymity and straightforward approach of the financing firms. Other respondents indicated using financing firms when they were unable to receive a loan or mortgage from a bank or credit through credit cards. The income range for respondents who use private finance companies was between $10,000-$32,000 per year. A sudden or drastic change in income, such as loss of employment, was noted as a reason for seeking the services of a private financing company.

3.2.8 Credit with Local Stores and Bars

It was uncommon for respondents to have access to credit at local establishments. However, it was an important form of credit for those respondents who did have access to it. The establishments that provided credit to respondents usually did not charge interest rates or fees. Those respondents that indicated having credit at a local store or bar mentioned a personal connection to those who were lending the money. This relationship included being a former employee, a landlord/tenant, or a long-time customer of the establishment. In some cases interest charges do apply as in this example:

> I used to have credit at a local grocery store and at a local bar. My mom had a line of credit at the local grocery store and I used to work at the bar. I used the money at the local grocery store to buy groceries about three times a year. They charged about $42.00 for a credit of $35.00 and I paid the money back in three days. I only used the credit from the bar twice, once in the vendor and once in

> the bar for one drink. There is no interest at the bar. I used credit when I was broke, family at that time was not an option, and the interest is all right.

This example shows that store-based credit may be an option when finances can not be obtained through other alternatives, specifically family. The respondent in the above example also commented on their lack of finances in general. It is interesting to note that all of the respondents in this category had an income of approximately $10,000 per year. Respondents were also typically collecting Employment and Income Assistance (EIA), which is commonly known as "social assistance" or "SA", and were without bank accounts. These specific criteria suggest that this type of credit was one of last recourse that only the most disadvantaged and marginalised members of the community use.

Interestingly, this type of credit is often provided at no charge indicating that the people lending the money were probably doing so out of obligation or a mixture of obligation and market incentives. This obligation could be the result of personal relationships (such as in the previous example) or could be the result of a humanitarian reaction pushing storeowners to open a line of credit for people who are in great need and can not find any other way to obtain finances. Where credit is provided purely out of obligatory motives, it could be disassociated from the fringe banking industry (as the major motivation is not profit) and could be seen as a communal response to poverty.

In the cases where interest is charged, the interest rate asked could be as a way to formalise the transaction and to create a distance between lender and borrower rather than to generate profit. This is done in order for the borrower to understand that this is an exceptional situation and that the true goal of the business (bar or store) is primarily to make profit and not to provide support to community members. In fact, this form of borrowing is somehow halfway between the "gift-giving economy" and the market. Indeed, the transaction does not seem to be primarily motivated by the quest for profit, but rather by community provision or appeal to solidarity. But there is still an interest rate involved, which indicates that the lender does not want to establish a sustainable relation of reciprocity with the borrower. It is also possible that the borrowing can be justified by the desire to accommodate (on an informal basis) a regular customer, and facilitate the purchase of goods, which indicates that market and reciprocity are far from being opposed and antithetic spheres; they can overlap.

3.2.9 Summary

To summarise, each fringe banking facility offers its own unique service to the respondents. Respondents' views of the services varied depending on the services provided by the fringe facility. Respondents indicated dissatisfaction to paying the high costs at cheque-cashing outlets. However, respondents also noted that the benefit of longer hours of operation and the increased risk associated with waiving the traditional five-day hold on cashing cheques require this higher charge. In relation to pawnshops, respondents typically justified the high fees and interest rates presently charged to the cost of the services they provided, which are small loans based on collateral and the extension of these loans.

Respondents also commonly mentioned a preference for lower fees than those currently charged at pawnshops. Rent-to-own programs had mixed reviews from respondents. Respondents commonly mentioned the misleading presentation of the service and its high cost as a deterrent to future use. Other respondents indicated they would continue to use rent-to-own programs because of the structure that involves a monthly payment plan and no-money-down. In regards to payday loans, respondents were typically unaware of the charges or interest for this service and utilised the service due to a lack of viable alternatives. Respondent's generally indicated being satisfied with the fee charged for the quick refund tax preparation service. This was based on the fact that they received some money back. Those respondents who received a limited or no refund viewed the charges more negatively. The interest rates from private finance companies were perceived as unacceptably high by respondents. Credit from local stores and bars was typically utilised by the most marginalised of fringe finance users and were commonly provided at no charge. Credit at local stores and bars was looked upon positively in all situations.

Overall, respondents expressed that fringe banking was beneficial in providing much needed services and, at the same time, was taking advantage of low-income people as expressed by the following:

> Poverty is a booming business. Someone is making a lot of money off of people who don't have much to begin with.

Given the respondents' need for fringe banking services and the generally high cost of fringe banking, the causes underlying the need for fringe banking must be identified. There were a number of factors that were linked to the general usage of fringe banking which can be categorised under three general headings: income; access to mainstream financial services; and, access to finances through friends and family. These factors and their relationship to fringe banking, and each other, will be examined in the following section.

3.3 Criteria Contributing to the Use of Fringe Banking

3.3.1 Income: The Common Denominator

The use of fringe financial institutions stemmed from a situation of economic need, either in terms of acquiring a loan or expediency in cashing a cheque. It is no surprise then, that among our 41 respondents, low income was a common characteristic of fringe financial service users. Within this low-income category, a variety of sources of income were cited, although receiving EIA was a substantial contributor to this income bracket. Of the respondents who were employed, part-time or casual employment was more frequently cited than stable full-time employment. The primary income level cited by those receiving EIA was under $10,000 per year, while for those who were employed, this increased to the $10-20,000 per year level. It was possible to identify a variety of situational factors that appeared to correspond with this low-income reliance on fringe financial institutions.

Respondents tended to have low levels of formal education. Some had not finished high school and very few had any post-secondary education; fewer had completed a degree or received a diploma. The generally low level of education may have contributed to the high incidence of respondents receiving EIA or obtaining low-paying employment. For those who had a college or university education, the repayment of student loans was identified as contributing to their financial restrictions. Of the respondents who were employed, the primary type of employment was part-time in casual or seasonal work and for minimum or low wages. The reliance on low-paying employment and EIA made it difficult for the respondents to accumulate money or to have assets or investments. A common experience of our respondents was that their income was too low to sustain a bank account or be approved for credit. The following expresses a respondent's desire to have a bank account:

> I had an account at [X Bank] but I closed it because I didn't have any money at the time. I was being charged $9 per month even when there was no money in the account.

This respondent had to close their bank account due to the unaffordable service fees on the account. This lack of surplus funds and/or credit needed to cover the fees and maintain an account can contribute to a reliance on pawnshops when small loans are needed for general living or unforeseen expenses, and when financial support from friends and family is unavailable. The lack of surplus funds and savings also meant that very few people owned cars; a situation that restricted access to banks to cash cheques when money was needed. As one respondent expressed:

> I find it very difficult without an account. I can't find a friend to cash my cheque or to give me a ride to [X Cheque-Cashing Firm]. I had a bank five minutes away from my house, a [X Bank], but it closed. With kids, and no vehicle, I can't get to their branch downtown.

Being without a car also decreased the potential of receiving loans from mainstream banking due to the lack of suitable collateral.

Being a single parent was typical for the respondents. This was a more common experience for female respondents. Single mothers often quit their jobs after having children in order to focus on childcare. For these single mothers, EIA became a common source of income. It was not uncommon for a single mother to be supporting three or four children on less than $10,000 per year. Far from being an exception, one 32-year-old woman with a grade 11 education supported herself and four children on a EIA allowance of under $10,000 per year. This was a commonly cited annual income for single mothers, regardless of how many children they had.

Respondents citing a relatively higher level of income tended to reflect a recent change in employment status that often corresponded with a reduced use of fringe financial institutions. This, however, varied across different types of fringe banking businesses. The increase in income allowed for a surplus of money to be saved for emergency expenses, or at the very least, helped respondents make it through to the next paycheque. This resulted in a decreased reliance on pawnshops for small loans. Income levels were typically related to the use of pawnshops, but the use of cheque-cashing outlets was less affected by higher income as expressed by the following:

> I don't use pawnshops anymore because now I'm employed. My $20,000 annual income has reduced my need for money at the end of the week. I use cheque-cashing outlets now because my job hours are late and they're the only ones open.

Respondents commonly indicated the location and hours of banks as being a problem for employed people, as they worked during bank hours. Bank hours were also of concern for respondents who were part-time or casually employed as this type of employment could lend itself to a less regular and, therefore, more hectic lifestyle in which organisational functions were hard to manage. This, combined with the low wages received by respondents, resulted in a tight stretch of time and funds that made waiting for an opportunity to access a bank impractical, leaving cheque-cashing institutions, with their long hours and numerous locations, the only option, regardless of income.

Typically the more financially secure respondents did not use cheque-cashing services as frequently as respondents with lower incomes, especially since their increased income provided respondents with the capacity to open a bank account and, therefore, the ability to cash cheques there. Location of the bank branch still remained an issue. For some, this increase in financial security was the result of attaining a higher level of education. However, respondents tended to still be in debt from student loans, a circumstance that may sustain their use of pawnshops for a while, but it was expressed as a financial option that would hopefully be phased out as illustrated by the following:

> I have just started out in my career. I have been on social assistance for many years. I still need help financially; I have three kids and a student loan. It is hard to find adequate childcare. I went 6 months without using a pawnshop but I started again recently to get money between cheques. I hope it's my last time.

In this case, as with other respondents, outstanding student loans restricted respondents from getting credit from the bank when they needed it. In addition, limited financial support from family often left pawnshops as the only perceived option for obtaining money when the respondent needed it.

3.3.2 Availability of Mainstream Financial Services

For respondents, access to a bank account tended to be considered a desirable asset, mainly due to the reduced costs in comparison to fringe banking. However, several respondents said that they found the service fees too high to be able to maintain an account, although the fees could be lower in the long-run than using fringe banking. As a result, cheque-cashing outlets, payday loan firms, pawnshops, and rent-to-owns are used. This was the case for respondents who had a bank account open, and especially for those who did not. The primary reason discussed in terms of being unable to access a bank was location. This was a common concern for respondents, although a variety of other factors, as we will see in the following paragraphs, contributed to making mainstream financial services difficult to access for Winnipeg's North End citizens.

For respondents who had an active bank account, the services available and/or utilised tended to be limited. Bank accounts were mainly used for cashing cheques, direct deposit of cheques, cash withdrawal, and debit card use. Yet even these basic services were often difficult to take full advantage of. Respondents less frequently cited using an overdraft service and/or credit card, or having acquired a bank loan (such as a student loan). Although respondents may have appreciated many or all of these services if available, low income levels prevented their use. Below is a discussion of the most common services used through banks and the limitation to the respondents of the services.

3.3.2.1 Remoteness as a Limitation to Accessing Banks

Respondents who had been using banks regularly expressed that they were now unable to do so due to the incidence of banks moving out of the North End. This out-flux of banks from their neighbourhood was a concern for the residents interviewed, as it had a direct impact on banking habits. For example, a respondent mentioned that their branch had moved twice and that it now took 45 minutes on the bus each way to access their account in person. In particular, the remoteness of banks was a frequently expressed concern of single mothers in the sample. Respondents commonly experienced difficulty in getting to a bank that was not within walking distance. This was a concern specifically expressed by the following:

> It is nearly impossible to bundle up my four small children in order to walk five or six blocks to the bank to cash a cheque, let alone travelling out of the North End altogether.

For a sole caregiver, nearby locations were a practical necessity, even though the closer locations are often the more expensive fringe banks. Respondents without a bank account often admitted that they would seriously consider opening one if the bank was within a few blocks of their home. Respondents were often unable to access banks due to their increasingly distant locations.

3.3.2.2 Limitation to Cashing Cheques at Mainstream Banks

In terms of mainstream financial services, cheque-cashing was cited as a priority. Cashing cheques at a bank is beneficial because this service is offered free of charge, or included in the general service fees. Although the opinion was occasionally held that banks charged more to cash cheques than fringe facilities, the general consensus was that banks were preferred because of their lower service fees. When asked if they were satisfied with the cheque-cashing service provided in the neighbourhood, one respondent answered:

> Yeah, I guess so. Well, sometimes I am dissatisfied because [X Cheque-Cashing Firm] charges too much, especially when it is a smaller cheque. $167 goes down to $157. That $10 dollars is a lot. I guess I am only satisfied that there is a service available for me to use - I am not really satisfied with fringe banking.

This service, used twice a month at a cheque-cashing facility, tended to amount to a higher cost than the bank service fees would have been. Yet, regardless of the savings associated with cashing cheques at their banks, respondents still used cheque-cashing outlets fairly regularly. The primary reason for this was the convenience factor both in terms of location and in terms of expediency in receiving the cash. The expediency was related to the five day hold banks can place on a cheque before cashing it. This situation exists both for those respondents without a bank account and for those whose bank accounts did not contain enough money to cover the value of the cheque. Cheque-cashing outlets did not place a hold on cheques and was therefore more practical for respondents who needed the money quickly.

In addition, the operating hours of cheque-cashing outlets were a significant draw to their business. Banks are typically closed during evenings and weekends, so for respondents who needed money quickly after normal banking hours, fringe banking was the only option as expressed in the following statement:

> When I cashed my damage deposit cheque it cost me $7.50 to cash a $135 cheque. I could have taken it to my branch the next day but I couldn't wait- I needed the money to move.

3.3.2.3 Debit Cards/Automated Tellers

Respondents that had their cheques directly deposited into their bank account were relieved of the need for cheque cashing. They still, however, required the use of withdrawal services. As bank branch locations were often problematic for North End residents, bank machines were frequently used. The cost for this service, although generally lower than cheque-cashing outlets, was still relatively high especially if respondents used bank machines from another bank or a "white label"[13] ATM. Respondents noted dissatisfaction with the increased cost of using a white label ATM or alternate banking company's instant teller. However, as bank branch locations migrated away from the North End, the use of automated tellers became an alternative for respondents. Respondents assumed that bank branches will not return to the North End and requested that, under these circumstances, an increased variety of bank-owned instant tellers should be installed. Nevertheless, this request for more automated tellers highlights the need for increased access to their bank accounts, especially for those who use direct deposit and are no longer able to easily access their branch in person.

3.3.2.4 Overdraft/Credit Cards and Loans

There are a variety of factors that restricted respondents' access to overdraft services, credit cards and loans through mainstream banks. Banks refused to provide these services to respondents with low incomes because they were seen as a financial liability. Respondents that have claimed bankruptcy in the past were also seen as a financial liability to banks and were denied overdraft, credit card and loan privileges. Some respondents that have held credit cards in the past often decided not to use them any longer knowing that they would be unable to make

[13] A "white label" ATM refers to a non-bank automated teller machine. It does not take deposits as most ATMs do and it is owned by a private, non-bank company.

payments due to their low income. Some respondents also refused to get a credit card because they felt the fees were higher than they were through fringe banking.

In cases where overdraft, credit cards and loans were not available to respondents, they first turned to friends and family for the required funds. If this option was unavailable, respondents then turned to fringe banking. The following respondent described their troubles regarding a lack of credit:

> I am borderline diabetic and sometimes need money for fresh fruit. I have also pawned things for emergencies. In 1993 I needed money for a funeral. When you are stranded and you only have one option, you take it. It was my last resort. I lost some things that time- there were too many items to redeem.

Respondents often required finances for everyday living, unforeseen expenses or in emergencies. Examples provided included: school supplies for their children, birthdays, Christmas, childcare expenses, and trips to visit relatives who were ill. These, and other expenses, were especially difficult to cover for respondents with low wages or on EIA, and with restricted forms of credit through mainstream banks. For these respondents, fringe banking was often seen as a viable option to obtain finances for these expenses.

3.3.3 Discrimination

3.3.3.1 Employment and Income Assistance

Typically, recipients of EIA did have a bank account, but it was generally used solely for direct deposit of EIA cheques. Respondents commonly believed that recipients of EIA are denied access to a savings account and other banking services as shown by the following respondents comments:

> I once bought a Canada Savings Bond for my grandson. If welfare found out they would cut me off. Welfare says you can't have a savings account. I want to be able to save at a bank, but welfare wants total control of your life.

This respondent felt that any saved amount would subsequently be deducted from the next EIA payment, and if EIA found out the respondent had saved money, he/she would be denied any further social assistance services. Because of this common belief, those on EIA used only controlled accounts restricted to the deposit and withdrawal of EIA cheques. Thus, although receiving EIA did not completely restrict access to a bank account, it led to respondents feeling discriminated against in regards to bank access.

It should also be noted that respondents expressed concern that they could not let their children open a bank account because any savings their children incurred would be deducted from their parents' next EIA cheque:

> With social services, they don't allow you to have a savings account - even for your children. I have an 18-year-old who has nothing saved. I would have put $45.00 away for her each month if I were allowed. If I drop dead, I leave nothing for my kids.

The respondents commonly expressed the perception that they are not allowed to have any type of saving for themselves or for their children, reinforcing the feelings of discrimination from mainstream banking. There are, however, provisions in the EIA policies that allow for limited savings. These policies are, however, ineffectively communicated to recipients. The Employment and Income Assistance Act states that recipients of standard EIA can acquire liquid assets of $400. An additional $400 for each dependant, up to a family maximum of $2000, is also allowed. These savings, though, may only be acquired once the family is receiving EIA; to be initially eligible, the applicant must have first exhausted any liquid assets. The knowledge of this original rule likely influenced people's perception on the rules pertaining to savings. In addition to this primary impression, the ability to save money once on EIA is greatly hindered by the difficulty in making ends meet on the EIA monthly allowances. This lack of savings can facilitate the need for high-interest loans that spiral EIA recipients into deeper debt. Allowing an initial savings to be available to individuals eligible for EIA may help alleviate some of this hardship.

In addition to the financial benefits that children of EIA recipients miss due to their parent's limited income, the negative perceptions surrounding savings and EIA policy prevents parents from teaching their children basic saving habits. Positive savings habits could help children whose parents are on EIA gain economic self-sufficiency. In fact, it can easily be argued that this disposition of the EIA law is contributing to discrimination against individuals on EIA and their children by making saving, and learning how to save, a privilege limited to self-sufficient families.

3.3.3.2 Respect and Courtesy

The issue of respect and courtesy with using mainstream banks was also discussed by respondents, although we did not have specific questions about this topic. Respondents raised several concerns regarding feeling unsafe emotionally with the service offered through banks. There was an underlying feeling of alienation and discrimination that existed regardless of the location accessibility. For example, one woman expressed:

> I tried to open a bank account but I got attitude - they wouldn't open an account for me. I had to go to [X Cheque-Cashing Firm] to cash my cheque. I tried at [X Bank] also, but they said they would do a credit check and then I was refused.

It is interesting to note that this same respondent later stated that they used [X Cheque-Cashing Firm] because of its long hours and convenience; yet in fact, they ultimately used fringe services because they were discriminated against at mainstream institutions. Likely it was easier to focus on other reasons for using fringe banking services rather than think about the discrimination. Respondents often noted feeling mistreated and disregarded by the bank tellers because they received social assistance. Respondents noted with distaste that they stopped using their bank because tellers would insist on personal identification even though they had a debit card. There are various reports of this kind of dissatisfaction with being treated rudely and with disrespect.

Although feelings of mistreatment were commonly directed at banks, there were notable accounts of this feeling associated with credit unions. The importance of customer service was also demonstrated as a concern through the number of respondents who listed 'friendliness' as a trait they would like to see in new services offered in the North End, even though this was not an issue brought up by the interviewers. The following comments illustrated this mistreatment:

> I tried to open an account at the near by credit union. I left without opening an account because the teller was rude. Distance is not the only factor. Being treated with respect is the most important thing.

It is important to state that conventionally, the convenience of a bank's location was not enough to ensure patronage. Respondents also wanted to be treated kindly and with respect. On the contrary, respondents did not complain about any form of discrimination at fringe banking facilities. In fact, they indicated being well treated in these places.

It is unclear if respondents felt discriminated against because they were poor, or because they were Aboriginal or a visible minority, or if the two prejudices worked hand-in-hand. That is to say that visible minorities and Aboriginal people living in the neighbourhood may be assumed to be of low-income and, therefore, were not seen to be valuable customers. Survey limitations made it difficult to specifically discuss the issue in detail. However, an open discussion initiated by individual respondents revealed the importance of discrimination by the mainstream institutions.

3.3.4 Identification

Associated with the limitation poverty placed on mainstream banking is the fact that a lack of personal identification prohibited a number of respondents from opening a bank account. Due to lost, stolen, or unavailable identification (a common situation facing people living in low-income neighbourhoods), banks would neither open a bank account nor cash a cheque. The following respondent noted the limited forms of identification that are accepted as valid:

> I tried to use my photo Metis card. [X Bank] told me they don't consider it valid ID. I was upset, this is who I am, how can they tell me it's not acceptable.

The most recognised and widely accepted form of identification was a driver license, which can be costly to obtain and inappropriate for those who do not drive. Likewise, identification from the Manitoba Liquor Commission requires transportation to their facility and payment for the card. Although impermanent residence and/or lack of telephone may also contribute to the inability to replace identification, the cost incurred in doing so (transportation, cost of card) was communicated as the primary obstacle. Whatever the reason, respondents felt discriminated against by their inability to prove their identity sufficiently, accordingly to bank standards. This situation was difficult for the respondents to accept as this inability to have identification was only a result of their general economic condition and not the consequence of being a non-credible citizen.

3.3.5 Safety

Concern for their personal physical safety was a common theme among respondents. They routinely echoed concerns about using bank machines and accessing bank branches in the North End. The fear of crime was also apparent in respondents' explanations for why mainstream banking facilities were scarce in the North End. A common assumption was that banks had left the North End because of the threat of robbery, as illustrated by the following:

> I want banks back. The area used to be beautiful. We need patrols here now; it is not safe to walk at night. If we had safety the banks might come back.

In this regard, we can say that the individuals not only felt directly discriminated against because of who they are, but also because of their neighbourhood being deemed unsafe.

3.3.6 Control and Anonymity

A few respondents claim they felt the banks were stealing money from them. Although this belief incorporated the sense that the service fees were misleading or dishonest, frequently it was the fear of direct theft from their bank accounts as illustrated by the following:

> I used to have an account with [X Bank] but they started taking money from my account. Once I found $200 missing from my account, another time $60 was missing. I don't think they were service fees.

Compared to the impersonal and undemanding transactions of fringe banking that required minimum identification, personal information and commitment, banks were sometimes seen as a 'big brother' institution, an extension of state control. As such, banks were sometimes viewed through a suspicious and distrustful lens.

It is possible that some of the reasons for this perception of distrust towards mainstream banks were rooted directly in the bureaucratic operations that required particular identification, a mandatory holding period for cheques, and a mandatory minimum account balance. For example, the lack of privacy provided through opening a bank account deterred some respondents as they felt that the banks had no right asking so many questions. "No questions asked" was also a common reason for pawning rather than borrowing from a bank. In this regard, bank policies can result in the feeling of personal discrimination regardless of the particular actions of the teller. On the other hand, there was not one respondent who mentioned experiencing personal mistreatment at a cheque-cashing facility. In fact, the friendliness and inviting attitude of the tellers at these places was consistently emphasised.

Typically, the respondents' concerns revolved around wanting to retain a sense of autonomy and personal control over financial activities that banks could not offer. Although alternative services tended to be more expensive, they allowed the patron to retain direct control over the transaction. For example, some of the fees were posted and applied to everyone the same way, regardless of income. Even if the actual percentages were unknown, respondents were familiar with the fees charged at fringe services, as they remained fairly consistent.

Most fringe banks do not demand that patrons disclose personal information to do business at their establishment. There is an element of freedom involved in fringe banking that is absent through the bureaucracy of mainstream banking commitments and policies. This desire not to be questioned, as expressed by respondents, is again indirectly attesting to discrimination, as it indicates that these people are so often questioned about their identity, and not always for legitimate reasons, that they are ready to pay a higher price for a service that will treat them as regular and trusted citizens.

3.4 INFORMAL LENDING NETWORKS

To better understand the respondents' relation to fringe banking facilities, money and its movement within the community must be addressed from both the formal and informal levels. At the informal level, the issue arising from the interviews was the movement of finances/money among friends and family within the community. In the client questionnaire, those interviewed were asked a number of questions relating to their borrowing and lending of money to and from friends and family. The responses fell into three categories in relation to the informal lending process. The first category is referred to as a system of rotating funds. The second category is referred to as a top-down model. The third category is a combination of both the rotating and top-down model funds category.

3.4.1 The Informal Rotating System of Funds

An informal system of rotating funds was one of the financing systems found among respondents. This system was most common among respondents whose income was between $10,000 and $20,000 per year. Respondents who relied on this system were often receiving government support in the form of EIA, while those respondents who were employed were in part-time or casual positions. Although these respondents typically had access to bank accounts, it was rare that they used other banking services such as loans, credit cards and investment options. Based on the interviews, both surplus cash and credit were limited for the respondents, thus the system of rotating funds attempted to meet these needs as a process of mutual lending and borrowing money between individuals. A small amount of money continuously travelled within a small group of individuals that was usually composed of anywhere from two to five people, both friends and family. The strength of the system was not dependent on the biological relationship of family, but was based on the more social relationship of friendship, trust, and mutual support. The larger the group of people, the more borrowing options the people in that group had, as well as a greater obligation to lend. Between these individuals, the money was generally borrowed and/or lent anywhere from one to four times a month.

In the rotating funds system, the average amount of money that was borrowed and/or lent was between $5.00-$20.00 per transaction. Occasionally, up to $80.00 was lent and borrowed but this was less frequent. There seemed to be no interest charged on this money and it was typically paid back in cash to the person who lent it. In some cases, the loan was paid back 'in kind' rather than in cash. This exchange may have involved babysitting, house-cleaning, repair jobs or car rides in lieu of the cash owed. There was usually no definite time limit set on these loans, yet if there was a time limit set, the arrangements were made at the time the money was borrowed and was set by the person who was borrowing the money, not by the person who was lending the money. This was because repayment was dependent on when the borrower would be receiving their next EIA/employment cheque or other income. The system was based on an understanding that when the lender needed money, the borrower would reciprocate.

There are a number of reasons why people used this rotating system of funds. The main reason was that the money they had did not stretch far enough to cover the costs of living. The money that was borrowed was for relatively small things, usually necessities such as rent and groceries. In addition to covering the necessities, money was sometimes also borrowed for entertainment such as bingo. When there were children in the family, money was often borrowed for clothing, diapers, school supplies, and entertainment such as movies, pizza and school trips. They relied on this system of rotating funds to obtain finances that were not available through mainstream financial sources, as this comment indicated:

> I don't have a credit card, the overdraft on my account is used up and I need money for diapers. It's easier to borrow money for small things, like diapers, from friends and family.

3.4.2 Top-Down Model

The interviews also revealed a less common type of informal lending between friends and family referred to as the top-down model. The interviews showed that respondents in this category had a slightly higher employment rate, higher income levels, and greater participation in banking than those respondents in the rotating funds category. The top-down model was based on a hierarchical structure of lending and borrowing practices between individuals that originated from the top and flowed towards the bottom. It is important to note that none of the members of our sample were directly at the top of the hierarchy, but were instead always in the position of borrower, at least in the original transaction. In its most basic form, the top was the lender and the bottom was the borrower. Occasionally the borrower became an intermediate lender by sharing this money with others, constructing a larger model. The amount of money borrowed and lent in this system was usually higher than that in the rotating system. The amount of money ranged from $50 – $15,000 in exceptional cases. The following is an example of such a case:

> I had to borrow $15,000 from my father-in-law to buy out my ex-wife's half of the pension. There was no time limit set on the loan, but I'm paying five percent interest on it. I didn't have a choice. I had to claim bankruptcy a few years ago and the banks won't lend me that kind of money. The other loan places charge way too much interest.

This example demonstrated a simple top down model. In this model, the lender sometimes sets certain conditions on the money. Conditions can include interest rates and a time frame in which the money is to be paid back. In this case, the money was returned to the primary lender. In other cases, the money was not expected to be returned or could be returned in-kind. In most cases, this type of lending was used when people needed money and did not have access to mainstream financial institutions or when individuals preferred this system due to its informal nature. When the system involved more people it became more complex, but its basic function remained the same as in the following example:

> I borrow money from my sister every couple of months. I borrow anywhere from $100.00 to $200.00. My sister expects the money back when I have it. I also drive her around when she comes into the city. If I can't afford to pay her back, she understands and it's forgiven. She'll still [lend] me money if I need it. My brother also gives me meat. He works on a farm and gives us food. I have to pay him back for the meat in cash. It's easier and less humiliating than borrowing from a bank. I lend cash to my son and daughter for everything from gas money to furniture. I don't expect to get the money back from my kids, although it would be nice eventually. I've also [lent] money to a friend once in an emergency, but I usually don't [lend] to friends.

In this situation there were two lenders at the top of this structure who lent to the respondent, in turn the respondent lent to two people. In this example, only the first relationship between the primary lenders and the respondent involved a two-way flow of money. The secondary relationships in this example involved single downward flow of money. This was not necessarily the case in other situations. Generally, the money was not simply being circulated amongst individuals; it was being distributed among a variety of individuals.

3.4.3 The Combined System

Another system found in the interviews, which existed among friends and family within informal lending/borrowing, was a combined system. This system had elements of both the rotating system and the top-down model. The respondents in this system were generally part-time or casually employed, or receiving EIA. Although the income level of this group varied from $10,000 - $25,000, the respondents in this group had the lowest participation rate in mainstream banking. In most cases, respondents used a system of rotating funds in everyday life for smaller loans and accessed a top-down model in emergencies. For instance this respondent explains:

> I borrow once a month usually off one of three people. I borrow between $20.00-$30.00 for groceries off them. They usually borrow money from me too. I have to pay them back next check. I did recently have to borrow $150.00 from a friend for a wedding. I have to pay her back but she never has to borrow from me because she has savings.

This comment showed that some individuals had access to both types of informal funds from friends and family. These individuals participated in both a rotating fund system and a top-down model.

3.4.4 Limited Informal Systems of Borrowing

There are a limited number of respondents who said they had never pawned items because they could always obtain money through friends and family. Nevertheless, respondents frequently noted that, due to the limited resources of their friends and relatives, the amount of money they could borrow from them was sufficient to purchase goods such as milk or cigarettes, but not enough for major expenses such as medication. In cases where money could not be obtained through informal borrowing and lending, fringe financial institutions were often the next option. As explained by this respondent:

> I would rather ask my friends and family than have to pawn something. Pawning is my last option. I only pawn in emergencies when no one has any cash.

The most popular fringe banking institution accessed, when communal networks were not available, was a pawnshop. Those respondents who used the rotating system of funds were found to utilise pawnshops more frequently than those in the top-down model. The combined system had the least frequent pawnshop users.

Other respondents in the sample completely lacked access to any model of reciprocity. This was especially true for respondents, usually Aboriginal people, who had recently moved into Winnipeg. This was a rare occurrence and encompassed a number of unique situations. The following was an example of such a situation:

> I don't have a bank here; I had one where I used to live. I used to borrow money from my friends. They'd lend me money and I'd fix things for them. The last time I borrowed money from a friend I helped him do renovations on his house for three weeks to pay him back and he ripped me off. I don't get along with my family, so I don't talk to them or borrow money from them.

In this case, the respondent did not participate in the mainstream financial services, had a low income of approximately $10,000 per year, and was unable to obtain money through friends and family. This respondent relied heavily on the fringe services, specifically pawnshops, for financial assistance. This case is an illustration of the fate of many Aboriginal people or new settlers who, because they cannot have access to the mainstream bank and do not have any communal network, have to rely on fringe banking services. Although most of these individuals have had previous experience with conventional banking, their resettlement and the impoverishment that often goes with it, pushes them into the margins of society. Once involved with fringe banking, they enter a spiral. This spiral makes them more dependent and less likely to be able to reintegrate into the conventional banking system, as the following discussion will illustrate.

3.5 THE SOCIAL EFFECTS OF FRINGE BANKING

There exists a relationship between the social conditions that result in the use of fringe banking and the social conditions exacerbated through these services. For the respondents, the convenience and availability of fringe banking could quickly encourage a dependency on these services, but then they found they had become indebted to the high-interest demands. As expressed by the following respondent:

> At the time when I needed money, it was good that there was a way to get it. But I look at it now and (fringe banks) charge way too much. It is ridiculous to pay $24.00 out of a cheque. You never get out of the hole, especially if you are on social assistance, you just can't get out of the hole.

By catering to customers within a low-income bracket, the high-interest demands of fringe banking created a cycle of debt that ensured the continued use of pawnshops for small loans, cheque-cashing outlets for immediate cash, and rent-to-own services for any purchases. Respondents viewed fringe-banking facilities as providing services that no one else was ready to provide, and the attraction and necessity of fringe services manifested itself as a downward spiral. For individuals who had become caught in this system and had low-paying employment, received EIA, or struggled with addictions, it became very difficult to accumulate surplus cash or even a sufficient monthly income to pay off the interest on previously pawned items, pay for cheque-cashing and bill payment fees, and other high interest services, while still being able to cover the everyday costs of living. Yet the further into this spiral they were, the harder it was to get out of debt, save money, become eligible for legitimate loans, or take measures that may have helped encourage upward mobility such as training and education.

This spiral, though, cannot be credited entirely to the fringe banking facilities, as these services fill a void previously established through mainstream banking practices. Excluded from the mainstream opportunities of savings accounts, credit, loans, cheque-cashing, and more, North End residents are marginalised as a result of their socio-economic status, geographic location, and in some cases, their ethnicity. In mainstream banking, service fees are generally lower for individuals whose bank accounts maintain a certain balance, often of one thousand dollars. Lower socio-economic individuals, who need the service fee reductions the most, are not qualified for this benefit. At credit unions, the five-dollar share deposit was sometimes mentioned as a constraint to opening an account.

In looking to larger social systems that facilitate the conditions leading to the trap of high-interest fringe banking, traditional institutions of solidarity are often limited in their scope by modern institutions. For instance, traditional informal supports between family members or community members have been hindered through restrictive EIA policies and the lack of a living wage offered through minimum wage jobs. Several respondents said that their relatives could not lend them much because they did not have enough savings themselves. One respondent said she

would like to lend more, but with no savings from her welfare cheque, she could not do any more for her family. EIA regulation limits the ability of people to lend money to their network, not only through the low payments, but also because saving money is restricted. Thus, within communities that are struggling financially, it is made very difficult to acquire the necessary sum of money that could facilitate changes in this cycle of poverty.
In addition to the financial constraints of borrowing from family, there were also respondents who preferred to pawn rather than to borrow money from friends and family. For example, immigrants or Aboriginal people settling in Winnipeg with the desire to embrace the ideal of modernity and become self-supporting individuals rather than traditional, meant they were forced into the marginal economic sector. There were a number of reasons for this preference, the most popular of which was the feeling of shame that accompanied asking friends and family for financial assistance. This situation is exemplified in the following statement:

> It is easier to pawn something than asking a friend to borrow money. It's embarrassing having to ask people for money. I'm ashamed to ask them. At the pawnshops they don't ask you any questions.

As previously discussed, convenience and privacy were commonly stated assets of fringe banking. It was easier to access pawnshops at any given time and fewer questions were asked. The desire to be emancipated from family networks and from the reciprocity could usually be satisfied by having access to modern institutions of banking; however, for poor people who are denied access to banks, the only way to obtain that freedom will be to access the fringe banking.

3.6 CONCLUSION

The interviews revealed that the use of fringe banks stems from a variety of influences. The first factor influencing the use of fringe banks is income. Respondents with low income did not have enough money to cover the cost of necessities or to accumulate savings and, therefore, required extra finances to cover these costs. These extra finances are often not available through the mainstream banking facilities, since low-income respondents are shown to have restricted access to mainstream banking. This results in the use of fringe banks for required funds. The correlation between income and fringe banking is further supported by the fact that respondents with higher incomes, but formerly with lower incomes, indicate a reduction in their use of fringe banks.

The second factor correlated with fringe banking is access to mainstream banks. Respondents often saw mainstream banks locations, hours, and regulations as restrictive in comparison to fringe banking services. These respondents indicated using fringe banking for its extended conveniences. In other cases, mainstream banking services such as accounts, overdraft services, credit cards and loans are inaccessible to respondents due to their low income, as previously mentioned, or their poor credit history. These respondents, therefore, have no other option but to turn to fringe banking to acquire funds.

Discrimination is also an issue restricting respondents' use of mainstream banks. It is also the third factor correlated with the use of fringe banks. EIA policy, according to respondents, elicited feelings of discrimination in regards to their ability to participation in mainstream banking. The issue of direct discrimination by mainstream banks towards respondents was felt in regards to the types of identification the banks accepted, the negative attitudes of mainstream banks, and the abandonment of the North End by banks due to its negative stereotype. All of these forms of discrimination from mainstream banks, described by respondents, were related to income and/or race. Many respondents subsequently turned to fringe banks to avoid the discrimination found in mainstream banks.

The fourth factor correlated with the use of fringe banks is informal lending among friends and family. Frequently, respondents noted turning to friends and family for financial support before using fringe banking. There are three different systems of informal lending found among respondents. The first system is referred to as the informal system of rotating funds, the second is the top-down model, and the third is the combined system. These informal lending systems are structurally different, but provide the same basic function - financial support for respondents. These systems of informal lending are, however, limited in their ability to provide sufficient funds. In instances where friends and family do not have the extra finances to provide support, or if respondents did not have access to these systems, as in the case of recent migrants, respondents used fringe banking.

Fringe banking becomes the only alternative for respondents to access banking services as a result of low income, an ability to access mainstream banks, discrimination, and a lack of financial resources from friends and family. Respondents using fringe banking quickly become indebted due to the high-interest demands of the fringe facilities. This debt, combined with a lack of alternatives, leads to the continued use of fringe facilities in an attempt to regain financial stability. However, this continued usage of fringe banking only ensures an increased debt, creating a downward spiral effect and leaving fringe bank users in an inescapable financial crisis.

4.0 FRINGE BANKS IN WINNIPEG AND THE NORTH END

4.1 INTRODUCTION

This section will describe the fringe financial service firms in Winnipeg and the North End. It presents data on the rise of fringe bankers over the last twenty years, focusing on pawnshops, cheque-cashing firms, payday loan firms, rent-to-own firms and tax refund advancers. The section provides some information on the fringe bankers' perception of their customers' characteristics. This section also explains the types of services these firms offer and the associated costs. Fringe financial service costs are presented as a lump sum and in an annualised interest rate format. In some cases these costs are compared with costs associated with equivalent services in mainstream banks.

The data for this section come from key informant interviews, a sample transaction, outlet follow-up and various secondary sources (e.g., fringe and mainstream bank flyers, pamphlets, websites and the Winnipeg telephone directories). Primarily in the case of cheque cashing and payday loan firms, data were drawn from outlet follow-up questions that involved telephone or in-person visits to inquire about available services, requirements to obtain the service and the associated costs. This supplemental information was necessary for these firms because of their low participation in the key informant survey.[14]

In all cases the costs for fringe financial services are expressed as a lump-sum fee and an annualised interest rate. Both of these methods combine various fees for the service into one figure.[15] How the costs for fringe financial services are expressed is controversial. Proponents of fringe banks, most notably payday loan services, argue that since these loans are for only two weeks, it makes sense to consider the absolute cost of the service (Elliehausen and Lawrence, 2001). Accordingly the fees represent the cost of providing risky and administratively heavy loans. However, some argue that fringe bank services should be compared with mainstream bank services. The principal cost of mainstream bank services such as loans, credit cards and lines of credit is the (annual) interest rate. The loans implicit in pawning, cheque-cashing, payday loans, rent-to-owning and tax refund[16] advancing should be valued using the same measure. Since the

[14] The research team documented the efforts we took to interview cheque-cashing and payday loan firms in Winnipeg (Appendix D). In addition we emailed and telephoned firms with headquarters outside of Winnipeg. Finally we took out an ad in a local newspaper advertising the research study and calling for participation from cheque-cashing and payday loan employees.

[15] The Consumer Measures Committee, a partnership of federal, provincial and territorial government departments, is seeking to develop common policies regarding the 'alternative consumer credit market,' i.e., fringe financial services. In 1998 they completed a paper, "Agreement for Harmonization of Cost of Credit Disclosure Laws in Canada: Drafting Template." The paper proposes that fringe banks provide consistent information about their services to consumers in part by combining all fees into a lump-sum total cost and then convert this into an annualised interest rate. The fees include "interest; administrative charges such as service, transaction, and activity charges; charges for the services of a notary or lawyer hired by the lender and payable by the borrower; charges for loan insurance… [and] brokerage fees…" (p. 8).

[16] Other fringe bankers such as finance companies, white-label automatic teller machines and money orders are not examined here.

duration for most of these services is a few days up to one month, fringe financial service fees need to be compiled together and transformed into an annualised interest rate.[17] There are good reasons to follow the approach of annualised interest rates. For one, mainstream banks provide short duration credit through credit cards and lines of credit. They express the interest rates in an annualised form. Annualised interest rates allow for comparison of fringe and mainstream financial services.

4.2 PAWNSHOPS: TRADITIONAL FRINGE BANKERS

Unlike cheque cashing and payday loan firms, pawnshops have a long tradition in the West and around the world.[18] Pawning is a unique system that provides a small, secured loan for a fee. In our interviews with pawnbrokers and clients we found that pawnshop clientele come primarily from a low-income category. Often these people will not have access to other forms of credit.

In 1987 there were only 23 pawnbrokers in Winnipeg, jumping to 38 pawnshops in 1988 and dropping to 31 in 1989 (Figure 1). The number of licensed pawnshops in Winnipeg has held steady over the past 15 years at around 30. It has held at approximately that level from 1989 until 2002. Today there are 32 pawnshops licensed by the city. These pawnshops are primarily scattered throughout Winnipeg's inner city. According to one respondent the first pawnshop was established in the North End in 1980. The number of pawnshops in the North End grew to five in 1987 reaching nine pawnshops today (Figure 4.1). We are aware of an application to establish a new pawnshop in the North End. If this was approved it would raise the number of pawnshops in the North End to 10 and for Winnipeg to 33.

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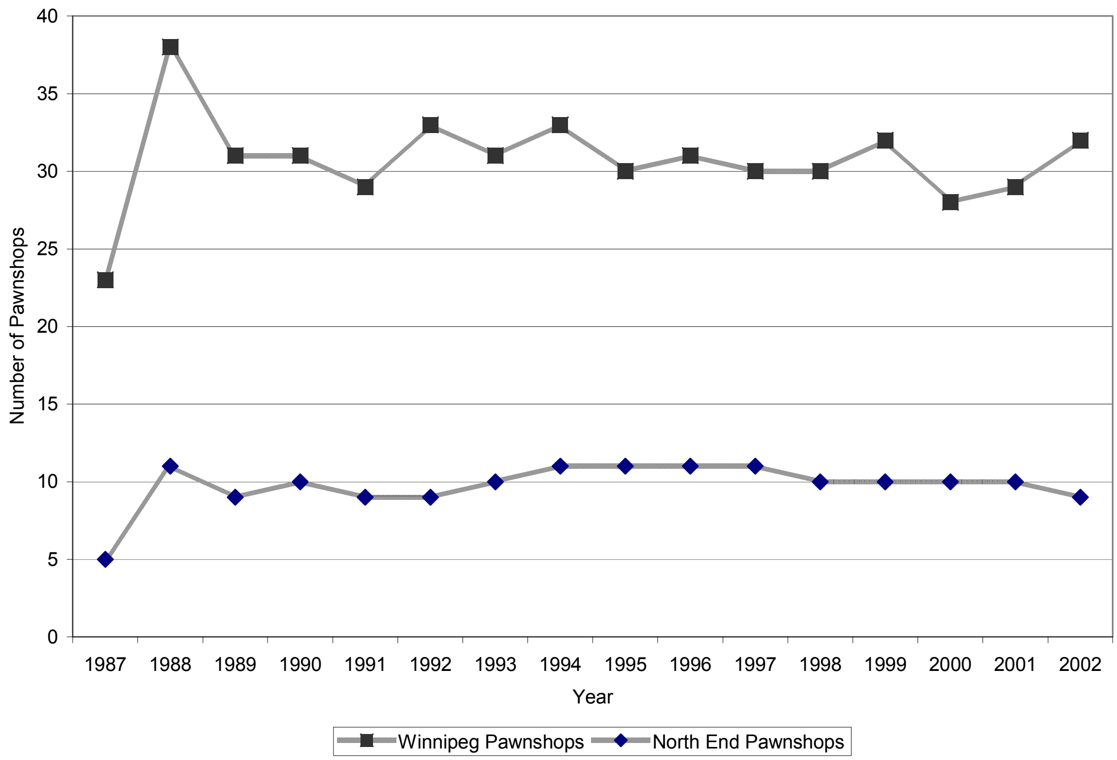
[17] For this study the annualised interest rate is calculated in the following manner. First, all fees associated with the transaction are a combined into a lump-sum total cost for the service (see footnote #1). The period interest rate is the total lump-sum cost divided by the value of the loan. The annualised interest rate is the period percentage rate multiplied by the number of periods in one year. For instance, a pawnshop loan of $10 for a one-month involves various fees amounting to $4.5 in total. The one-month (period) interest rate = $4.5/$10 = 0.45 = 45%. The annualised interest rate = 45%/month x 12 months/year = 540%.

[18] For a brief historical review of pawnshops and other fringe banks in the US see, Caskey (1994). For a more in-depth look at social perceptions of pawnbrokers over time in Europe and North America see, Lewison (1999). For an examination of pawnbroking in the South (or Developing World) see, Bouman and Houtman (1988) and Bouman and Bastiaanssen (1992).

Figure 4.1   Number of Pawnshops in Winnipeg and the North End, 1987-2002



Source: City of Winnipeg Licensing Department and the Winnipeg Yellow Pages Directories.

Pawning involves a simple relationship designed to facilitate a cash loan. It works as follows: the borrower deposits a re-saleable item such as electronics or jewellery with a pawn broker. The broker advances the depositor a loan, worth less than the resale value of the deposited item. In Winnipeg, the pawn is made for one month but may be redeemed after fifteen days at which time the depositor repays the loan plus pays other fees. If the loan is defaulted the broker sells the deposited item. Pawnshops can also operate as second-hand sellers, although our respondents indicated that the vast majority of their transactions were pawning. We are aware of three pawnshops that also offer limited cheque-cashing services.

Key informants were asked about the financial nature of their business. While they were unwilling to share detailed information, we were able to develop a basic understanding of the business. We learned that these pawnshops are locally-owned, independent businesses. There appears to be some market concentration in the pawnbroking sector as one or two pawnbrokers control several pawnshops. According to the police respondent, there were a total of 8,750 pawn transactions per month in Winnipeg last year. Evenly spread over the 32 pawnshops this amounts to a monthly total of 273 per pawnshop. In fact, two pawnshop respondents indicated transactions of 500 and 700 per month suggesting a variation in the size among pawnshops. With a monthly average of 600 pawn transactions these two respondents claimed that they did on average 300 extensions. An extension is when the borrower requests an additional month to repay the loan. Just over three-quarters of all pawns are eventually redeemed, according to these respondents. Most pawnbroker respondents were unwilling to provide information on their income and profits and therefore we cannot comment on the overall profitability of pawnshops. However one respondent provided data suggesting a very good return-on-equity at approximately 60 percent in one year.

According to our pawnbroker respondents the vast majority of their clients are from their neighbourhood (Table 4.1). Two pawnbrokers reported that an average of 90 percent of their clients come from the neighbourhood. One pawnbroker reported that one-half of their clients had an ongoing relationship with the pawnshop. The three pawnbrokers reported that over one-half of the clients are from an aboriginal background. 43 percent of their clients are from a non-Aboriginal background. On average the respondents indicated slightly more clients are male than female.

Table 4.1 Pawnbroker Perception of Pawnshop Client Characteristics

Clients	Firm A	Firm B	Firm C	Average
Local Residents	85%	95%		90%
Non-local Residents	15%	5%		10%
Repeat Clients			50%	50%
Aboriginal	50%	70%	50%	57%
Non-Aboriginal	50%	30%	50%	43%
Female	60%	50%	30%	47%
Male	40%	50%	70%	53%

Source: Key Informant Interviews

According to our respondents, the value of the average pawn is just over $50. The pawn is for one month but it can be redeemed within 15 days. The cost to redeem the pawn depends on the value of the pawn with higher per dollar costs for lower pawns. The redemption cost generally includes an interest charge plus storage and insurance charge. The interest charge is generally 5 percent per month, amounting to 60 percent per year. However, when the storage and insurance charges are rolled into the interest charges, the annualised interest rates are higher (Table 4.2). On average annualised interest charges for a larger pawn of between $50-100 are 300 percent. Annualised interest rates on smaller pawns of between $10-30 are 450 percent.

Table 4.2 Value of Pawns and Interest Rates

	Firm A	Firm B	Firm C	Average
Large Pawn: $50-$100 Pawn				
Value of Pawn	$100	$50	$100	$50-$100
Redemption Cost (1 Month)	$125	$65	$120	
Monthly Interest Rate	25%	30%	20%	25%
Annualised Interest Rate	300%	360%	240%	300%
Small Pawn: $10-$30 Pawn				
Value of Pawn	$10	$30	$10	$10-$30
Redemption Cost (1 Month)	$14.50	$39	$12	
Monthly Interest Rate	45%	30%	20%	38%
Annualised Interest Rate	540%	360%	240%	450%

Source: Key Informant Interviews

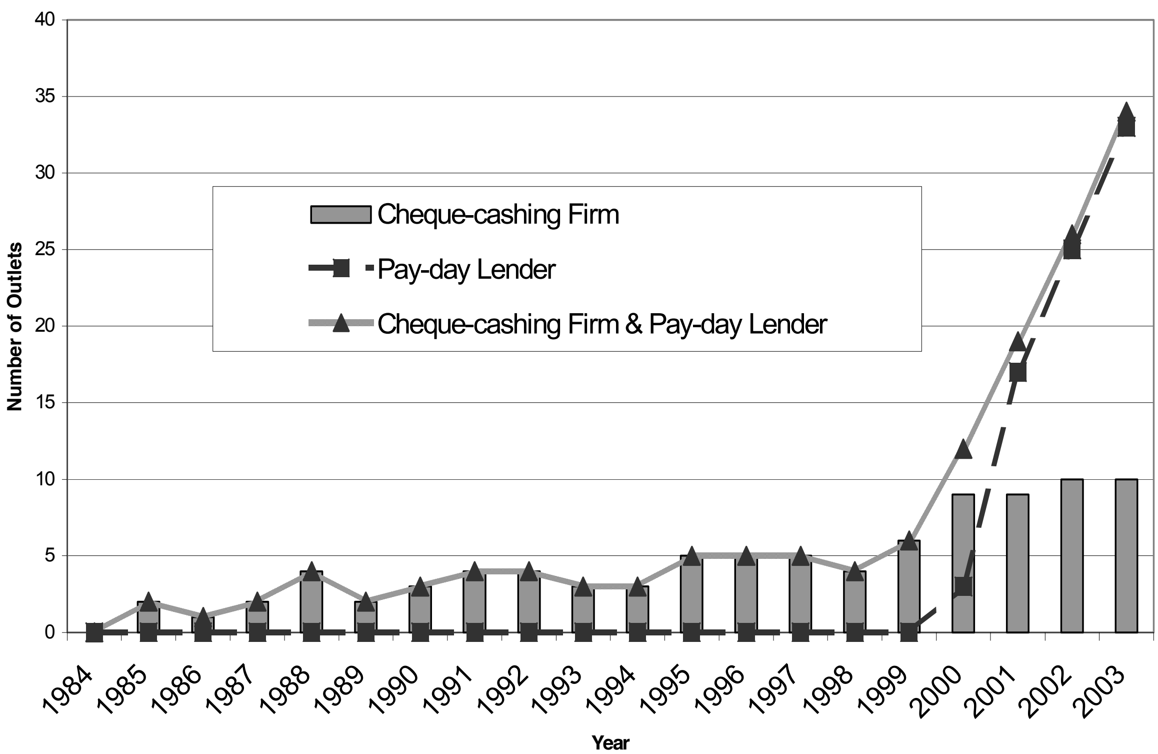
4.3 CHEQUE-CASHING AND PAYDAY LOAN FIRMS: THE NEW FRINGE BANKERS

Cashing a cheque outside of a mainstream financial institution is an old practice, although not as old as pawning. Through our client survey we found that cheques are cashed at local stores, bars and pawnshops in the North End. However in the last twenty years a new type of fringe bank has arisen, one that deals centrally in cheque-cashing and/or payday loans. Whereas the corner store will cash a cheque in order to facilitate the purchase of its merchandise, the cheque-cashing firm's business is cheque cashing. We found through our research that, with the exception of one firm, cheque-cashing firms are involved in other fringe financial services, e.g., payday loans, title loans, etc. As mentioned above, with one exception, this category of firm was unwilling to be interviewed for this research. The one cheque-cashing respondent claimed that the cheque-cashing portion of the business is declining and the payday loan portion is increasing. The decline in cheque cashing was attributed by this respondent to the rise in directly deposited payments.

While the number of pawnshops in Winnipeg and the North End grew through the 1980s, the number of cheque-cashing and payday loan firms has grown in the 1990s and 2000s (Figure 4.2). 1985 was the first listing of cheque-cashing firms in the Winnipeg telephone directory, when there were two outlets (from one firm) listed. This increased to four outlets in 1988 and hovered there until 1999 when it jumped to six outlets climbing to ten outlets today. This includes only two firms that are cheque-cashing businesses and that have listed their outlets in the telephone directory. The first payday loan firm listing in the telephone directory was in 2000 (when there were 3 outlets listed). Growth spiked to 25 outlets in 2002 and 33 outlets today. Part of this increase is due to the fact that in 2001 the largest cheque-cashing firm began listing itself under the payday loan category as well.

There is considerable market concentration in the cheque cashing and payday loan business in Winnipeg. In 2003, 11 firms controlled these 33 outlets. Two firms, Money Mart and Instaloans, control nine and eight outlets respectively, representing one-half of the total outlets. The remaining 16 outlets are held by nine firms, with some firms owning three or four outlets including the Cash Store and Sorenson's Loans. According to a key informant, there are a total of eleven payday loan outlets in other parts on Manitoba. The two cheque-cashing firms in town, presently involving ten branches, are owned by larger corporate entities. In the case of Financial Stop, H & R Block is the owner. Dollar Financial Group, a US corporation with operations in the US and UK, owns Money Mart. Financial Stop has reduced their outlets from three to one in 2003.

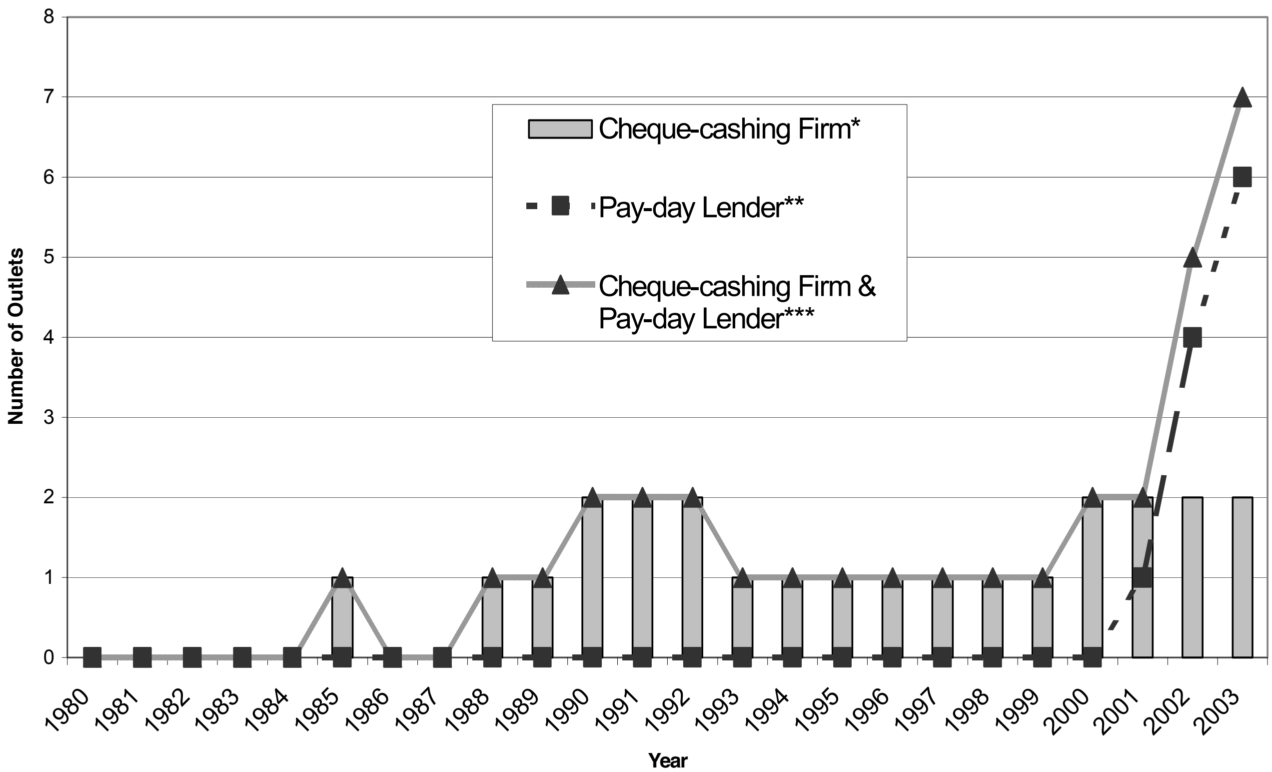
Figure 4.2 The Number of Cheque-cashing Firms and Payday Lenders in Winnipeg, 1984-2003[a]



Sources: data for 1984-2002 from Winnipeg Yellow Pages Telephone Directories. Data for 2003 from Winnipeg Yellow Pages Telephone Directory [online]. Available: http://www.mywinnipeg.com [Accessed 18 June 2003].
a. Data on numbers of payday loan and cheque-cashing outlets are approximations. During the period of data collections the numbers varied considerably with new ones opening up and some older ones closing down.
*Until 1990 Money Mart was the only firm in the cheque-cashing firm category in the telephone directory; for 2001 and 2002 Money Mart was listed under cheque-cashing services and loan categories (number of Money Mart outlets in 2001 were 7; in 2002 were 9). For 2003 in the Winnipeg Yellow Pages Telephone Directory [Online], Money Mart is no longer listed. This is not reflected in the figure above.
**The number of payday loan outlets is the sum of, number of firms offering payday loans in loan category in the telephone directory and, for 2003 the number of Money Mart outlets (as their outlets are not included in loan category in online directory).
***Payday loan and cheque-cashing firms are the number payday loan outlets plus the number of Money Mart outlets. In 2003 there is only one cheque-cashing outlet that does not offer payday loans.

The situation in the North End mirrors, at a lower scale, the situation in Winnipeg. In the North End, one cheque-cashing firm has operated continuously since 1988. This increased to two outlets for a short period in the early 1990s and once again rose to two outlets in 2001. Payday loan firms first appeared in 2002 and today there are five outlets, two located in the heart of the North End near Selkirk Avenue and Salter Street.

Figure 4.3 The Number of Cheque-cashing Firms and Payday Lenders in the North End, 1980 -2003[a]



Source: Winnipeg Telephone Directories and Outlet Follow-up

a.Data on numbers of payday loan and cheque-cashing outlets are approximations. During the period of data collections the numbers varied considerably with new ones opening up and some older ones closing down.

*Until 1990 Money Mart was the only firm in the cheque-cashing category in the telephone directory; for 2001 and 2002 Money Mart was listed under cheque-cashing services and loan categories. For 2003 in the Winnipeg Yellow Pages Telephone Directory [Online], Money Mart is no longer listed. This is not reflected in the figure above.

**The number of payday loan outlets is the sum of, number of firms offering payday loans in loan category in the telephone directory and, for 2003 the number of Money Mart outlets (as their outlets are not included in loan category in online directory).

***Payday loan and cheque-cashing firms are the number payday loan outlets plus the number of Money Mart outlets. In 2003 there is only one cheque-cashing outlet that does not offer payday loans.

The name cheque-cashing is quite self-explanatory. Providing the cheque-cashing firm with a third party cheque with adequate personal identification and a fee, the client is able to obtain immediate cash. The immediate conversion to cash is attractive. It contrasts to the experience for many at mainstream banks that often place a five-day hold on the cheque before cash can be drawn on it. In addition, mainstream banks generally have tighter identification requirements as compared to the cheque-cashing firm. For instance in the North End the personal identification requirements range from two pieces of photo-identification to as a respondent reported, "whatever you have" (Table 4.3). Fees for cheque-cashing range significantly for this service, generally including a per-cheque fee and a percentage of the cheque's value. One cheque-cashing firm respondent clearly posts its cheque-cashing fees while our visits to other cheque-cashing firms found that others did not clearly post their fees.

As mentioned in the introduction to this section, the costs of fringe financial services can be generalised into a lump-sum fee or an annualised interest rate. To cash a $100 cheque, fees ranged from $2.00 to $4.89, with an average value of $4.04. Following Ramsey (2000) we can assume that if a cheque had been cashed at the bank, a hold would be placed on it. In general, the hold would last for five business-days. One respondent reported that US cheques were subject to a 21-day hold at their bank. Thus, by cashing a Canadian cheque immediately, the cheque-cashing firm is providing a very short-term, five-day loan. Using this formulation, annualised interest rates range from 104 to 259 percent.

Table 4.3 Cheque-cashing Requirements and Fees

Cheque-cashing Firm	Personal Identification (ID) Required	Fee	Total Fee for $100 Cheque	Annualised Interest Rate on a Five Business Day Loan[a]
A		$10 for $300	$3.33	173%
B	2 photo ID	$2 for $100; $1 per subs. $100	$2.00	104%
C	ID	>$100 = $1.99 + 2.99%	$4.98	259%
D	"whatever you have"	$1.99 + 2.99% cheque	$4.98	259%
E	1 photo + 1 other ID	$1.99 + 2.90%	$4.89	254%
Average			$4.04	210%

Sources: Key Informant Interviews and Outlet Follow-up

The average cost to cash a $100 cheque at a Winnipeg cheque-cashing firm is just over $4. This is more than the average monthly cost for a basic account at a credit union or bank, averaging $3.67 per month (Table 4.4). With this basic account the client can engage in approximately 12 transactions including cheques, automatic teller machine and teller transactions. Per item transaction costs range from $0.50 to $1.00, significantly lower than the $4 paid at the cheque-cashing firm. The average cost to cash twelve $100 cheques at a cheque-cashing firm, based on our sample, is $48.48. This is $44.81 more than what a bank client would pay to complete the same number of transactions at the bank. Cashing even two cheques of $100 per month at a cheque-cashing firm will cost over $8. This financial service charge represents a significant sum for a low-income person. In fact it represents 3.3 percent of the provincial Employment and Income Assistance (commonly called Social Assistance) support for a single person without a disability, amounting to $242.10 per month (excluding rental expenses).

Table 4.4 Fees for Services at Mainstream Banks and Credit Unions

Credit Union/Bank	Lowest Fee Account Fee Per Month		Per Transaction Fee	
	Fee	Number of Transactions	Automatic teller machine	Person
Credit Unions				
Assiniboine Credit Union	$4.00	15	$0.50	$0.75
Desjardins Caisse Populaire	$2.00	7		
Holy Spirit Credit Union	$4.95	15	$0.50	$0.50
Average	$3.65	12.3	$0.50	$0.63
Banks				
Bank of Montreal	$3.50	10	$0.50	$1.00
CIBC	$4.00	12	$0.60	$0.60
Laurentian Bank	$2.95	8		
National Bank	$3.50	12		
Royal Bank	$4.00	15	$0.50	$0.75
Scotiabank	$3.95	12	$0.50	$1.00
TD Canada Trust	$3.95	14		
Average	$3.69	11.9	$0.53	$0.84

Sources: Key Informant Interviews, mainstream bank websites and pamphlets

As mentioned above, the number of payday loan firms and outlets have experienced the most rapid growth in the city in the last three years. As with cheque cashing, personal identification is required to be eligible for a payday loan. In addition, several other documents are required sometimes including: evidence of employment (e.g., pay stubs), evidence of permanent residence (e.g., utility bills), and evidence of a bank account (e.g., bank statement) (Table 4.5). This demonstrates that payday loans, unlike pawnshop loans or rent-to-own loans, target employed persons. This has been documented by a study recently undertaken by the Public Interest Advocacy Committee (2002). They found through a nation-wide survey that,

> …the average income of the [payday loan] customers is roughly in line with the Canadian average household income. Specific vulnerable groups are also not heavily represented
>
> (Public Interest Advocacy Centre 2002, p. 36).

We found that payday loans were generally made for a two-week period in amounts of $100 to $300, the loan amount being limited to a proportion of the client's anticipated paycheque. Fees for payday loans generally include an interest charge plus various transaction charges such as a processing fee and cheque-cashing fee (Table 4.5). Fees and annualised interest rates vary across firms and loan amounts. Fees for a $100 two-week loan vary from $18 to $38, with an average fee of $26. Fees for a $300 loan vary more widely across firms, from $30 to $76, with an average fee of $63. Annualised interest rates vary as well. For a $200 loan they range from 260 percent to 650 percent, with an average rate of 551 percent.

Table 4.5 Payday Loan Requirements, Fees and Annualised Interest Rates

Firm	Requirements for Eligibility[a]	Fee	Annualised Interest Rate
A	ID, 3 months same employer, 2 pay stubs, bank statement, utility bill and 2 post-dated cheques	For $100 return $138 in 2 weeks	988%
B	ID, 2 pay stubs, bank statement, utility bill, post-dated cheques	For $100 return $135.12 in 2 weeks For $300 return $375.70 in 2 weeks	913% 656%
C	3 months same employer, checking account and post-dated cheque	25% for 2 weeks	650%
D	3 months same employer, checking account and post-dated cheque	For $200 return $247 in 2 weeks	611%
E	ID, pay stub, proof of address, bank statement and post-dated cheque	For $100 return $118 in 2 weeks For $200 return $220 in 2 weeks For $300 return $330 in 2 weeks	468% 260% 260%
F	ID, references, 2 pay stubs, bank statement and 2 utility bills	For $100 return $124 in 2 weeks For $200 return $245 in 2 weeks	624% 585%
G	Not available	For $100 return $120 in 2 weeks	520%
H	Not available	For $100 return $127.95 in 14 days For $300 return $370.95 in 14 days	727% 615%
I	Not available	For $100 return 125 in 2 weeks For $200 return 250 in 2 weeks	650% 650%
J	Not available	For $100 return $126.50 in 2 weeks For $300 return $363.50 in 2 weeks	689% 550%
K	Not available	For $100 return $120 in 2 weeks	520%
Average			
$100		$26	675%
$200		$33	551%
$300		$63	546%

Source: Key Informant Interviews and Outlet Follow-up

a. Eligibility requirements generally involve personal identification (ID) and proof of employment and residence.

Two points flow from these data. First, given the considerable variation in fees and associated annualised interest rates across firms, consumers would be wise to shop around. This would be facilitated by regulation that compel businesses to follow a common fee formulation, perhaps an annualised interest rate, and be required to clearly post this. In the businesses we visited in our outlet follow-up to the key informant interviews we found that fees were not clearly posted and they did not use an annualised interest rate formulation. In some cases employees were willing to write out for us the cost of various loan amounts. This is a more critical issue for payday loans than other fringe financial services because there are more fees and they are more complicated, often involving a daily/weekly interest charge plus two or more additional fees (e.g., broker fees, membership fees, cheque-cashing fee, item fee). Using a common formula to price these loans would help consumers judge between different products and particularly between different firms.

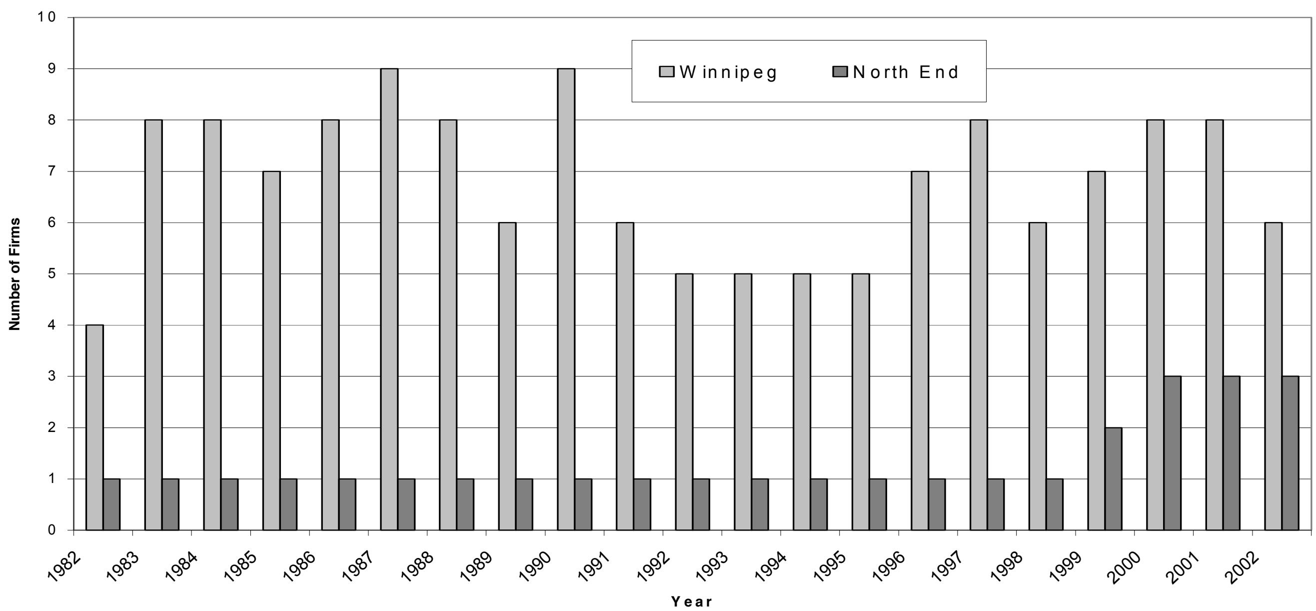
A second point relates to the interest charges. As mentioned in the introduction, payday loan proponents claim that annualised interest rates are not a fair reflection of the cost of the service. They argue that because the loan is of short duration, costly to administer and relatively risky, a better indicator of the cost to the consumer is the lump-sum fee. That payday loan firms are growing in numbers suggests that consumers are satisfied with the fee. On the other hand, mainstream banks offer services that can involve short-term loans including credit cards and lines of credit. For these services, loans can be taken out for shorter periods than two weeks. In mainstream banks, comparable interest charges hover around 10 to 25 percent for these services. The annualised interest rate for a payday loan is 55 to 68 times higher than for a credit card loan.

4.4 RENT-TO-OWN SERVICES AND FIRMS

The rent-to-own service is a way for a customer to immediately obtain an item through a rental agreement. If the customer completes the contracted payments, they then own the item. Some businesses in Winnipeg have been offering a rent-to-own option for obtaining furniture and appliances for many years. The telephone directory lists businesses with this type of service and we collected data as far back as 1982. At that time there were four businesses in Winnipeg that offered that service (Figure 4.4). The numbers increased to between eight and nine through the 1980s and early 1990s, dropping back down to five in the mid 1990s, rising to between six and eight in the late 1990s and early 2000s. The firms that offered rent-to-own services in the 1980s appear to offer rent-to-own as one means of financing. These firms appear to be general furniture and appliance retailers. They appear to have stopped offering the rent-to-own option in the mid-1990s. Then a new type of business, more exclusively focused on rent-to-own services, was established in Winnipeg in the early- to mid-1990s. At least two of the current six rent-to-own businesses in Winnipeg have locations in other cities.

In 1982, one rent-to-own service was established in the North End. This was the only business offering the service until 2000 when a second business was established and then a third in 2001. Today, there are three rent-to-own businesses in the North End. All three of these businesses are almost exclusively focused on rent-to-own services.

*Figure 4.4   Number of Firms Offering Rent-to-Own Services** in Winnipeg and the North End, 1982-2002*



Source: Winnipeg Telephone Directories
**This includes businesses with "rentals with option to buy", "rent-to-own ", "lease to own" or similarly described options, under sections: General, Television, Furniture, and Appliance Rentals; Furniture, and Appliances in the telephone directory. These figures represent a minimum number of firms since businesses may advertise these options for one year but offer them in subsequent years.

We interviewed two rent-to-own firm representatives. One respondent indicated that 60 percent of the business's clients were from Winnipeg and 42 percent were from the neighbourhood (Table 4.6). The respondents claimed that on average 80 percent of their clients were Aboriginal and 20 percent were non-Aboriginal. Some of the Aboriginal clients are from First Nations' communities outside of Winnipeg. The respondents stated that on average 60 percent of their customers were female and 85 percent of the respondents received Employment and Income Assistance.

Table 4.6   Rent-to-Own Respondents Perception of Their Clients' Characteristics

Clients' Characteristics	*Firm A*	*Firm B*	*Average*
Winnipeg Residents	60%	Not available	
Neighbourhood Residents	42%	Not available	
Aboriginal	75%	85%	80%
Non-Aboriginal	25%	15%	20%
Female	40%	80%	60%
Male	60%	20%	40%
EIA Recipients	80%	90%	85%

Source: Key Informant Interviews

The key informants claimed that rent-to-own contracts ranged from 3 to 24 months. According to one respondent, the value of the loan imbedded in the rent-to-own contract ranged from $1500 to $3000. Respondents claimed that the vast majority of their clients intend to complete the rent-to-own contract in order to purchase the merchandise. In other words, the rent-to-own service is used primarily as a means to obtain credit to purchase an item as opposed to a rental service. The two respondents claimed that on average two-thirds of their clients complete the contract and keep the merchandise. Both firms had a 'buy-out' option that allowed clients to complete the contract at an early date by paying some portion of the remaining balance.

One respondent was unwilling to disclose to us the fees and interest charges associated with the contract. This respondent explained that once the customer had indicated the monthly fee and down payment she/he could afford to pay, the firm would determine the number of months needed to complete the contract and an agreement would be written. This respondent would not disclose to us the fees associated with the rent-to-own service. Firm B indicated that the firm charged an interest rate of 10 percent per month, or an annualised rate of 120 percent (Table 4.7). In order to obtain a second firm's fee structure, Firm A was contacted. This firm revealed a hypothetical rent-to-own agreement (Table 4.7). This agreement involved fees and an interest rate amounting to an annualised interest rate of 489 percent. The average annualised interest rate for these two rent-to-own contracts is 305 percent.

Table 4.7 Rent-to-Own Example Contracts, Fees and Annualised Interest Rates

	Firm A	Firm B	Average
Retail Price of Item	$733	$649	$691
Months to Own	18	22	20
Total Cost at End of Contract	$1,467	$865	$1,166
Implied Interest Rate (month)	41%	10%	25%
Implied Annualised Interest Rate	489%	120%	305%

Source: Key Informant Interviews and Outlet Follow-up

4.5 TAX REFUND ADVANCE SERVICE

A final type of fringe financial service considered here is the advance provided by some income tax preparation companies. Once the tax return is prepared, and if there is a tax refund, then some firms will give the client the option to receive an advance on the refund, for a fee. In a sense the client is receiving a loan from the firm, generally for two weeks (according to respondents from these businesses), the time it would take for the claim to be processed by Revenue Canada and the refund to be mailed back to the client.

At least two tax preparation firms, with several outlets in Winnipeg, offer seasonal tax refund advance services. These two firms have a total of 37 branches (Winnipeg Telephone Directory). Of these, three are located in the North End, although on the periphery at Main and McPhillips Streets. These firms calculate fees for the advance as follows: 15 percent of the first $300 of the refund and 5 percent on any remaining refund (Table 4.8). Assuming that relying on the postal system would mean the refund would arrive two weeks later, the tax refund advance amounts to a two-week loan. Using annualised interest rate calculation; this implies a rate of 286 percent.

Table 4.8 Tax Refund Advances

	Firm A and B
Cost of Tax Refund Advance	15% first $300, then 5% on additional refund
Approximate Time Saved	10 working days
Cost for $500 Refund**	$55
Annualized Interest Rate	286%

Source: Key Informant Interviews and Outlet Follow-up
** Excludes cost for income tax preparation and cheque-cashing.

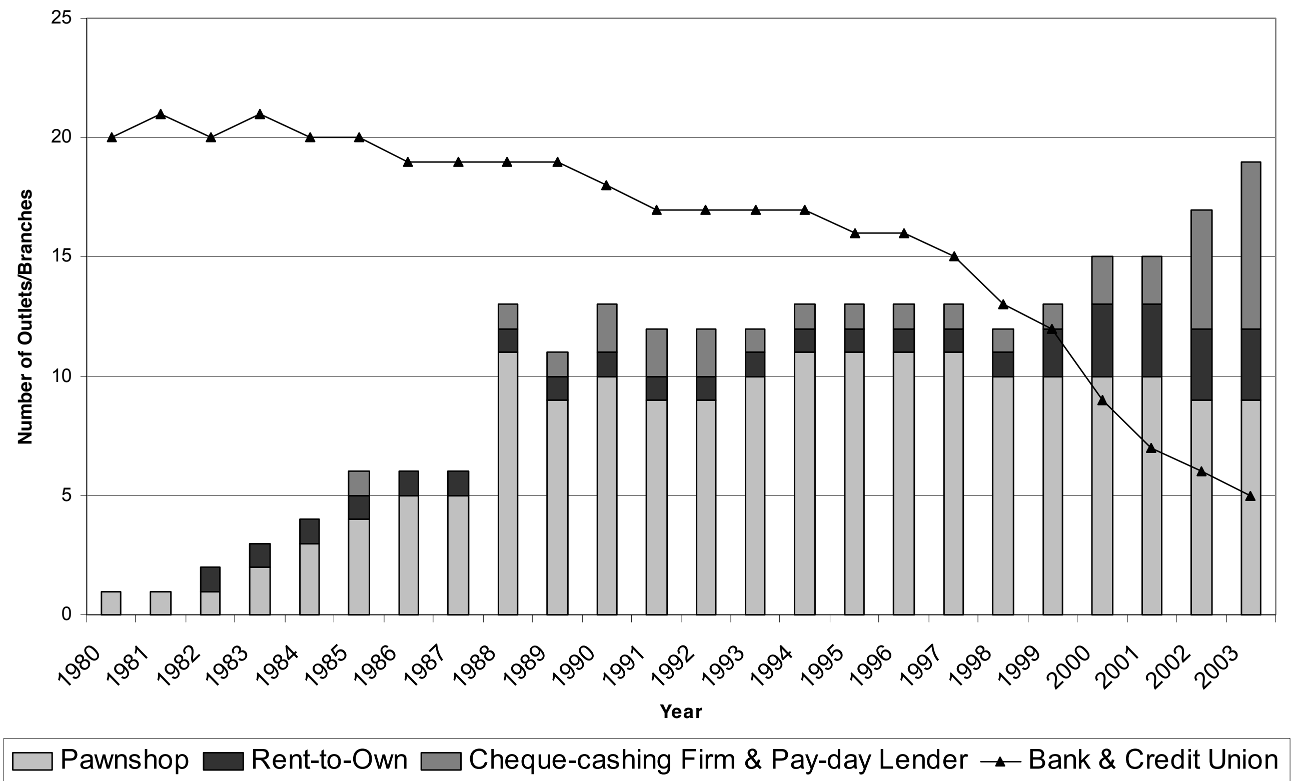
4.6 OTHER FRINGE FINANCIAL SERVICES

Other fringe financial services include "white label" ATMs, which are ATMs not owned and operated by banks or credit unions. These ATMs can only be used for cash withdrawals from one's bank account. In addition to one's bank transaction fee, the "white label" ATM charges a service fee. This fee is often approximately $1.50, but one respondent indicated that the maximum fee allowed is currently $4.00 per transaction and may be increased in the near future to $6.00 per transaction.

4.7 FRINGE FINANCIAL SERVICES IN WINNIPEG'S NORTH END

Fringe financial service firms are a growing phenomenon in Winnipeg's North End. In 1980 we found that there was only one pawnshop in the area (Figure 4.5). By 2002 there were at least 19 fringe financial service outlets (excluding white label automatic teller machines and tax refund advancers) as follows: nine pawnshops, two cheque-cashing firms, four payday lender s and three rent-to-own outlets. While pawnshops were established through the 1980s, the newer fringe financial service providers, cheque-cashing firms and payday lenders, have grown in the early 2000s.

Figure 4.5 Number of Selected Fringe Financial Services and Mainstream Banks/Credit Union Branches in Winnipeg's North End, 1980-2003[a]



Source: Winnipeg Telephone Directories and Outlet Follow-up
a. Data on numbers of payday loan and cheque-cashing outlets are approximations. During the period of data collections the numbers varied considerably with new ones opening up and some older ones closing down.
***Payday loan and cheque-cashing firms are the number payday loan outlets plus the number of Money Mart outlets. In 2003 there is only one cheque-cashing outlet that does not offer payday loans.

As fringe banks have increased their numbers in the North End, mainstream bank branches have declined. In 1980, there were 20 mainstream bank branches in the North End. The number dropped to 15 by 1997 and then plummeted to only five in 2003. There have been a total of nine closures in the area in the last six years. During the course of this study, a mainstream bank announced its plan to shut another branch in the North End in August, making it the tenth in seven years. When this branch is closed, only three mainstream bank branches and two credit union branches will remain in the North End. At present there are six bank automatic teller machines and thirteen white-label machines.

In terms of the geography of banking in the North End, the majority of the mainstream and fringe banks are located on Main and McPhillips Streets and Selkirk Avenue (See Map of North End). Main and McPhillips Streets are major transportation corridors between the downtown and the suburbs. McPhillips (at Dufferin Street) is also the location of a major government run casino. Selkirk Avenue, once a retail and business centre for the North End, has experienced significant decline so that today a large share of the commercial space is vacant. There are presently three pawnshops and one cheque-cashing /payday loan firm and one rent-to-own firm (that apparently offers cheque-cashing) there. Selkirk Avenue has been particularly negatively affected by mainstream bank closures given the closure of two branches at Selkirk and Salter and two other branches down McGregor Street. Another three branches have been closed on Main Street and two along McPhillips Street.

4.8 CONCLUSION

Fringe financial services are on the increase in Winnipeg and the North End. While pawnshops have been around for many years in the city, available statistics indicate that the first licensed pawnshop was established in the North End in 1980. Firms dedicated to cheque-cashing are a newer phenomenon although their growth has not been as dramatic as that of the payday loan firms. The payday lenders have only entered the Winnipeg and North End markets in the last couple of years. While the rent-to-own service has been around Winnipeg for many years, the rent-to-own firm focused almost exclusively on rent-to-own contracts and customers, is a new and growing phenomenon. Tax refund advancers and white-label automatic teller machines are fringe financial services significant to Winnipeg and the North End. Examining the reasons for the growth of the fringe financial service sector is beyond the scope of this research.

Fringe financial services must be in demand in Winnipeg and the North End, otherwise it would be difficult to explain the fringe banks' growth. These banks provide a service for their customers. However, this research has documented that the services provided are very expensive. The services are expensive regardless of how one looks at them. For instance if one considers simply the absolute fee for the service (e.g., $4 to cash a $100 cheque), the cost is very high in comparison to a typical client's income. Alternatively, if the service fees are converted into an annualised interest rate associated with a loan they are very high (e.g., 260-1000 percent for a payday loan). Moreover, most of these services are available at mainstream banks, through such mechanisms as holding a basic checking account and a credit card, for a fraction of the cost. Compounding the problem is the fact that low-income people in the North End are generally less mobile than their suburban neighbours. This means that they have fewer options when it comes to financial services. In some cases they might be 'captive' to a neighbourhood fringe bank that can take advantage of their situation.

Besides one or two anecdotal pieces of evidence, this research has not found hard data to support the view that fringe bankers are earning above-normal profits. That is not to say they are not, only that we were unable to uncover evidence to that effect. The fact the payday loan, and to a lesser extent the rent-to-own firms, are multiplying does suggest that there is profit to be made in the industry. One key informant pawnbroker indicated that his business had earned a handsome profit last year. The high growth rates in the number of cheque-cashing and payday lending outlets may reflect above normal profits that are encouraging new entrants. High fees also reflect expensive and risky services offered by fringe banks. Market forces necessitate that these services be offered at a higher cost.

The problem is that the very people who need a break on financial services, who need access to and understanding of mainstream financial services in order to improve their situation, are the very people who are being directed towards the fringe bankers. Fringe bankers have responded to this opportunity. However the quality and cost of services that fringe bankers provide varies considerably requiring, *caveat emptor* (buyer beware). The data in this section document the variation in fees associated with most fringe financial services. A payday loan or rent-to-own client can easily pay two or three times as much in fees from one firm to another.

The research team also heard about other questionable practices such as encouraging payday loan extensions and intimidating elderly payday loan clients to make payments. The system of micro, household-level finance that is segmenting so that low-income people are streamed away from mainstream banks and towards fringe banks is at the heart of the problem. This arguably impedes their capacity to move out of poverty by: (1) increasing the costs they face for basic financial services and (2) creating or aggravating the disconnection between short-term (e.g., cheque-cashing, small loans) and long-term (large loans, savings) financial services. Fringe banks provide only the former type of services.

5.0 LEGITIMACY AND COMMUNITY BENEFITS OF FRINGE BANKS

5.1 INTRODUCTION

One of the goals of the research is to confirm or refute the perception that the fringe financial services industry overcharges low-income customers. To help achieve this goal, one component of the research involved interviewing specialists from a variety of groups that are concerned with the fringe bank industry. This research was done to gain an overall understanding of the fringe financial service phenomenon by exploring different views expressed, and issues identified, by key groups with regard to fringe banks. Respondents were selected who had specialised knowledge about fringe financial services or the community needs of the North End. A total of 27 interviews were undertaken with key informants from the following categories: fringe financial services, banks and credit unions, community development practitioners, key government departments and relevant politicians. These interviews followed the key informant interview schedule (Appendix B). This section summarises the main issues raised by these respondents in the interviews and identifies different perspectives held by these groups related to the issue of fringe financial services overcharging customers.

5.2 FRINGE FINANCIAL SERVICE FIRMS

Obviously the most important informant group for this part of the study is the fringe financial sector itself. It was desirable to interview as many people as possible from the industry in order to develop a better understanding of the firms' motivations and experiences. The research team had mixed success in arranging interviews with these firms. In some cases the firms were reasonably open to engaging in the interviews but in other cases the firms would not allow interviews. Some pawnbrokers and rent-to-own operators were willing to be interviewed. Three pawn brokers and two rent-to-own managers participated in the interview. Other pawnbrokers and one rent-to-own manager declined to be interviewed. Cheque-cashing/payday loan firms were least willing to participate in the interviews. The team tried to arrange interviews with this group of firms in a variety of ways, including direct contact with office staff in Winnipeg (see Appendix D), telephone and email contact with management at the head office and taking out an add in a major Winnipeg daily for interview participants. More than ten cheque-cashing/payday loan firms were contacted by telephone, letter, and/or in person, with repeated attempts to secure interviews, but only one firm responded. That firm would not allow any local employees to respond to us. After consultation with their lawyer, the head office, located outside of Winnipeg sent written replies to our questions. This poor response to the research and low participation rate is unfortunate. The reasons behind the low participation reflect the sensitive situation faced by this industry. Clearly more research with better participation is called for.

Besides collected data on services and fees (see Section 4.0), fringe bankers were asked to comment on the legitimacy of their services and the bankers' perceptions of their clients' motivations. Regarding legitimacy, bankers were asked to comment on whether they gouge their clients, whether they follow fair business practices and whether they are associated with illegal activities. Bankers were also asked to comment on the motives of their clients and responses from some fringe bankers revealed a tension or contradiction.

All the respondents in this category claimed that their businesses are legitimate and offer important services to their clients. Pawnbrokers, rent-to-own respondents and the sole cheque-cashing/payday loan firm claimed that their services contribute to the community. Pawnbrokers' and rent-to-own respondents' claim to legitimacy is slightly different from the claim made by the cheque-casher/payday lender. Pawn brokers and rent-to-own operators claim to provide a financial service to people who are low-income and who have few financial service alternatives. The cheque-cashing/payday lender claimed that their clients are from a middle-income group and have access to mainstream financial services. In all cases, the fringe bankers argued that they face high costs, high risk and provide unique services, and thereby contribute to the community. One pawnbroker commented that it is mainstream banking, accounting and legal services that are illegitimate considering the fees they charge and the profits they generate. This pawnbroker argued that the profits generated in pawnbroking are no greater than in other industries.

One pawnbroker commented that the pawning process is age-old --one respondent commented that it is the second oldest profession, after prostitution-- and allows people who lack access to institutional credit to get a loan. For people who have no significant assets to use as collateral, the pawnshop provides an alternative. Respondents claimed that the pawning process is a fair service that provides access to credit to people who cannot obtain it otherwise. The significant fees associated with the pawn loan reflect the costs associated with doing business including insurance and storage costs and a return on capital loaned. The argument, applicable to most other fringe banks as well, is that small loans involve a high relative cost of processing. These higher processing, or transactions' costs, are then reflected in the high service fees. One respondent argued that it is banks and lawyers who gouge consumers with high fees. A rent-to-own respondent reported that their business provides a means for people with few alternatives to purchase goods such as a television or sofa. The argument is that these firms provide a high-risk and high-cost service to people with few credit alternatives.

From the interviews with pawnbrokers and other key informants we learned that pawnshops are, relative to other fringe banks, quite highly regulated through the municipal government. Potential pawnbrokers must obtain a zoning variance for their proposed premises. This is done through the City's Zoning Department and this requires a public meeting. According to one respondent, a public meeting for a proposed pawnshop in Elmwood drew a large negative community response. The zoning variance was denied. In another case a potential pawnbroker applied to establish a pawnshop on McPhillips Avenue. There was little community reaction and the variance was granted. Once a variance is granted, the pawnshop must obtain a pawnshop license from the City. The license is renewed annually, then all pawning transactions are monitored by the police pawnshop patrol. Pawn transactions, including serial numbers, are itemised and provided to the police at the end of each day.

In some cases the claims made by the fringe bankers appear highly exaggerated. For instance, some bankers claim to offer services intended to improve the client's credit rating. One payday loan firm offers a programme as follows: the client successfully repays ten loans with the firm and then the firm will send a letter to the credit bureau stating that the client is a customer in "good standing." In the firm's literature it claims that this programme will improve the clients overall credit rating. However, it is not clear that a letter from the payday loan firm will affect the client’s credit rating. A rent-to-own respondent claimed they used a ‘graduated’ credit ceiling whereby clients who prove they are credit worthy through small-sum rent-to-own agreements can then receive higher sums in the future. Again, the client is forced to participate in very costly financing to obtain higher levels of credit.

The cheque-cashing/payday loan respondent stated that they preferred to describe their business as “alternative financial service,” “convenient financial service,” “alternative consumer credit market,” or “money service business.” The respondent objected to being grouped with pawnshops and rent-to-owns within the fringe financial service category, saying this was "like comparing apples to oranges." The payday loan is the major component of their business which they say, contrary to popular belief, is used by clients that earn an average salary of $30,000, have bank accounts and credit cards, and are predominantly single. This respondent claimed the firm provides financial services to working people in a fair and convenient manner. For instance, they require the payday loan to be repaid at the deadline with no option for the loan to be extended or ‘rolled-over.’ The practice of rolling-over payday loans adds fees and significantly increases the total charges to the client. According to the firm's own client surveys, they have achieved a high level of customer satisfaction with both cheque-cashing and payday loan services. The respondent claimed that the firm is open to being supportive of new regulatory framework that governs payday lenders and indicated they "are in support of community banking and community non-profit organisations' involvement in providing or assisting with banking services."

A second issue dealing with business legitimacy relates to the question of fringe bank connection with illegal economic activity. There is a perception held by some people that pawnshops trade in stolen goods. Pawnbrokers and other respondents were asked to comment on this perception. The pawnbroker respondents explained that all their pawn transactions are monitored on a daily basis by the Winnipeg Police Service. They claimed that as a result, contrary to popular perception, pawnbrokers do not deal in stolen property. Pawnbrokers provide transaction data to the Winnipeg Police pawnshop unit on a daily basis.

The pawnbrokers claimed, which was supported by the police respondent, that very little stolen property has been identified by the police demonstrating that they do not engage in the trade of stolen property. According to two of our pawnshop respondents, just two items per firm were seized by the police last year. The failure of the police monitoring system to discover significant stolen property demonstrates that stolen goods are not traded in pawnshops but traded ‘on the street,’ or ‘in people’s homes’ (see section 5.5 “Government Policy Makers and Enforcement” for more). During our interviews some respondents, including one pawnbroker, claimed they were aware of a stolen goods trade in some pawnshop ‘hot rooms.’ The team heard stories from other respondents about illegal trade at pawnshops, but none of these could be independently confirmed.[19]

[19] Another respondent had had a personal item stolen and went to a pawnshop in search of it; after describing exactly what it was without divulging that it had been stolen, the person was led to the "hot room" in the back where the stolen item was discovered.

Another major issue raised in these interviews dealt with the fringe bankers' perception of their clients. Several of the pawnbrokers and rent-to-own respondents voiced a similar view of their clients' nature and motivations. Respondents were asked to describe the general income level of their clients and explain why they thought their clients used fringe financial services. Several respondents commented that many of their clients have low incomes. They accepted the fact that their services, while fairly priced, are expensive for these people.

Then why do low-income people use these services? The response was often that their clients lacked the self-discipline to save. This lack of self-discipline was the result of various pressures stemming from such things as involvement with gambling and substance abuse to consumerism. According to this view, gambling, substance abuse and consumerism drives some low-income people to fringe banks. Considering that fringe bankers claim to provide legitimate services, there appears to be a tension or contradiction. On the one hand some firm respondents claim that their financial services benefit their clients, yet the client's need for the fringe bank service is the result of his/her lack of self-discipline that results in the use of a relatively expensive service.

5.3 MAINSTREAM FINANCIAL SERVICE FIRMS: CREDIT UNIONS AND BANKS

The relationship between mainstream financial institutions —i.e., banks and credit unions— and the fringe banks is complex. This was evidenced in the interviews we had with informants from the mainstream banking sector. Credit unions, and to a lesser extent banks, claim they are populist institutions providing financial services for the common person. Credit unions have a more democratic governance structure than do banks[20] and they describe themselves as being rooted in their membership and local communities: "As financial co-operatives, credit unions are dedicated to the people and communities they serve."[21] Both credit unions and banks face stiff market competition. In addition to this, banks must respond to shareholder demands for high profits. These pressures require mainstream banks to take advantage of new technologies, globalising markets and changing consumer demand. These factors place contradictory pressures on mainstream financial institutions. On the one hand they claim to be for all Canadians, but on the other hand they are closing branches in inner-cities and rural locations. Since many low-income people are less mobile and less likely to own a home computer and use the internet, these bank closures arguably leave them with no other option, and this contributes to the growth of the fringe banks.

We interviewed two informants from Manitoba credit unions. A third credit union with a branch in the North End declined to be interviewed. These interviews focused on the issue of fringe financial services. The credit union respondents were quite aware of issues of financial services for low-income people and about the growth of fringe financial services. In fact, one credit union

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[20] Credit union governance is based on one-member, one-vote whereas with bank governance, voting is weighted by the number of shares an individual owns. This explains the credit union claim to be rooted in their membership. Where geographic communities experience changing demographics and credit unions' do not, it is not clear that credit unions are more democratically representative however.

[21] See, Manitoba Credit Unions website. Available: http://www.creditunion.mb.ca/cu_info/whatis.htm [accessed 7 May 2003].

organisation had undertaken an informal study of fringe banks that documented the high cost of fringe bank services. However, this organisation had no concrete plan to address the issue of fringe bank growth. Another credit union in Winnipeg has established a branch in a low-income neighbourhood that offers a selection of financial services. This branch provides neighbourhood residents with an alternative to fringe banks. Credit union respondents did recognise the difficulty in offering financial services in low-income neighbourhoods. One of the credit union respondents noted that financial services for low-income people are generally costly to provide, echoing a perspective expressed by some bank respondents.

We interviewed two mainstream bank representatives who were based in Winnipeg and who had responsibilities for the Winnipeg or Manitoba areas. We approached two other mainstream banks to be interviewed. After some internal processing, one bank declined to be interviewed and provided a one-page email message from the head office on the issue of branch closure decision-making. A second bank representative agreed to the interview, but just as the interview was starting, a second bank representative called the interview off and claimed that the head office must be consulted. Later, we received a one-page letter from the head office outlining general reasons for branch closures. These mainstream bank interviews were broader in scope than the credit union interviews. Some of the issues that were discussed included: amalgamation and closure of branches, changing market/profit expectations for the banks, public relations and the relationship between banks and fringe banks.

We asked these respondents to explain why bank branches have been closed in the North End in the last ten years. In response to this question the bank officials explained that they were undergoing a process of amalgamation of branches that would in fact improve the provision of financial services to their clientele. For instance, one bank official explained that four branches were merged into one large branch at a major shopping centre in order to provide expanded services for longer hours. All respondents referred to the increased use of technology like automatic teller machines and internet banking as reasons for closing branches. Since consumers can access their financial services through these new technologies, there is less need for branch operations. Another bank respondent indicated that there were too many bank branches in Winnipeg as compared to similar centres in Canada. Closing branches would still leave Winnipeg with a more than adequate number of branches.

One respondent accented the important role that profits play in that bank’s decisions about branch operations. This respondent said that the major banks face stiff pressures from their shareholders to generate acceptable levels of profit. This high expectation places added pressure on the bank to close marginally profitable branches. Credit unions, the bank respondent compared, faced lower expectations on profitability.

Respondents were asked if the average lower-income of North End residents was a factor in North End branch closures. Respondents' answers to this question were mixed. Two respondents said that community income level was not a factor in closure; two others said directly or indirectly that it was a factor. For one respondent, closure was based on the number of clients and the number of products these clients held with the bank. For another respondent, inner-city deterioration involved the shift of money out of the community, and that meant different services would be required. The respondent said that the bank treats all clients the same but added that the bank could afford to spend more on clients using more bank products. The bank could spend more on a client with six bank products such as chequing and savings, mortgage, RRSPs, etc., than a client with one to two products. By extension, a branch closure could result if there were too few clients with too few bank products. This comment suggests that it is not people that drive the bank services but the consumer *demand* for bank products, itself driven by income.

When asked about the distributional implications of branch closures, respondents claimed that closures were equally distributed around the city. Lower-income neighbourhoods were not harder hit by these closures. Respondents also claimed that low-income consumers could equally well use automatic teller machines and the internet to access their bank products. When asked about the mobility of low-income consumers, one respondent denied that low-income people in the North End had less access to transportation than people in other areas of the city.

Another point that was emphasised by the banks was their desire to respond to consumer demand and maintain a positive public image. According to one respondent, the bank has a variety of stakeholders: shareholders via the capital market with its expectation for profits, bank employees and consumers, and the general public. Accordingly, the bank must carefully consider the interests of these stakeholders in its decision making. Two of the four respondents explicitly stated that a neighbourhood being low-income is not a factor in closure decisions. However, given the pressures from shareholders, consumers, and employees it is unclear how low-income consumers' voices could be heard. When asked about the banks' contribution to the community, two of the four respondents referred to their banks' charitable donations, primarily for social welfare agencies. When asked if the bank might engage in financial service outreach in a low-income neighbourhood, one respondent claimed that this was not feasible given the stakeholder expectations and financial constraints outlined above.

A final issue that was explored in these interviews dealt with the financial relationship between mainstream and fringe banks. In the US, some fringe bankers have established formal relationships with mainstream bankers. Recently, an American bank (Eagle Bank) was required by a federal authority to stop financing Dollar Financial Group's Money Mart payday loans in the US. In our conversations with bank respondents, we found one who described a clear relationship between the bank and a fringe bank, in this case "one or more" cheque-cashing firms. According to the respondent, the bank provides financing and cheque clearing services. In addition, the bank provides the cheque-cashing firm overdraft protection and lines of credit. The respondent stated that this relationship was equivalent to its relationship with other businesses and agreed that, in a sense, the bank capitalised the cheque-cashing firm. With mainstream banks closing inner-city branches, it becomes clear that they continue to participate in banking in low-income neighbourhoods through finance, but are leaving service provision to fringe bankers. The consequence of this is that low-income neighbourhoods face a narrower and less beneficial range of financial services. Mainstream banks, on the other hand, are able to continue to generate profits from low-income neighbourhoods, but delegate financial service provision to fringe banks.

If, on the one hand, fringe bank growth is the result of bank branch closures (or mergers), then this relationship allows the banks to continue to participate in, and profit from markets they have physically left. This would suggest a kind of market segmentation that is unhealthy. It involves a segmenting of financial services on the basis of income level such that full service mainstream banks are directed at middle and upper income neighbourhoods, while fringe banks, financed and supported by mainstream banks, operate in low-income neighbourhoods. Income inequality leads to financial market segmentation that leads to further income inequality. On the other hand, if fringe bank growth is unrelated to bank branch closures, but due to market liberalisation and innovation, then the mainstream-fringe relationship might not reinforce income inequality. Clearly, this question requires more attention by researchers and policy makers.

5.4 COMMUNITY LEADERS AND COMMUNITY DEVELOPMENT PRACTITIONERS

We spoke with ten people whom we describe as community (economic) development practitioners or community leaders. We asked them about existing and potential financial service providers —mainstream banks, fringe banks and community alternatives— and the role of credit and savings in personal and community development.

In terms of North End residents' relationship to mainstream banks, respondents expressed some points in common and some points in tension. Respondents agreed that many low-income North End residents do not use mainstream banks. While the respondents agreed that low-income persons' participation with mainstream banks was low, they did not agree why participation rates were low. The reported causes of low mainstream bank participation varied: the result of mainstream bank branch closures; the availability of superior –albeit more expensive– services offered by fringe services; and finally the claim that low-income people operate largely outside of the financial (credit and savings) economy. Another point raised was that picture identification, like a driver's license is necessary to open a bank account and many low-income people don't have this. A particularly important tension in these responses relates to the claim that low-income people in the North End have not traditionally used mainstream banks. Some respondents strongly argued that branch closures were the cause for low participation while some others claimed that even when the branches were open in the North End, few low-income residents used these services. One respondent argued that low-income residents operate in a "cash-only economy" for which credit and savings have limited relevance.

Another community respondent reported that North End residents move their business to fringe banks because mainstream banks do not have comparable convenience and levels of respect for low-income clients. According to this respondent, many North End residents are not financially literate, so financial service fees are not well understood. Moreover, culture and language barriers for newcomers to the North End from First Nations' communities and other countries compound the problem. Since most North End residents do not own cars, and bus or taxi fare is too high for them, travel to bank branches is not feasible; also, since most do not own computers, electronic banking is not possible.

Respondents were asked about the usefulness of fringe banks. Several voiced the idea that, while fringe banks provide a service for people, the service can be destructive. Several respondents understood that the costs and risks associated with fringe banking are relatively higher than mainstream banking. The result is higher costs for financial services. Yet, one respondent explained that when one factors in bus fare needed to get to the bank plus the added convenience and respect found at some fringe banks, the economic and social costs weigh in favour of using the fringe bank. One respondent pointed out that fringe banks are the only service available for many North End residents. Without the local pawnshop, a family may need to go without basic necessities; some resort to illicit means to obtain money. One respondent added that mainstream banks and corporations themselves overcharge consumers. Other respondents thought that some fringe financial services overcharge consumers by either earning above normal profits or by drawing people into a destructive cycle of debt. On the question of normalcy of profits, there were different views expressed by the respondents. There was, however, a general agreement on the point regarding the relationship between fringe banking and the destructive cycle of debt (discussed below).

Respondents expressed a variety of views about the viability of a community alternative to fringe banks. Some respondents thought that the success of the venture was dependent on the existence of super-normal profits in the fringe banking sector. These respondents thought that, in the absence of super-normal profits, a community-based alternative could not survive. The logic of this argument is that if super-normal profits exist, then a non-profit agency can offer the services at a lower cost because it does not need to generate a profit. This assumes that the non-profit organisation can establish a business model that is as efficient as a fringe financial firm. A related issue is whether a non-profit can develop a practice that includes 'saying no' to potential clients' request for loans. In order for a non-profit to offer financial services such as payday loans, they will be required to refuse some loans. A concern was expressed that employees of a community venture might be soft-hearted and extend risky loans, which would undermine the model's viability

Finally, the respondents had several interesting points related to the role of credit and savings in personal and community development. By definition, community development practitioners are concerned about people's welfare today and about their long-term well being. Examining a community's constraints and opportunities, the community development practitioner seeks to work with residents to achieve their development goals. To a certain extent this runs counter to fringe banking that is focused on filling a demand for financial services today with little consideration of the future consequences. In that sense, it is not surprising that several community development practitioners were critical of fringe bankers. These respondents raised issues that deal with the role of credit in the cycle of poverty and the relationship between credit and consumerism.

Some community development practitioners claim that fringe banking is one way that low-income residents can overcome a short-term crisis to meet their immediate needs. However, some respondents reflected on the problem of excessive credit and its relationship with financing non-basic needs and building a debt problem. As debt mounted, financing the debt increased. The debt spiral can lead to less income being available to purchase daily needs. According to some respondents, this cycle of debt can spiral out of control. The long-run result is growing poverty with fewer resources available to devote to basic needs. One respondent spoke about payday loans as, "exploiting people in crisis." Some respondents spoke about fringe credit as being associated with a feeling of hopelessness or an attitude of apathy.
A final issue that surfaced in discussions related to the association between credit and consumerism. Several respondents reported a relationship between the use of fringe banking and consumerism. According to one respondent, consumerism pressures are acute for low-income

people because their low-income forces them into a situation of continuously denying themselves things that other members in society take for granted. Accordingly, in a society that emphasises that one's value is dependent on one's material possessions, low-income people are acutely disadvantaged. One respondent stated that credit was used to finance the purchase of goods that would boost the person's self-esteem. Another respondent claimed that pawnshop and payday loans are often used to finance gambling, bingo and lottery tickets. One respondent thought that education processes that assist people to distinguish between needs and wants should be part of the development process. Another respondent felt that anti-poverty programs will not be effective unless low-income people have a sense of self-respect and do not continue behaviours associated with poverty.

5.5 GOVERNMENT POLICY MAKERS AND ENFORCEMENT

We interviewed four key informants from federal, provincial and municipal (police) governmental levels. The issues that were raised by these informants included: questions of government jurisdiction and limitations; assumptions about the benefit to consumers of fringe banking and government's role in regulating the industry; and the monitoring and law enforcement of pawnshops for stolen goods.

The first issue that was raised through discussions with federal and provincial government informants related to issues of jurisdiction. The two respondents explained that federal financial legislation relates to federally regulated firms[22] and that fringe financial services fall under provincial jurisdiction. They did acknowledge a relationship between section 347 of the Criminal Code (the criminal rate of interest) and fringe financial services. However, the federal government respondent claimed that the criminal rate of interest, limiting annualised interest charges to 60 percent or less, was inappropriate for regulating fringe banks. The provincial respondent indicated that they used the criminal rate of interest on a case-by-case basis to regulate the fringe banks. The fact that the criminal rate of interest is used only on a case-by-case basis suggests that the provincial government believes the criminal rate of interest has some, but not universal relevance to fringe financial services.

A second issue raised in these interviews related to the existing provincial legislation for the industry. At present, provincial legislation in Manitoba is based on the Consumer Protection Act and the Business Practices Act. The Consumer Protection Act addresses the issue of cost of borrowing disclosure and prohibited collection practices. The Business Practices Act deals with unfair business practices. The provincial respondents claimed that fringe bankers are required to disclose all fees associated with their service. These fees are to be lumped together in the form of an annualised interest rate.[23] The provincial respondents claimed that recent case law has found that all fees associated with fringe bank loans constitutes the interest charge for the loan and that this interest rate must be below the criminal rate of interest. However, the provincial government

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[22] Federally regulated financial institutions, "include all banks, all federally-incorporated or registered insurance, trust, and loan companies, co-operative credit associations, and fraternal benefit societies," Department on Finance Canada 2003. 'Glossary' [online]. Available: http://www.fin.gc.ca/gloss/gloss-o_e.html#osfi [Accessed 16 June 2003].

[23] See 4(2)(h) of Part 1, 'Disclosure of Cost of Borrowing' in Government of Manitoba. *The Consumer Protection Act* of Manitoba.

does not enforce disclosure of fees or interest rate ceilings with the fringe bankers. The government will use the existing legislation if they receive a complaint. In this case, if disclosure has not been complete or if the interest rate is above the criminal rate of interest then the government will encourage the fringe bank to roll back the charges.

The rationale for this ad-hoc enforcement is complicated. One reason for this patchy legislation and enforcement is that the responsible department has limited resources to monitor all fringe banks. Moreover, one respondent claimed that fringe banks provide a service to the community and that complaint-driven application of existing legislation adequately ensures consumer protection. The respondent advanced the idea that fringe bank clients have few financial service alternatives and stated that if legislation was universally applied, or new more forceful legislation was to be enacted, then fringe banks would shut down and their clients would be forced to go 'underground.' Furthermore, this respondent noted that they have received few complaints about fringe financial services. This suggests that clients are satisfied with fringe banks and, according to the respondent, justifies the status quo on the part of the provincial government legislation and enforcement.

Provincial and federal respondents explained that there is presently an intergovernmental committee, which the Manitoba government participates in, that is examining new provincial legislation for this fast growing sector. This committee has developed a model for legislation of fringe financial services for adoption by interested provincial governments.[24] This legislation is designed to deal directly with the fringe financial sector, although enforcement is another matter. We were told that the provinces of Saskatchewan and Quebec have recently adopted legislation designed to regulate fringe financial services. We were told that the Manitoba government does not plan to introduce new legislation at present.

Another point raised regarding jurisdiction relates to the growth of internet-based fringe banking, especially payday loans. According to the provincial respondents, internet-based payday loans are a growing sector that they cannot regulate. This adds an additional challenge to provincial legislation particularly when the internet-based payday loan company is based in another country. The argument being that if the government strictly regulates firms in the province, they might simply shift their office out of the province and offer the service via the internet.

The federal government respondent emphasised that the federal government has no direct jurisdiction in the area of fringe financial services. However, the Financial Consumer Agency of Canada does have the mandate to educate financial consumers about all types of financial products. This work is premised on the idea that this education is accessible and it is transformative; that through education about financial services, consumers will make more informed and beneficial decisions for themselves and will have the capacity to carry through. The final respondent in this group was from the Winnipeg police service. Municipal regulation of pawnbrokers is lodged in the planning department (pawnbrokers require a zoning variance to open a new business), the licensing department (pawnbrokers and used goods dealers require a license) and the police service. The police service has a pawnshop patrol that is responsible for

[24] Consumer Measures Committee. 1998. 'Agreement for Harmonization of Cost of Credit Disclosure Laws in Canada: Drafting Template,' [Online]. Available: http://strategis.ic.gc.ca [Accessed 15 October 2002].

monitoring pawnshop transactions for stolen goods. The respondent described the current system of monitoring and enforcement of pawnshops that seeks to identify stolen property.

It was clear from the interview that this system is extensive, involving submission of daily reports to the police on all pawn transactions. If the police identify a stolen good through this system they confiscate the item from the pawnbroker. The monitoring seeks to identify stolen property, not to regulate pawn fees. However, even with this monitoring, the respondent claimed that up to three-quarters of the items in pawnshops are stolen. The reason that these goods are not picked up by the police monitoring is that the monitoring system is limited by the fact that many people do not record serial numbers for their property. If the good is stolen but the owner did not record the serial number, then the police will have limited success in tracking it down.

The respondent claimed that the police are exploring the possibility of an internet-based 'real-time' system of reporting in order to improve monitoring. This new system would provide police data on transactions immediately and reduce the clerical work required with the existing system. However, since successful monitoring depends more on consumer vigilance in recording serial numbers than on the speed of reporting pawn transactions, it does not appear that this step will locate more stolen goods. Of course, it may free the police up from administrative tasks to physically visit the pawnshops more often. On the other hand, the respondent estimated that the new system would add an additional $1 per pawn transaction. This would increase the costs faced by the pawn consumer.

5.6 WINNIPEG POLITICIANS

We interviewed two politicians who are interested in the issues of financial services in the inner-city. The issues they raised include: betrayal of the community by banks through branch closures; the relationship between bank branch closures and fringe bank growth; the lack of government action regarding bank closure and fringe banks; and the hope that credit unions and/or non-profit organisations would meet local needs.

One respondent claimed that these branch closures have negatively affected elderly and low-income people in their absence. The replacement of some branches with automatic teller machines has not helped those people who want to do their banking in person. According to the respondent, many seniors saw the personal relationship at a local bank branch as an important part of their community. The closure of bank branches has created a sense of loss for them. The respondent explained that efforts were made to stop the branch closures for these reasons, but the branches were shut nevertheless. The result is that those senior citizens, and others, have felt a sense of loss in their community. Both respondents thought bank closures in the North End were comparable to closures in other low-income communities in the country.

One politician was less familiar with the growth of fringe banking in the North End. Another respondent claimed that the growth of fringe banks in the North End is directly related to the closure of these banks. This respondent shared a story about a man who was dependent on panhandling and yet used a bank account. This respondent has watched over the years and observed that as the bank branches have been closed, the fringe banks have grown. The fringe banks have filled a vacuum created by the bank closures. This respondent thought that fringe banks, including pawnshops, provide financial services to the community. However, the consequences for the community are mixed.

Both respondents thought that the federal government has not effectively responded to the changes they have witnessed in financial services in the North End and other low-income communities. One respondent has been very active in dialoguing with the federal government about the branch closure issue. The respondent claimed that the federal government has been unresponsive on this issue, claiming that former Finance Minister Paul Martin has said that there is nothing the government can do. The other respondent reported that the federal government is not interested in new legislation that would ensure bank participation in low-income neighbourhoods.

In terms of solutions to the problem of expensive financial services for low-income people, both respondents thought that it would partly come from the credit union and non-profit sectors. Organisations such as Assiniboine Credit Union, North End Community Renewal Corporation, and SEED Winnipeg could play an important role in providing reasonable financial services for the North End. In addition, one of the respondents felt that the federal government should play a more active role in fostering fair financial services. One respondent would like to see legislation that limits interest rates applied to loans from fringe banks.

5.7 CONCLUSION

Key informants whom we interviewed had mixed views regarding the legitimacy of fringe bankers. Some mainstream bank respondents, some community development practitioners, and some government policy makers and, of course, fringe bankers themselves view fringe banks as plugging a hole in the financial system. The 'formal' or mainstream financial system cannot meet the needs of all Canadians and so the more costly fringe financial services are justified. Others, including credit union respondents, some community development practitioners and some government respondents view fringe bankers as illegitimate in that they charge unfair fees, engage in unfair business practices and/or are involved in the illegal economy. Examining the respondents' views in greater depth reveals interesting tensions:

- Some fringe bankers claim to offer a service, but argue that their clients are often misguided (due to gambling or substance abuse) in using the service. They claim legitimacy and then 'blame the victim.'
- Mainstream bankers claim to be for all Canadians and to offer new means for their clients to use their services, yet they close branches in the inner-city and must know that low-income people are less mobile and less likely to own computers and have access to the internet. That some mainstream banks finance and service fringe bankers suggests that mainstream banks are still benefiting from low-income clients, but less directly. New technologies mean that middle and upper income consumers have improved access to mainstream banks while low-income consumers have poorer access.
- A tension for community development practitioners related to the reasons why low-income people were reliant on fringe banks: was it because of mainstream bank branch closures or due to a lack of experience in financial institutions. Regardless of the cause, the consequence is that low-income people are facing limited services with high fees and community development practitioners are interested in addressing this need.

- The provincial government faces a contradictory position of, on the one hand, claiming the existing fringe bank legislation is adequate and, on the other hand, using the criminal rate of interest as a standard to rollback interest charges for people who complain. Is it a criminal rate of interest or isn't it? At present it appears the government is letting the consumer be the judge. If that is the case, then the criminal code does not seem to be the appropriate location of legislation. The federal government, and in particular the Federal Consumer Agency of Canada, could do a lot more on educating consumers about fringe financial services.

6.0 COMMUNITY ECONOMIC DEVELOPMENT AND ALTERNATIVES TO FRINGE FINANCIAL SERVICES

6.1 INTRODUCTION

The last several decades have witnessed the growth of a neo-liberal, free market ideology in North America that has been accompanied by increasing deregulation of the financial service sector, declining state services, and escalating income inequality. These dynamics, combined with profit demands from banking shareholders, have led to many branch closures in low-income communities throughout North American urban centres. These trends have solidified the existence of, and fostered the emergence of new fringe financial services, which tend to be more expensive, and have resulted in individuals in these communities being left without access to banking services or other alternatives to these fringe services. In response, community members and organisations are increasingly seeking to develop initiatives that either fill the financial service gap or provide services that the fringe outlets provide, but at less usurious rates. These alternative models frequently seek to incorporate community economic development principles to the services that they provide.

The following section will present an explication of community economic development (CED), the place of CED in the context of the neo-liberal economy, various interpretations of CED, and CED as it relates to fringe financial services. The CED analysis will be followed by a summary presentation of various models established as alternatives to fringe financial services that will contain both descriptive and evaluative components.

6.2 COMMUNITY ECONOMIC DEVELOPMENT

Over the years, as the plight of lower-income communities has increasingly come to the attention of communities with more resources, those committed to increasing the wellbeing of the marginalised have developed perspectives and initiatives aimed at the alleviation of poverty. The last several decades in particular have seen the evolution of a renewed ideology of development that is referred to as community economic development, or more commonly as CED. However, given the diversity of ideology inherent within any populace, it is not surprising that the various interpretations of CED involve a continuum that is not unlike the range of socio-political thought present within current society. This range of CED perspective inevitably leads to a myriad of initiatives, each with their own strengths and weaknesses, that seek to build up that which it perceives to be lacking in the targeted community.

In order to provide some ideological context to the presentation of North American models of alternatives to fringe financial services, the concept of CED requires some elaboration. The first segment will describe how the neo-liberal economy gives rise to the need for CED and at the same time impacts the ability of CED to meet its objectives. The second segment will present the divergent interpretations of CED that exist within the development community. The final segment will address the relationship between CED and fringe financial services.

6.2.1 Neo-Liberal Economy

The growth of CED is not just coincidental with the growth of the neo-liberal free market economy. The neo-liberal tenets of economic individualism, limited government regulation of economic matters, and the perpetual pursuit of profits increasingly approximates economic Darwinism which manifests itself in increasing economic concentration and decreasing accountability to community and social benefits. Technological advancements, which facilitate capital mobility and the automated replacement of human labour, are considered to be economic improvements in spite of their social cost. This dominant ideology has also pressured governments to cut social spending and accelerate deregulation, which has mitigated their capacity to invest in social capital and ensure that all citizens have access to essential services. This disequalibriating process has led to an increased population that is not equitably served or given a meaningful voice in the societal decision-making process.

The impacts of the neo-liberal market economy have not spared the financial service sector. Technological advancements such as electronic payment methods and computerised banking services have greatly reduced the need for cash in today's society. This, together with the development and growing accessibility of the internet for most Canadians, has also greatly reduced the need for person-to-person financial transactions. As a result, the closure of bank branches is less devastating in today's technological age than it would have been before these innovations - at least for those who are able to afford the innovations. Those who cannot afford the technology are simply left without their banking services and, if they need these services, have to travel greater distances at some cost to access another bank branch or simply find alternative mechanisms for financial transactions, such as cheque-cashing outlets or pawnshops.

In addition to the decreased need for in-person and cash transactions, bank branches have also been closing due to the pursuit of profits (another tenet of the free market economy) in conjunction with bank mergers. In the neo-liberal economy, banks are becoming increasingly committed to their bottom lines and to corporate growth rather than the communities they have served (National Council on Welfare 1998). And judging by bank branch closures in low-income communities, banks feel that providing financial services to these people is not sufficiently profitable. The branch closures have also been facilitated by government deregulation, which has allowed banks to close branches that they feel no longer return the desired level of profits. Canada does not have an equivalent to the United States' Community Investment Act which requires financial institutions to invest in low-income communities even if they no longer have a branch in that community. This not only serves as a disincentive to branch closures, it ensures that even if a branch does close, the bank will continue to provide funds for community development.

The free market economy is also built upon the concept of supply and demand. This concept would suggest that bank closures are the result of insufficient demand for banking services in low-income communities. It would also suggest that the rapid growth of fringe financial services in disinvested urban communities is the result of sufficient demand for those services, which given bank closures and the corresponding decrease in banking services is likely accurate. What is also true, however, is that with the reality of decreasing mainstream banking services, individuals in these communities increasingly have *no other option* except to utilise the fringe financial services.

Many non-government organisations (NGOs) have been established in an attempt to fill the growing service gaps that the state or business community previously filled. There is a noticeably inverse relationship between neo-liberal government downsizing and social service cutbacks and the emergence of community-based organisations (Shragge 2002, p. 41). However, while the NGOs provide essential services, their presence conceals the culpability of the state as the service shortcomings are mitigated. This lessens the demand for reversion from the neo-liberal path and further facilitates cutbacks. This perpetuating cycle is evidenced in Canada in both the growth of food bank dependency (Winnipeg Harvest 2003) as real spending on social services has decreased, real incomes have stagnated, and is also evidenced by the burgeoning fringe financial service sector as deregulation and the pursuit of profits has led to numerous bank closures in the lower-income communities in cities across Canada (National Council on Welfare 1998).

6.2.2 CED Perspectives

Community Economic Development is commonly understood to refer to development that seeks to address both social and economic goals (Canadian CED Network 2003). CED is a development approach that is more community-based, either by geography of demography, and, by varying degrees, is more participatory than traditional development methods which are sometimes delivered without any community consultation at all (Perry and Lewis 1994). One focus of CED is the improvement of the local economy through training and education, local employment creation, the use of local resources, import substitution, the identification and mitigation of economic leakage, and the strengthening of internal economic linkages. The goal is wealth creation for individuals, families, and communities in an equitable, sustainable, and holistic manner (National Council for Community Economic Development 2003).

While social and economic betterment of the community is the universal goal of CED, there are various perspectives on how this objective is most effectively achieved. These perspectives, with various designations that divulge their unique ideological disposition, range from counter-capitalism or progressive CED or radical CED to community capitalism or liberal CED or reform CED.

The primary perspective of radical CED as articulated by Eric Shragge (1997) is that CED must be a tool for social and political change and facilitate community empowerment. The assumption is that the current socio-economic and political systems have failed those who now are marginalised and, therefore, CED must address the systemic shortcomings that underpin deprivation. To engage in CED without systemic change would be seen as failing to address root causes and, therefore, perpetuating the systemic inequities by tacitly endorsing them.

Empowerment includes the grassroots solidarity, confidence, and ability to take democratic control of institutions and programs with the concept of a “social economy” as opposed to private or state-owned economy. Believing that the economy is not the sole true measure of community health and wellbeing, radical CED attempts to develop a more holistic perspective by prioritising social needs over profitability. Government and business partnerships are considered to be potentially complementary and enhancing to CED, but the radical CED perspective is markedly wary of the ability to mobilise these relationships effectively to achieve a synergy. The fear is that, since governments and businesses tend to adhere to the dominant economic systems and structures, they will oppose reform and will, therefore, as stakeholders, co-opt the CED and dilute its integrity, thereby lessening the transforming capacity of CED.

A variation of radical CED is articulated by Ross Dobson (1993) who advocates for the detachment from the dominant economic structures. This calls for a reversion to communal self-sustaining values of internal economies where a community consumes what it produces and produces what it consumes. Reconstruction of more equitable, holistic, community-based economic structures is best done outside of the mainstream economy, as the mainstream economy is inherently exploitative and creates dependency. This CED perspective is in contradistinction to the neo-liberal market tenets of economies of scale, specialisation, focus on export development and the purchase of less costly imports at the expense of domestic production.

Alternatively, the reform CED perspective as articulated by Shaffer and Summers (1989) gives economic development top priority. The goal of reform CED is to elevate individual and community income levels as problems of poverty are ostensibly remedied through private economic investment (pursuit of profits), job opportunities, and training. The assumption is that the neo-liberal market economy and its mechanisms and characteristics are the optimum economic system for society but that for some reason, such as inadequate opportunity or training, some people are not participating. Therefore, it seeks to bring the people or community into the market or extend the market to include the people and community.

Reform CED considers economic, social, and political dynamics to be separate entities that are related but not inextricably interrelated. There is a more top-down approach where the state, business community, or CED practitioners formulate initiatives and deliver the services. Initiatives must be business-oriented and must pursue long-term financial viability/profitability. To this end, resources must be shifted to what is most efficient and profitable and barriers to market participation need to be overcome. Resources must be focused on maximising profitable exports and CED must work at bringing external income into the community while providing goods and services to ensure that community money is spent locally. As is clearly evident, reform CED believes in development based on the tenets of the free market economy.

6.2.3 Fringe Financial Services and CED

The noticeable trend of bank branch closures in low-income urban communities has occurred due to the pursuit of profits by the banks and has been facilitated by government deregulation. The result has been that the poor are left without access to mainstream financial services. People who live in these communities are left without access to mainstream financial services such as banks and credit unions and are subsequently forced to find alternatives. They are increasingly turning to “fringe” financial services that include services such as pawn-brokering, cheque-cashing, rent-to-own services, payday lending, tax rebate discounting, and fee-for-service ATMs. Some of these services, such as pawn-brokering, have been active in low-income communities for decades or longer (Caskey 1994), while most others have emerged more recently as they see opportunities to benefit (profit) from the unfolding financial service gap.

While some fringe financial outlets may provide beneficial services with convenience unmatched by the mainstream institutions, others such as payday lenders and pawnbrokers, provide services with conditions and fees that may perpetuate debt and poverty through mechanisms such as loan renewals that can be "financially devastating for the borrower" (Lott and Grant 2002, p. 22). Some clients consider the higher fees to be worth the added convenience, while others take exception to the fees but feel that they are left without alternatives and must, therefore, use the services that they feel are exploitative. The lack of choice suggests the emergence of a multi-tier financial service environment in which those in higher-income communities are able to access less expensive financial services than those in low-income communities.

The emerging inequitable or absence of financial services has prompted the development of several alternative institutions, organisations, or programs that are designed to meet some or all of the financial service needs of people in these communities. While some of the initiatives merely seek to offer the same services at a cheaper rate than the fringe financial service outlets, most of the initiatives incorporate a strong CED perspective in which they aspire to affect change in the circumstances and financial patterns of the individual through education, financial planning, and the accumulation of savings. The goal is not to eliminate the fringe financial service sector, but rather to ensure that these impoverished communities have meaningful choices and access to a range of services including inexpensive, community-oriented, holistic, and CED-principled financial services.

6.3 RESEARCH METHODS

As CED practitioners, organisations, and others continue to search for ways in which to enhance the financial services accessible to those who live in low-income communities, a review of what other communities in similar circumstances have attempted is essential. Granting that each community intrinsically contains unique dynamics, circumstances, people, and organisations, the successes and failures of other initiatives are able to provide valuable insights into the challenges of establishing new initiatives of this kind.

The research consisted of a literature review which revealed several models in various cities in North America. With the exception of the Provident Loan Society in New York, research on each model was then furthered through telephone interviews with representatives of each model and in some circumstances was supplemented with additional printed information. This research was subject to the completion of a University of Winnipeg ethical review process and received approval as one aspect of the broader research on fringe financial services. The varying lengths and descriptive natures of the summaries and evaluation are not to be taken as an indication of their worth or applicability, but rather reflect varying amounts of available information.

6.4 MODEL SUMMARIES AND ANALYSIS

The research sought to ascertain several characteristics of each model. One aspect that will be presented was each model's structure including partnerships, administrative structure, and the relationship with the community and clients. Financial service delivery mechanisms will also be described as will the services provided and the associated fees. The research also sought to establish whether or not the model was based on a more community-minded, not-for-profit perspective that was dependent on subsidies or on a more business-minded, for-profit, self-sustainable design. The models were also assessed for their short-term and/or long-term community impact and whether they sought to (or were able to) blend the two visions. The research also sought to assess the potential for long-term viability given the model's income sources and current financial standing. Accompanying each model summary is a brief analysis of the strengths and limitations of each initiative.

6.4.1 Cash and Save - Parkdale, Toronto

Model Summary

According to the respondent from the Royal Bank, the Cash and Save concept had roots that originated when, as part of a national program in the late 1990s, the Royal Bank placed a community banker in the Parkdale region to act as an informational liaison between the community and the bank. Through this relationship, and a research and business proposal from an interested firm, the concept of an alternative financial service outlet in that community was formed. Cash and Save was established in October 2002 as a branch of the Royal Bank of Canada and as a privately owned, for-profit initiative. They consult with a Community Reference Group that is made up of various community representatives who act as the community "eyes and ears" for the branch. The branch is still in the "test and learn" phase meaning that long-term viability is anticipated but not yet confirmed. Nevertheless, the Royal Bank expects this model to be viable (profitable) in this community and is looking for a potential second location.

Services offered include: bill payments ($1.25), money orders ($1.99), money transfers (Moneygram rates), federal government or other social service cheque-cashing (free), and other cheque-cashing (the greater of $4.00 or 1.25% of the cheque value). The ceiling for money orders is $1000.00 per order, which is higher than that of other outlets so that larger payments such as rent can be made with one money order as opposed to two or three. The services provided are those that were identified as community needs in the research.

The 520 square foot outlet is open 10:00 AM to 9:00 PM on weekdays, 10:00 AM to 6:00 PM on Saturdays, and closed on Sundays. The Royal Bank says that they are able to offer the lower fees because of low overhead and being willing to accept lower profit margins than other fringe financial service firms expect. They also feel that the community impetus in the establishment of this branch was key to gaining community support as it fostered a sense of ownership and partnership.

Cash and Save does not address access to credit needs although this too was identified as a community need. They considered a secured VISA card system but decided against it as they felt that this would not meet the needs of low-income individuals. Their perception was that the likely determinant for the use of services such as payday loans was the level of financial discipline rather than income, as these clients tend to be individuals who could likely access credit through bank mechanisms already available such as consumer loans, lines of credit, or even overdraft charges that would cost less than payday loans. While the Royal Bank is involved nationally in the *learn*$ave program, the Cash and Save does not advertise this program. The Royal Bank opens and holds accounts and provides data reports, but are not involved in the delivery of the service or selection of participants. In regards to encouraging fringe financial service users to open bank accounts, the Cash and Save established a referral system for clients to access the Royal Bank. To date, no one has taken advantage of this opportunity. The reason for this lack of usage, and the amount of in-branch promotion that occurred, is unknown.

The respondent stated that while one third of those in poverty may remain there, two thirds of this group are dynamic and may only be in an impoverished community or situation for a few years. What this dynamic group needs most is affordable and convenient financial services such as Cash and Save provides until they move into a different environment financially or geographically. Those that remain also benefit from these less expensive services and from the presence of an institution like the Royal Bank and its community involvement and donations.

<u>Analysis</u>

Evaluating this model with consideration to viability and CED concepts, there are several strengths and weaknesses. Strengths of this model include the community impetus that led to the establishment of Cash and Save as well as the ongoing Community Reference Group that facilitates dialogue and awareness between the community and the bank of each other's needs and perspectives. As well, the size and familiarity of an institution such as the Royal Bank lend financial stability, financial and managerial expertise, and credibility to Cash and Save. As well, Cash and Save provides necessary financial services to the community and it does so at a cost to the consumer that is less than that charged at previously existing fringe financial service outlets. Finally, the business-oriented approach of a for-profit model that charges moderate service fees and maintains a bottom line awareness will increase the branch's financial viability. Its independence also means that the branch will not be vulnerable to required subsidies such as donations, grants, depositors who receive lower-than-market returns, or funding to partner agencies.

A weakness of the Cash and Save is that, as a venture of the Royal Bank of Canada, a minimal return on investment is demanded as part of its global competitiveness and shareholder accountability obligations. This means that if Cash and Save operates at a break-even level or even at a level of profitability that is lower than Royal Bank's targeted benchmarks, the branch is susceptible to closure. There is a "social gain" aspect of the program's measurement of success, but clearly this is secondary to the "financial gain" evaluation. Additionally, the pursuit of shareholder profits means that the service fees charged will necessarily be higher than the cost of providing those services. Money from the impoverished individuals and communities is transferred to shareholders who are likely middle and high-income earners. CED values the retention and circulation of money within the impoverished community and the for-profit model fails to meet this ideal, although lower service fees leave more of the money in the community.

An additional shortcoming is that, while the Royal Bank participates in the *Learn*$ave program, the Cash and Save itself does not appear to have a concerted long-term vision of improving the financial conditions, literacy, and habits of the people in the community. Finally, access to credit is not addressed at the Cash and Save and, therefore, does not provide the community with an alternative to the payday lender or pawnbroker. Given the identified need for credit in this and other low-income communities, and given the exorbitant interest rates charged by the fringe financial service providers, this is clearly an area of need that is not being met. Cash and Save appears to be maintaining the status quo, albeit at a less expensive rate. And although there is a mechanism through which to open deposit accounts at the Royal Bank, the fact that no one has utilised this option suggests that, unless no one in the community desires an account, the mechanism is inadequate.

6.4.2 Florida Central Credit Union – Florida

<u>Model Summary</u>
Florida Central Credit Union (FCCU) has assets of $160 million and 40% of its 50,000 members are defined as low-income individuals (Galagly and Dernovsek 2000). FCCU first became involved in Tampa Bay's low-income inner city in the early 1990s when it worked together with the city's affordable housing initiative. Through working with community leaders and organisations, such as the Tampa Hillsborough Action Plan (THAP), a community development corporation, FCCU became aware of the need in this community for affordable financial services. As elsewhere in North America, bank closures in the impoverished neighbourhood left residents without many options other than to rely on fringe financial service outlets. Since FCCU and THAP had mutual interest in addressing the financial service needs of this community, and since they recognised capacities and expertise in each other that would be greatly beneficial to such an initiative, a close partnership developed. THAP had an annual budget of nearly $10 million, assets of $100 million, and a staff of 100 (Black 2002). The established community partnership was essential in gaining the trust of the community who had developed a deep distrust of traditional financial institutions.

According to the respondent, a basic savings account at FCCU can be opened for a $5 share purchase and a chequeing account is available for a $25 share purchase. Members receive six free in-person transactions per month and unlimited electronic transactions including ATMs. Members also receive free cheque-cashing while non-members may cash cheques under $500 for $3 and cheques for more than $500 for $5, although non-members are encouraged to rather purchase a basic savings account rather and, as a member, receive free cheque-cashing in the future. Money orders are available to members and non-members for $.89.

FCCU decided to open an inner-city branch in 1998 in conjunction with THAP. THAP provided the building and covered its costs except for security, which they shared. FCCU contributed supplies, data processing services, managerial expertise, and paid for the five salaries. While FCCU's total financial contribution in the first year totalled $93,000, they envisioned that a business-minded approach would make it possible for the branch to break even or even return a profit to members. According to the respondent, THAP's annual average cost to operate the branch was $50,000 while FCCU's average was $60,000.

The joint branch took deposits, cashed cheques, provided money orders, and offered small unsecured loans for members with marginal credit. Financial counselling was seen to be a key component of the loan program, both from the perspective of giving the client an opportunity to tell their story as well as providing the client with guidance. This "working with" strategy facilitated many more credit opportunities than the traditional banking formulas would have. Loans were made for as little as $200 for periods of between two weeks and six months with an interest rate of 15-18% annualised percentage rate (APR) and FCCU attempted to respond to loan requests within 15 minutes whenever possible. Members were encouraged to utilise electronic payroll deductions and direct deposit mechanisms to build up a savings account simultaneously to their loan repayment so that their future access to money in a time of need could be self-ensured. Members who attempted to withdraw part or all of their savings would be encouraged to rather consider making a loan secured by the savings. The terms for these fully or partially secured loans were only 6% interest, which was sufficient to cover the risk and administration of the loan while at the same time providing the member with access to credit that would both ensure that their savings were not depleted and facilitate the improvement of their credit rating. The loan program had a 1.1% delinquency rate (late payment) and a default rate (non-payment) of 0.5%.

Another feature offered was "courtesy pay" which acted as an unofficial line of credit available for each member through which the credit union would cover bounced cheques for up to $700. FCCU did charge $22 for each NSF cheque, but the member would be spared paying charges at both the financial institution and the place the cheque was written to. The member had ten days to repay FACU after which they would be approached by a financial counsellor who would recommend turning the deficit into a loan. Again, payroll deductions and direct deposits were encouraged for paying off the loan and building up a savings account. A financial service gap eventually identified was that the branch still had to deny some small loans because of a state regulated interest ceiling of 18% APR for credit unions which was not sufficient for higher risk, high-transaction-frequency loans like payday loans.

In response to the need for higher risk credit, and with research and other assistance from the state, FFCU and THAP created a Credit Union Service Organisation (CUSO) in 2000 just two blocks away from the joint branch. As a CUSO, while still a subsidiary of the FFCU, this outlet was able to serve non-members as well as members and allowed for more organisational and service flexibility. The community partnership continued to be an integral part of the organisation as THAP brought an understanding of the community, community connections, and community credibility.

The CUSO provided payday and car title loans (6-8 months at 30% APR), cheque-cashing for the same fees as at FACU, money orders and travellers cheques for $1, and facilitated utility bill payments for $1 as well. Envelopes and stamps for bill payments and bus tokens were also sold. Financial counselling was a component of all transactions. The vision was that as customers became familiar with the CUSO, they would gain trust in the credit union, improve their financial literacy, and transfer their transactions to the credit union. The FCCU was initially enthusiastic about the success of the CUSO and was looking state-wide and nationally for other locations in which to test the model. The FCCU respondent stated that these ventures were not for philanthropic purposes; they were priced to be profitable. They felt that, while abject poverty could not be appropriately addressed through banking, providing banking services to the working poor made good solid business sense as long as you were able to find the right partners and the right plan.

However, in the last year THAP's own funding was discontinued and the joint branch was subsequently closed. FCCU envisioned that 3-5 years would be required for this joint branch to operate at a break-even point and, although the branch was nearing sustainability, the branch was not yet able to operate without THAP's subsidy. FCCU does operate another branch 1.5 miles from this location and, according to the respondent, 3,000 of the 3,600 members of the joint branch have transferred their memberships there. Clearly, some individuals no longer have access to financial services as a result of this closure, but most individuals appear to have been able to make the transition.

The CUSO is also on hold at the present time. It operated from 1998 to 2000, but the volume of transactions remained below what was required to make the outlet financially viable. The low volume resulted from ongoing competition from other fringe financial service outlets and insufficient visibility and credibility in the community. FCCU fully intends to attempt this initiative again in the near future believing that it meets an important community need and that it has the potential to be a financially viable program. Soliciting and mobilising endorsement from well-established and trusted community groups and leaders will be essential to the credibility and increased use of the outlet.

Analysis

A strength of the model was the networking that involved various stakeholders with unique capacities. They linked an organisation that had financial service capacities and expertise with an organisation that understood and advocated for the low-income neighbourhood. Not only is this positive from the perspective that community networking is important, but these two expert capacities would seem to play an essential role in the development of any alternative financial service model. The Credit Union provides organisational stability, existing infrastructure and technological capacity, money handling and administrative mechanisms, and financial strength. THAP's community first perspective, community understanding, and focus on poverty alleviation provide an ideological synergy with the credit unions own strengths and objectives. The participation of the state likewise brings certain expertise as well as "ownership" from another influential sector. Another beneficial aspect of sharing resources is that the initial infrastructure and start-up costs as well as ongoing operational costs are less formidable and the risk is not borne solely by one organisation.

Another strength of the FCCU model is that it integrated a short-term perspective in meeting the community's immediate financial service needs with a long-term component. Establishing separate entities that would meet somewhat diverse needs did not divert from the long-term goal of increasing the community's access to financial services, increased financial literacy, and enabling low-income individuals to improve their financial stability and positions through participation in the Credit Union. The individual who required cheque-cashing, a payday loan, a money order, or needed to pay utility bills could receive instant service at the CUSO at more affordable rates than at other fringe financial outlets and could also receive financial counselling if so desired. The individual also had access to a financial centre that took deposits, encouraged savings, and managed other conventional banking services at the nearby joint branch.

Nevertheless, one of the criteria in measuring the success and effectiveness of a CED initiative must be its sustainability and neither outlet is currently operational. FCCU was not as committed to significant returns on investment as a private, for-profit initiative might be, but it was unwilling to operate a program that carried a perpetual financial deficit. In trying to balance the "financial bottom line" and "social profit" perspectives, FCCU set up the two ventures in a manner that was dependent on subsidies received by THAP. Notwithstanding the advantages of subsidies and partnerships, it rendered the ventures vulnerable as evidenced by the branch closure upon the termination of THAP's funding. The respondent reiterates that it is important not to count on perpetual grants and funding from government or non-profit organisations as this leaves the program too vulnerable. The respondent stated that the keys to successful initiatives that provide financial services to low-income individuals include independent economic viability, strong and appropriate partnerships, clearly identified risks and loss parameters, visibility and credibility, and a clear understanding of the regulations involved with financial institutions such as credit unions and banks.

6.4.3 First American Credit Union - Window Rock, Arizona

Model Summary

First American Credit Union (FACU) of Window Rock, Arizona is located in the heart of the Navajo Nation reservation. Eighty percent of its 19,000 members are Native Americans from twenty-one tribes in three states, most of whom have loans at FACU. Memberships are available for one dollar and five dollars is required to be kept in a membership share/savings account in order to keep an account active. There are no monthly fees for the accounts and no minimum balance that must be kept. Transactions at FACU ATMs are free of charge for members. Four withdrawals are permitted per quarter at no charge, but are $2.00 each after this. FACU does not provide money orders, but will cash a cheque for a member for $2.00. Credit Union services are not available to non-members.

For clients who are unable to access conventional consumer loans, FACU offers loans for as little as $50.00 through a line of credit arrangement and also through partially securing the member's savings. Members may borrow the total amount of their line of credit at any time in addition to 110% of what they have in their savings account at an interest rate of between 12% for a home improvement loan and 16% for an otherwise unsecured loan. The goal is to provide a flexible, low-cost alternative to fringe financial services such as pawnbrokers and payday lenders. Financial counselling and education are seen to be an integral component of member - credit union relationships. Clients are required to apply for the first loan/line of credit in person, provide verification of income (employment, government, etc.), and grant access for electronic income deduction to the Credit Union as their loan payments. Thereafter, the loans are also accessible by phone (an 800 phone number is available) or by mail. Loans are deposited electronically immediately upon authorisation and the money is then available to be withdrawn from any ATM, of which fourteen are provided throughout the area by FACU without service charges to members. This system reduces the arduous administrative process normally inherent in a loan procedure for both the member and the credit union. Since opening in 1962, FACU has approved $234 million in loans in total and currently averages $1 million per month in new loans. In 2002 FACU made 34,516 loans averaging $378 for a total of $13, 037, 290. The loans have a default rate (non payment) of .75% and a delinquency rate (late payment) of 2.25%. In addition to loan interest, revenues are also realised by NSF services charges, non-member ATM service fees of $1.50, and by offering an interest rate of only .5% on members' chequeing accounts.

FACU recognises that for those who are interested in immediate access to cash regardless of the cost, their services may not meet the needs of those individuals. However, for those who are somewhat financially literate and disciplined, this loan structure provides a much needed service in a reputable, trustworthy community organisation at a significantly reduced cost to the member. FACU maintains that adjusting expectations and being flexible are key to facilitating credit to low-income earners who are vulnerable to financial emergencies such as layoffs or medical bills as they lack sufficient savings or other access to credit to deal with the circumstances.

Analysis

Banking accessibility at FACU appears to be somewhat limited to the poorest individuals when considering that there are only four free transactions per three months with high per-transaction fees of $2.00 thereafter, the $2.00 fee for cashing a cheque, and the lack of money order services. While the cheque-cashing fee would be significantly lower than at Canadian fringe financial service outlets, these and the other services fall short of the standards for affordable member services set by most Canadian Credit Unions.

On the positive side, the loan mechanism is innovative and a great strength of the FACU. It is able to provide credit to those in need of even small amounts of money at very reasonable interest rates and with minimal administrative energies. The use of technology (phone, electronic transfer, ATM) makes the process very accessible, simple, and quick. And the concepts of ownership inherent in credit union membership will likely increase the feelings of ownership within the community of borrowers. FACU integrates meeting a short-term need with long-term financial health by bringing individuals into the Credit Union membership and combining financial counselling with the loan process. FACU appears to have found a viable, community based, accessible, and affordable mechanism by which to provide low-income individuals with credit.

6.4.4 Four Corners Community Savings - Vancouver Eastside, British Colombia

Model Summary

The Four Corners Community Savings, which is organised as a bank, was opened in 1996 by the New Democratic provincial government to address the unmet financial service needs of Vancouver's Downtown Eastside. The province created the B. C. Community Financial Services Corporation, which governs the Four Corners Community Savings, after passing the Community Financial Services Act. A Community Advisory Council is elected by the depositors and this council appoints three members to the Board of Directors, while the province appoints the balance. As a bank and a crown corporation, Four Corners is subject to the accompanying regulations and limitations. The province contributed an authorised share capital of $10 million, guarantees deposits, and must approve business plans annually. The province also provided $6.9 million for building purchase, start-up, renovation, and operating costs in the first year (National Council on Welfare 1998).

Vancouver's Downtown Eastside is known as the 'poorest postal code' in Canada where 80% of its residents live below the poverty line, nearly 10% of residents live with serious mental health problems, 90% of injection drug users are infected with hepatitis C, and the highest rate of new HIV infections in the developed world is evident (Four Corners Community Savings 2003).

Community concerns included a lack of accessible banking services in this area due to branch closures and the increased use of fringe financial services and the associated usurious costs were identified. The challenge of opening and maintaining accounts due to lack of proper identification, required minimum monthly balances, and costly service charges were seen as additional banking barriers. The resulting danger of having to carry significant amounts of cash after cashing a cheque due to the lack of deposit accounts was also noted.

Four Corners is not the first attempt at meeting financial service needs in this community. The Royal Bank of Canada, with direction from a community advisory committee, operated a "community bank" in this neighbourhood from 1976 to 1985. It cashed welfare cheques for no fee and encouraged people to have their cheques mailed directly to the branch. The branch also made small loans to individuals, financed small mortgages, and provided income tax refund advances. The impact of the latter service was evidenced by the effective elimination of tax discounters in the community. However, the Royal Bank branch, which failed to attract broader community interest and remained primarily a welfare cheque-cashing outlet, eventually closed due to perpetual financial losses (National Council on Welfare 1998).

Four Corners currently provides chequeing and saving accounts with no minimum account balances, term deposits, cheque-cashing, money orders, utility bill payments, electronic deposit of cheques, and no charges on ATM transactions (although Four Corners does not have any ATMs of its own, so the individual still has to pay the machine fee). There is a graduated service fee structure with an inverse relation between a client's income and their service fees. Non-low-income individuals and commercial accounts pay rates comparable to other financial institutions and, while there were initially no transaction fees for low income individuals, a minimal monthly fee of $3.50 has now been introduced.

Additionally, over a period of time some board members placed their stipends into a micro-loan pool that accumulated to $50,000 - $60,000. It was set up as the Four Corners Support Society, a separate entity that was administered by the bank. It began in March 1999 and by October of that year one hundred loans ($300 to $1500 average) had been made mostly to low income individuals. Interestingly, they found that clients preferred an overdraft arrangement to a loan. The fund, which has reached approximately $90,000, is now administered by Partners for Economic And Community Help (PEACH). Four Corners also began a business loan program, but the only significant loan it made was to a community Laundromat that eventually folded.

Other services provided by Four Corners include: free photo ID (saved on a computer database for future transaction reference or for replacement purposes), financial counselling, public washrooms, chairs for those waiting and a number service system instead of line-ups, a Human Resources Development Canada job bank in the lobby, a children's play area, meeting space for community groups, free coffee, full wheelchair access, free telephones, community "information tables" on cheque issue days, and service in multiple languages (Four Corners Community Savings 2003).

During the initial years Four Corners focused on drawing government and union accounts and pension funds to Four Corners, but two things worked against them. Accounts were not insured for more than $2 million, which was less than many commercial, governmental, and non-governmental organisations required. As well, major depositors were not willing to accept or risk receiving less than market rates of return on their deposits and investments. The chain reaction put Four Corners in a tough spot. Without the deposits, loans could not be offered. Banks make their money on service fees (which Four Corners was hoping to do without) and the spread between the deposit and loan interest. The lack of income from both of these sources rendered the bank incapable of breaking even. Compounding the lack of “spread” income has been the falling interest rate in the last number of years, which has served to shrink the potential spread. Additionally, due to the nature of the clientele, the per-transaction costs at Four Corners turned out to be significantly higher than expected.

There have been no ongoing subsidies from the province although the province’s initial $10 million base capital has been eroded each year through perpetual deficits averaging almost $1 million per year. The capital is now down to $5.6 million. Considering that the financial governing body of British Colombia requires banks to have a minimum of five million dollars to operate a bank, it is clear to see that another year of similar losses will result in termination of operations. A respondent stated that even after significant restructuring the current deficit is expected to be $500,000.

The new provincial government is not favourable to the concept of Four Corners, which does not fit ideologically with their privatisation and budget reduction agenda, particularly when considering the perpetual deficits Four Corners runs and the real crisis of sinking below minimum capital requirements. When they were elected in 2002, they called for immediate changes to Four Corners, which include new management and several new directors. They terminated all lending functions including mortgages, business loans, consumer loans, and lines of credit. These and other cuts to services have induced organisations to remove their accounts from Four Corners as the remaining services no longer meet their needs. This further reduces bank revenues. To increase revenues, the bank instituted the $3.50 per month minimum charge on each account although they still receive unlimited transactions for free. And although some individuals subsequently closed their accounts, the bank felt that this strategy was necessary in light of the fact that if Four Corners did not come closer to balancing its budget, it would cease to exist shortly and would therefore not be of service to anyone at all. Downsizing and introducing minimum user fees were seen to be the only possible manner in which to ensure long-term viability.

Four Corners also considered working through the Vancouver Agreement in a partnership that would see the city, province, and federal governments each put in $200,000 per year. The federal government declined to participate citing the issue as a provincial one. They did agree to provide funding for building renovations aimed at attracting non-profit CED tenants that would facilitate a symbiosis of operations, vision, values, and would ease budget constraints through shared overhead costs. The city has bought the building and charges little to no rent to Four Corners and is pursuing further participation.

One respondent advised that there were three main aspects that required adherence when considering the development of other alternative models to fringe financial services. First, determine and aim for the minimal threshold of service that still meets the core of the community's needs. It is easier to expand a program later than to downsize in a financial crisis. Secondly, establish the initiative with a minimal regulatory base. Being both a Crown corporation and a Bank, Four Corners is required to conform to all relevant legislation, which significantly increases administrative costs. The amount of revenue from loan/deposit spreads or service fees required to pay for this administration is substantial. The regulatory confinement also limits the range of CED initiatives that Four Corners is able to engage in. Thirdly, minimise costs on administration and transactions by contracting out as many "backroom" costs as possible such as data processing. Other organisations with established capacity are able to offer these services at significantly less than it would cost a small bank like Four Corners to do it themselves. Utilising electronic banking would be another way of minimising per-transaction costs.

Analysis

Four Corners truly provides community-minded financial services as evidenced by the many community meetings leading up to the formation, the presence of the Community Advisory Council which is elected by the depositors and plays a real role in the governance of the bank, and the non-financial services offered which demonstrate the awareness of, and commitment to meeting the holistic needs of the community. The environment is hospitable and comfortable. In fact, it turns modern neo-liberal financial service trends on its head by charging no fees to those who cost the bank the most and higher fees to those that cost the bank less to service and who actually bring in revenues. Mainstream bank accounts and transactions are usually less expensive for those who are able to leave sizeable deposits in the bank (National Council on Welfare 1998).

Four Corners also seeks to integrate meeting short-term and long-term community financial needs. The short-term needs are addressed through services such as cheque-cashing and the no-fee service ensures that each client will retain their whole, albeit meagre, financial allotment which would not be the case at any other financial service institution. The long-term needs are addressed by employing local individuals, providing financial counselling, encouraging savings, and integrating community organisations such as the job kiosk and community information displays into their service network.

Four Corners also greatly increases the safety of the community (Bancroft Planning and Research Associates 2000). Fewer cheques are lost or stolen because they can be electronically deposited directly into clients' accounts. Additionally, clients do not need to carry around as much cash as they are able to leave some of each cheque in their account, which has led to a noticeable reduction in the number of assaults and thefts in this neighbourhood. As well, the provision of free money orders ensures that individuals are able to carry these instead of cash when paying their rent or other bills that they cannot pay through Four Corners.

The innovative identification mechanism contributes to smoother delivery of services for both clients and the bank. The client is able to exercise transactions without ID since the information with a picture is available in the computer system. Four Corners has also been successful at convincing a few local organisations and businesses to recognise the ID cards as well.

However, the community focus clearly overshadowed the economic perspective and this rendered Four Corners unstable and potentially defunct in the near future. It appears that the initiative was conceived out of a vision to serve the poor and the hope was that the financing for the project would somehow materialise. Unfortunately, an outlet focussed on providing individualised and inexpensive or free services to low-income clients will have a considerable challenge soliciting funds or accounts that might actually make money.

The failure to achieve financial independence, together with its being a program of the province, has left the bank vulnerable to the political will of the provincial leaders. And while restructuring is underway, the oversight of the economic perspective for the sake of the community perspective has placed the bank in a precarious position from which it may not be able to recover. It could be argued, from this perspective, that the long-term needs of the community have not been adequately considered as the dissolution of Four Corners would clearly be detrimental to the community.

However, when considering the costs and benefits of this initiative, a perspective beyond the financial bottom line at Four Corners is necessary. The government (and the taxpayer) saves money on replacing lost or stolen cheques, they save money on the decreased violence in the community which leads to policing and health care costs, they save money on the fees they have to pay to other cheque-cashing outlets to cash government cheques, and they save money on ID replacement. These real savings, in addition to the "social profit" benefits of the Four Corners community services, need to be considered in regards to the banks "net worth."

6.4.5 The Provident Loan Society of New York - New York

Model Summary

The Provident Loan Society (PLS) was founded in New York in 1893 by wealthy, philanthropic business and community leaders. They identified a lack of access to low-interest credit for low-income individuals, which was accentuated by minimal social and government services of that era. Capital was raised by selling certificates to socially-minded investors who received half (6%) of the going interest rate (12%) in order to subsidise the start-up of this financial service. Costs were kept low by accepting only small items, primarily jewellery, which required minimal storage space. Having been created as a not-for-profit organisation, PLS was also tax-exempt (Caskey 1994, p. 24-25).

According to their web site, the PLS currently serves 100,000 people annually through five outlets (Provident Loan Society 2003). Appraisers are always present to ensure that transactions are completed with the speed that the clients would experience at other pawnbrokers. The pawn loans are made for terms of 12 months with an interest rate of 2.167% per month (26% APR). There are no additional fees and the loan may be repaid in less than full-term time, owing only interest for the number of days that the money was loaned, not the amount of one full year. The client is also able to renew the loan after the term expires for another term at the same rates. If the loan is not repaid, the item is sold at an auction. Money received for the item at the auction that is more than the loan's principal, interest, and auction fees are returned to the borrower. In 1991 56,428 loans (new and renewed) averaging $270 were made for a loan total of $15,213,129. Nine percent of the collateral was forfeited (Caskey 1994, p. 24-25).

Analysis
The PLS model focuses on meeting the immediate access-to-credit needs of individuals. Clients receive necessary credit when they require it, the rates are superior to other high-risk lenders, and the length of term allows for the individual to "get their house in order" before the loan comes due. Payday lenders typically request payment within four weeks, which is often an insufficient time period for the individual's personal financial circumstances to change significantly.

The PLS clearly has a community focus and aims to meet community credit needs as well as possible while maintaining independent viability. This balanced perspective has greatly contributed to its success as evidenced by its current outstanding loan total of more than fifteen million dollars involving more than fifty thousand individuals and its century-long viability. The community perspective is also illustrated by their policy of returning surplus cash to the client when defaulted items are auctioned.

Although PLS originated with a subsidising mechanism, it now operates as a self-sufficient establishment. One of the strengths of the PLS was that it aimed for minimal overhead costs and structural regulations. In light of Four Corners' requirements as a bank and a crown corporation, the fact that PLS focussed on only the most urgent need, did so with collateral that required minimal storage space, and set up as a not-for-profit organisation to escape taxation and other business demands has greatly enhanced their viability and their ability to offer the loans at lower-than-market rates.

6.4.6 VanCity Credit Union - Vancouver, British Colombia

Model Summary
VanCity is Canada's largest Credit Union with 286,000 members, $8.2 billion in assets, and 39 branches throughout south-western British Colombia with several more planned for the near future (VanCity Credit Union 2003). Membership shares of $50.00 are required to open an account. In 2002, $4.8 million was returned to members and $3 million was granted and donated to community initiatives that pursued environmental and community development initiatives.

VanCity has established a reputation as one of Canada's most socially and environmentally conscious organisations and has received several national awards of recognition. To this end in 1998, they began with a process of soliciting an external social audit of VanCity to evaluate organisational performance on issues such as environmental responsibility, staffing conditions, and community development. One shortcoming of the credit union that was identified was that accessibility to banking services was still an obstacle for many individuals in VanCity's communities. As a result, VanCity developed an accessibility strategy that has manifested itself in four programs.

The first program is designed to simply make membership and financial transactions more accessible and affordable. Recognising that a $50.00 membership can be an obstacle to low-income individuals, the new strategy allows individuals to open an account with $5.00 with the understanding and commitment to build up the share value to $50.00 within one year. During this time all transaction and account fees are waived. Once the share threshold is reached, an account package is selected with the Plan 24 account being available at the lowest rate. This account has no monthly fee and ten transactions per month are offered at no charge. Subsequent transactions cost $.50 for electronic transactions and $.70 for teller transactions. One mechanism that VanCity did establish to circumvent some of the identification requirements was in regards to refugees who had a significantly difficult time producing identification and manoeuvring in the government and financial systems. If the refugee is affiliated with ISS, a non-governmental immigration support organisation, VanCity will initiate services based upon a record of landing.

The second program that was initiated was a low-limit VISA card for clients that would not qualify for a regular credit card or other forms of credit. The two-fold purpose was to facilitate a system that would allow low-income individuals to access emergency funds and build up their credit rating at the same time. Clients purchase a term deposit for $100 and secure their VISA card limit of $100 with it. The interest rate is a competitive 17% APR. As the credit card is used and payments are made, clients hopefully gain a better understanding of how to manage their money and the importance of financial planning and discipline. And as their credit rating improves with prompt payments over time, the clients are able to increase the limit of their VISA card so that it is only partially secured. Over time, the percentage of unsecured credit available increases to the point where the client is able to remove the term deposit if they so choose and continue with completely unsecured credit. This initiative began as a pilot project involving women leaving violent relationships who were now single parents. This group of people were seen to be very needy but yet very determined and motivated to make a better future for their children. To date, 400 individuals have taken advantage of this program.

The third program is designed to facilitate small loans. These contain the same rates and eligibility criteria as the VanCity's conventional consumer loans, but allow for loans for as little as $300, which is less than mainstream financial institutions would normally administer.

The fourth aspect of the accessibility efforts is community education regarding financial literacy including financial counselling, budgeting and saving values and skills, the method and value of obtaining and managing credit, banking orientation sessions, and seminars in basic money management. VanCity commits a full-time staff person to work in this capacity. But since the demand for such a service would be limitless in a city the size of Vancouver, they have focused their efforts on organisations that are members of VanCity and who serve single mothers leaving violent relationships and the resettlement assistance program for refugees.

Cheque-cashing for non-members is also available. Due to provincial regulation that prohibits cheque-cashing fees from being applied to government issued cheques, these are cashed for free. Non-government cheque-cashing charges for non-members are left to the discretion of the branch manager. The respondent from VanCity observed that managers in low-income neighbourhoods are less likely to apply such charges than are their fellow managers in more affluent communities. One resulting concern, however, has been that mainstream banks in the area are more likely to send their "questionable" clients over to VanCity, taking advantage of VanCity's community minded values and initiatives. This means that VanCity deals with more than its share of higher risk transactions.

Analysis

VanCity is a member-owned, community minded organisation. And while it does pursue profits, they go toward membership dividends and therefore stay in the community. As well, the evolved values of VanCity include an holistic perspective in which social and environmental values are included in the consideration of organisational operations. As a result, VanCity is willing to take a financial loss on these four accessibility programs in light of the social "profit" that they produce. And since the subsidies come from within the organisation, the programs are not vulnerable to external budgetary or ideological fluctuations as in the cases of FCCU and Four Corners. VanCity members themselves will decide on the future of these types of programs.

The fact that these programs operate within the structure of a large and wealthy institution is a significant strength. Similar to the models developed by FCCU and FACU, the technological, administrative, and financial expertise and capacity together with the existing infrastructure can be utilised much more efficiently than if these programs were to be established outside of the VanCity system. The asset size of VanCity also is a strength as it allows for the subsidisation of less or non-profitable initiatives. A smaller financial institution could not as easily designate significant resources to meeting needs that would not contribute to membership dividends.

VanCity programs also integrate the short and long-term needs of clients. Clients, even non-members, are able to cash cheques for little or no charge and they are able to access no-fee bank accounts and transactions. When clients are ready to make an effort at longer-term credit availability, VanCity's low-limit VISA addresses the need for available credit in certain circumstances and an improved credit rating. Both of these needs are met in a way that is of minimal risk to both the client (the limit is low so that the debt can not easily accumulate beyond what they are capable of managing) and the credit union (it is secured). When their credit rating is established, VanCity offers unsecured credit through credit cards and through a loan program that is willing to make smaller loans than conventional banks would. And all these programs are delivered with financial counselling and financial literacy and skill enhancement that benefit the client both in the short-term and in the long-term.

6.4.7 Assiniboine Credit Union West Broadway Branch - Winnipeg, Manitoba

Model Summary

Assiniboine Credit Union (ACU) in Winnipeg is a sixty-year-old financial institution that consists of 52,000 members and manages $800 million in assets (Assiniboine Credit Union 2003). In the last decade, ACU has formulated a strong community development mandate and has subsequently entered into and supported many CED initiatives, partnerships, and community organisations. It is the only financial institution in Manitoba to have a full time CED manager.

West Broadway, a lower-income neighbourhood in Winnipeg, is similar to other lower-income urban communities across North America in that it has witnessed the exodus of mainstream financial institutions in the last decade. The respondent stated that ACU perceived this to not necessarily be an indication that the closing branch was not realising *a* profit, simply that it was not realising *enough* profit to satisfy shareholder demands and expectations.

ACU, in response to the community's need for financial services and supported by the confidence that a mini-branch would be financially viable, opened a satellite branch in West Broadway in 2001. The branch is expected to be operating at a break-even point within a few years of opening. The West Broadway branch currently manages accounts for more than 950 members.

ACU offers a variety of services through its West Broadway Branch. Membership is $5 and a low-fee account is available for $1.50. Deposits, online transactions, statements, and telephone transactions are free while in-person transactions are $.75 and electronic transactions (ATM, debit card purchases) are $.50. Youth and seniors are offered accounts with no monthly fee, daily interest, and unlimited transactions at no cost. Any person may purchase money orders for $4.00 and cheque cashing is free for members, although there is a five day hold placed on personal cheques (standard banking practice) for the first six months. Non-members may cash federal and provincial issue cheques at no charge with three pieces of identification, although policy in this regard has been more flexible at the West Broadway branch. Non-government cheques are only cashed for members. Conventional loans and credit lines are available upon approved credit, but members are encouraged to establish a savings plan to provide themselves with financial stability. Savings are also important as they provide the branch with assets upon which to offer the loans that are necessary to bring in the revenues to make the branch viable.

In response to the unique needs of this community and the mandate of accessibility, ACU's West Broadway branch is open on Saturdays. And as an ACU branch it administers IDA program accounts for those who live in West Broadway (IDA is a matched savings and financial management program described in a later model summary).

<u>Analysis</u>

A strength of this model is that it inherently brings the structure and ideology of the ACU with it. ACU has substantial human, technological, and financial resources that are very important in establishing a financial services outlet. The ideology of the ACU brings credibility in the community, an understanding of working with low-income individuals and communities, and a willingness to provide a community service even if expected financial returns are less than at other branches. The ACU ideology also includes the "member-owned, one-person-one-vote" perspective that contributes to the feeling of community ownership of the branch. Both of these ACU components are significant foundations for the establishment of any financial service initiative.

The ACU branch does not offer a direct alternative to fringe financial services in that quick contingency loans are not available. ACU does, however, offer affordable deposit accounts and free (with a five day hold for personal cheques) cheque cashing for members. By offering unbanked individuals these services, ACU hopes to strengthen the members' financial capacities as they access the inexpensive financial transactions and build up a savings account that might eliminate future reliance on the fringe financial service sector.

6.4.8 Desjardins – Quebec

<u>Model Summary</u>

The Desjardins *Caisses Populaire* (DCP) of Quebec is a centralised financial institution system that consists of *Caisses* (credit unions) across the province. It consists of 671 outlets and 5.16 million members with assets of $85.3 billion (Desjardins 2003). Each *Caisse* is independent and has its own board of directors, although it may have several outlets. *Caisses* are federated together in the *Federation des Caisses Populaires du Quebec* (FCPQ).

DCP has implemented a pilot project recently that seeks to provide small loans to members who would not otherwise qualify for loans and to engage these members in financial planning. After positive results during the first year, DCP has decided to extend the project for another two years with the hope that every region of Quebec will have access to the loan funds by the end of that period. The goal of the loan fund is support for people in need rather than profits.

Information from Desjardins states that the FCPQ allocates a minimum of $33,000 and a maximum of $66,000 to a fund, which must be matched by the *Caisse(s)* involved. The FCPQ has set aside $500,000 for the establishment of these funds. Since credit unions distribute annual profits to the members, members of participating *Caisses* must agree by vote to redirect some of the *Caisse* profits to the establishment of this fund. During the first year, the salaries of the credit agents were paid by the government of Quebec, as part of its anti-poverty agenda, and it has continued participating in the second year by paying half of these salaries with the local *Caisse* paying the other half. The FCPQ is seeking to establish a foundation with private and public donations and grants that would finance the entire salaries of the loan administrators.

Each loan fund is established by one or several local *Caisses* in partnership with a financial consulting agency (FCA). There are currently 85 *Caisses* participating in these loan funds throughout Quebec. The FCA is considered to be a key element of the loan fund as they screen out individuals not capable of participating and they also deliver the educational component of the process which empowers clients, increases their financial management skills, and increases the loan repayment levels. Out of 488 financial consultations 259 loans have been granted for a approval rating of 51%. A total of $131,279 has been lent out for an average loan size of $527. The reimbursement rate is 92%. More than 2/3 of the clients are women and more than 2/3 of the clients are single or single parents. More than 2/3 had incomes of less than $10,000 and 90% had incomes of less than $15,000. More than 40% of non-single households had income of less than $15,000 and more than 80% of these households had income less than $25,000. The top reasons for the loans in order of frequency were to: purchase appliances, pay utility bills, buy furniture, pay rent, consolidate debt, and purchase employment related tools.

In response to the nearly 50% of clients who apply and do not qualify for even these types of loans, some *Caisses* are planning to establish a parallel loan fund to meet these needs. This fund will not be self-sufficient and loans will be defined more as a donation. The FCPQ has agreed to explore this option, but wants the two types of loans to be distinct so as not to compromise the self-supporting goal of the original loan funds.

The annual loan interest rate is capped by the FCPQ at 5%, although individual *Caisses* are able to set their own rates within this guideline. Money gained from the interest collected can only be reinvested in the fund or be returned to the client after repayment is completed for investment in a saving plan. To date only one *Caisse* has chosen to charge any interest rate at all.

Those accessing loans must be members of the *Caisse* and must agree to participate in financial consultations. The *Caisse* is able to refuse clients that present a very high risk of loan default. However, there is flexibility in unique circumstances.

<u>Analysis</u>
The Desjardins loan model is a community-minded initiative that clearly is not intended to realise profits. With a sufficiently low loan default rate, the 5% interest may in fact allow the fund to operate at a self-financing balance. However, as evidenced by the disinclination to charge any interest at all, the perspective guiding the loan fund is not one that is primarily business minded. The lack of loan interest charges coupled with an 8% default rate will mean that the fund will require permanent subsidisation.

Subsidisation and the absorption of losses are made feasible by the strength of FCPQ and the partnerships under which the loan fund is administered. FCPQ with its considerable membership and asset base brings significant administrative, financial, and stabilising capacity which is important for the delivery of the loan fund as is the fact that, as a credit union, the mechanisms and capacity for administrating financial transactions such as loans are well established. The mechanism whereby sub-regional loan funds are created brings the delivery to the community level and involves the individual community person in the initiative as an owner of the initiative, as *Caisse* members vote on the establishment and contributions to the fund. Political will on behalf of the provincial government brought in another stakeholder with considerable capacity to assist the loan fund, although the plan is not to rely on these resources indefinitely.

The Desjardins model is designed to meet individuals' immediate needs for credit and it does so at non-arduous terms (no interest). Yet, the process ensures that clients, in the process of accessing the loan, meet with a financial management consultant to discuss the loan itself as well as plan for the repayment of the loan. They also lay the groundwork for ensuring increased financial stability for the future through mechanisms such as a savings plan. According to the respondent, an overwhelming majority of persons surveyed (*Caisse* administrators, credit officers, clients) think the experiment is a success. Additionally, the *Caisses* have clearly identified a desire and the tendency to be flexible in certain circumstances including the desire to establish a new fund to meet the needs of those who are not served by the current structure. Recognising that these loans would realise an even greater rate of default has not deterred their ambition. This desire to make credit and money as accessible as possible to those clearly in need is a truly commendable community-minded perspective.

6.4.9 E-Money Models - Various

<u>Model Summary</u>
The trend toward electronic money has its risks for those needing credit. Insurmountable debt can be accumulated quickly as it is easily accessed repeatedly and the reality of the debt is "out of sight, out of mind." However, many benefits can be seen for those without alternatives to the fringe financial services and as a result several initiatives have utilised electronic mechanisms to

make their services cheaper, safer, and more accessible. They range from for-profit enterprises run by large corporations to free-of-charge components of community-minded programs.

Four Corners in Vancouver noticed that having cheques electronically and directly deposited greatly reduced the number of stolen and lost cheques that the government had to replace or that the individual simply lost out on. Additionally, this increased the likelihood that the individual would use the less expensive outlet and also increased the opportunity for them to leave some money in the account for future use instead of cashing it all.

FACU uses electronic means to administer its loans. Members are able to apply by phone and then are able to access the loan at free-of-charge ATMs. Loan payments are guaranteed through securing electronic direct deposit of income and subsequent automatic loan payments. This increases member accessibility, decreases loan payment delinquency and defaults, and decreases the arduous administrative procedures normally associated with processing a loan.

Other models have been set up as privately owned, for-profit initiatives and operated as "electronic kiosks" in convenience stores. Some offered only a bill payment service (free to the consumer, the utility company paid a small fee) while others also include cheque-cashing, money orders and transfers, and ATM functions. Future kiosks will include internet access and will thereby facilitate all financial transactions that are possible online including account management and bill payment.

One aspect of this has been the development of a "chip card" to replace the "swipe card." The purpose would be that the card would carry account information on the card itself. The "smart card" would have deposits transferred to it and would have payments transferred from it.

<u>Analysis</u>

Positive aspects of electronic financial transactions include the safety of cash-less transactions, 24-hour accessibility, which competes with fringe financial services, and increased geographic convenience as these mechanisms are less costly than full-service outlets and therefore more can be provided within a community. And for those who are at ease with electronic machines this method of financial transactions might provide a less intimidating medium for their transactions than in-person transactions would. Also, savings are more likely as electronic transactions decrease the likelihood that a cheque will be cashed and promptly spent in its entirety.

Alternatively, a negative aspect of electronic transactions would be that some individuals would likely feel intimidated by technological processes and may distrust the machines. Another dynamic is that the increasing abstraction of money has risk attached to it. When accessing money and credit no longer includes the physical transaction of cash but rather involves the abstraction of electronic exercises, the temptation and potential for many is to decrease caution which leads to the precipitated withdrawal of funds or perpetually mounting levels of debt. A potential compromise, which has been suggested by FCCU, is to use ATM cards rather than debit cards. The ATM cards would not be usable at retail outlets, only at ATM machines. This would maintain all the advantages of electronic transactions mentioned above while lessening the potential harmful dynamics of further "abstracting" money. Another drawback of electronic transactions is that it takes the person-to-person dynamic out of financial transactions. The social aspect is already one that is increasingly being removed by our neo-liberal economy, so perhaps community-based economic development should not rush to use mechanisms that may further isolate people from each other. In addition to building community, person-to-person transactions facilitate education, financial counselling and planning, and provides the opportunity for emotional or other support for those in need.

6.4.10 IDA, learn$ave, and Saving Circles - Winnipeg, Manitoba

Model Summary

The models presented to this point have been full-scale financial service initiatives or have at least been a program offered within the auspices of a significantly large financial institution. The following model does not fit this category, but is nevertheless worth mentioning as it addresses some of the root causes and conditions that contribute to individuals choosing to utilise the services of fringe financial outlets. Although one of the newer aspects of this initiative has reduced its length of time frame, the savings and education initiatives tend to address long-term financial health, knowledge, stability, and achievement.

The Individual Development Accounts (IDA) are matched savings and financial management programs for low-income persons. The services are delivered through a SEED Winnipeg/ North End Community Ministry (NECM) partnership and the savings accounts and transactions are provided free of charge by the Assiniboine Credit Union (ACU). SEED Winnipeg is a CED micro-enterprise development and support organisation and NECM is a church-based, multifaceted community organisation. A Project Management Committee, composed of IDA staff and SEED/NECM executives, provides the decision making body for the IDAs. The Alternative Financial Services Coalition (AFSC), which acts in an advisory capacity, is a group consisting of community members, community agency representatives, and community development practitioners.

Funding from federal and provincial departments, local foundations, and other non-profit organisations enables the IDA programs to match client savings at a rate of 3:1. Completion of a financial management course is a compulsory component of the savings programs during which one-to-one and peer group support is available for participants as well as child care if required. The accrued savings may be used for a variety of purposes such as housing, education, business ventures, or household items such as appliances and furniture. The four initiatives currently operating are *learn*$ave, Winnipeg IDA, Housing IDA, and Saving Circles.

Table 6.1 Asset Building Projects Summary Statistics

	learn$ave	Winnipeg IDA	Housing IDA	Saving Circle	Total
Total Participants	140	33	20	28	221
Average Deposit	$64/month	$72/month	$60/month	$32/month	NA
Total Money Saved	$33,550	$39,704	$903	$3,415	$73,262
Total Match Earned	$105,338	$110,507	$2,710	$9,431	$205,591
Total Match Released (# of participants)	$10,820 (3 participants)	$37,483 (15 participants)	$0	$3,937 (8 participants)	$43,770 (26 participants)

Source: January 31st, 2003 (Simbandumwe 2003)

learn$ave is a ten-site national demonstration project initiated by Social Enterprise Development Initiative (SEDI) and funded by Human Resources Development Canada (HRDC) out of the Employment Insurance surplus. HRDC, not the Project Management Committee, makes most of the decisions regarding the *learn*$ave demonstration project. However, while HRDC initially hoped that the savings goals would be completely educational, they compromised with IDA staff and settled at 80% for education and 20% for micro-enterprise. The target demographic is individuals living below 120% of the Low Income Cut-Off (LICO). Winnipeg's Project Management Committee additionally stated their aim of ensuring that 60% of the clients would be below 60% of LICO. The maximum that a participant is able to save through *learn*$ave is $1500, which is then matched by $4500 for a total of $6,000. *learn*$ave began in the spring of 2001 with a total capacity for 150 participants, the last of which have just recently been registered in March of 2003. The federal government will wait until these last participants have completed the demonstration project and withdrawn their saved and matching funds before evaluating the project and will then consider further involvement - a process that will take several years. Until then, no new *learn*$ave participants will be accepted.

The Winnipeg IDA program actually preceded *learn*$ave, initiating participant recruitment in October of 2000, although it was done with the knowledge that *learn*$ave was imminent. It was initiated by the SEED/NECM partnership together with the ACU and AFSC. Funding was provided by the United Way, Thomas Sill Foundation, Winnipeg Foundation, and the provincial government. The savings focus was for personal education, children's education, home purchase or renovation, and micro-enterprise. As with *learn*$ave, the income criteria was LICO, although they ensured that 60% of the participants were at less than 60% of LICO.

When *learn*$ave began, the IDA staff channelled individuals wishing to save for education and micro-enterprise to that program. However, new participants wishing to save for housing projects were without a savings program as the Winnipeg IDA was full and *learn*$ave did not accept housing goals. As a result, in December of 2002, they received additional funding for a new Housing IDA program. Again, the income criteria was 120% of LICO with the goal of having

60% of the participants at lower than 60% of LICO. With the Housing IDA, however, the savings cap is $1,000 instead of $1,500. The hope was that the available money could be stretched to allow more people to participate while not detracting from the participant's ability to finance their housing project upon program completion.

One aspect of the IDA program that the administrators wished to address was that of accessibility. Some low-income individuals do not have the capacity to save significant amounts of money each month or save for such a long period of time. As well, some low-income individuals who desired participation in the program were not interested in housing, education, or micro-enterprise goals, but would rather pursue more practical and simple goals such as furniture, appliances, and medical devices. As a result, the Saving Circle program was established in the spring of 2001 with funding from the United Way and Investors Group. The 3:1 matched saving ratio and the financial management training are the same as in the other IDA programs. However, the group sizes are smaller (5-8) than other IDA programs (12-15) in order to facilitate more interaction and a tighter peer support network. The participant's income must be less than 60% of LICO, the savings period is shorter (6 months), and the maximum total saved is $160 for a matched total of $720.

Analysis

The IDA program is clearly a community-minded initiative with no financial profit consideration whatsoever as there is no income other than from grants and funding that cover costs and finance the matched savings. As such, however, the program is completely dependent and therefore vulnerable to government and community funding as well as to the in-kind contributions of agencies such as the NECM, SEED Winnipeg, and ACU. They do feel cautiously optimistic that additional funding from one of their current supporters will soon be secured for another five years and ACU has not indicated any desire to alter the current arrangement. However, the long-term viability will always be dependent on subsidies and the program is therefore vulnerable to future economic and political changes.

Another issue with a non-income service such as the IDAs is that they are only able to accept as many participants as the funding provides for. At present, for example, they have filled every available position and if a fully qualified individual applied now, they would be denied until further funding arrives. Participation interest is demonstrated by the fact that available spots have been filled without much advertising; most low-income individuals in Winnipeg have not yet heard about the IDA program. As IDA visibility increases, the demand will escalate as well. While the goal is to benefit the maximum number of people at any given time, it is unfortunate when needy and eligible individuals have to be turned away from the program.

One strength of the IDA program in Winnipeg has been its ability to be creative and flexible in meeting the needs of present and potential participants. They have managed to meet the needs of those interested in housing even though *learn*$ave would not allow for this and they established the Saving Circles when they identified a needy and eligible demographic that was not being served by the current IDA programs. To this end, they continue to look at others who might not yet be served, such as people with disabilities, and are looking at setting up a new IDA or modifying existing programs to meet their needs as well. Another possibility is the establishment of satellite IDAs in other regions of Winnipeg to increase the opportunity for low-income individuals to access the program across Winnipeg. Additionally, they continue to consider the need for additional saving targets such as the purchase of computers for children.

Another testament to their creativity is the financial management curriculum and workbook that they developed. The workbook incorporates aspects of Aboriginal culture and spirituality and addresses budgeting, financial literacy, consumerism and consumer choices, fringe financial service costs, managing credit, and intelligent purchasing decisions among other topics. And to further improve on the curriculum, it is in the process of being revised to more adequately address the needs that are being observed through the educational process. The curriculum clearly has educational value as it has been adopted by up to ten other adult education organisations such as the Brandon Literacy Council and the John Howard Society. IDA staff feel that this financial management training component, combining education with one-to-one and peer support, is the strength of the IDA program. The importance of support is also demonstrated by the identification of the lack of formal after-care case management as a weakness of the IDA program.

The IDA program does not address short-term financial service needs such as payday loans, cheque-cashing, pawnshop loans, and the like. However, it does address long-term and root issues such as access to bank accounts, familiarity with banking transactions, the discipline of savings, the lack of sufficient income to accumulate significant savings, individual and structural support, and improved money management skills. The IDA empowers the poor by placing money in the hands of those individuals in a structured manner that works at building skills and capacity while focussing on participant-set targeted goals. This facilitates their acquisition of education, housing, or a business venture and increases individual and community capacity. Participants of the IDA program report that they perceive their employability and saving/spending habits to be greatly improved upon completion of the program.

While some might want to be critical of the IDAs as a handout for the poor, the financial benefit and incentive to save is not dissimilar to other savings incentives offered by the government which middle and high income earners are able to access such as RRSPs and RESPs. Additionally, the improved economic condition and increased personal capacity of low-income individuals makes this an investment that reduces poverty and truly embodies the tenets of CED.

6.5 CONCLUSION

As demonstrated, the models of alternatives to fringe financial services contain a wide range of CED perspectives and correspondingly seek to provide a wide range of services, although the ideological spectrum is primarily within the framework of reform CED. This may reflect the inescapably dominant nature of the market economy in modern society, particularly within the context of providing financial services. The models also reflect the conundrum of whether or not to create an initiative that is driven by a business model that, while not necessarily pursuing profits, involves a mandate of viability independent of subsidisation or dependence on community partners. The alternative being to create an initiative that is able to provide community services that are maximally accessible and most needed regardless of corresponding income and thereby requiring subsidisation that makes the initiative vulnerable to changes of economic resources and political will.

The experiences and analysis of North American models of alternatives to fringe financial services reveal several aspects that are worth drawing on when considering "best practices" by which to develop such models. Mobilising community participation is one aspect that is important both for business viability and for ensuring that the model is indeed meeting the needs of the people and community it is seeking to serve. Business viability is enhanced by higher transaction volumes when services fees are involved and service appropriateness is also enhanced by soliciting feedback from the community and providing them with the opportunity to determine the services provided and model structure. The mobilisation of the community, the appropriateness of the services, and the resulting feelings of community ownership will, in turn, increase participation and the likelihood of business viability.

The role of the community also demonstrates the benefit of networking with other stakeholders. In addition to the community at large, community organisations are often well-rooted in the communities through established relationships, community understanding, and trust. This can be influential in the success and appropriateness of a model. Networking with various organisations can also bring diverse capacities and expertise into the model, and a network of service providers also has the potential to address community needs such as geographic convenience for services. Multiple stakeholders also spread the responsibility and risk for the model's success to more than one lone entity. Networking with government can also bring additional and sometimes critical resources and expertise. However, dependency on government participation can also render a model vulnerable to funding alterations or termination.

Regardless of the stakeholders involved, the presence of at least one stakeholder with considerable financial resources appears to be key to model viability. As previously mentioned, if this stakeholder is government, long-term viability may be tenuous. The preferred and most successful structure appears to include a financial institution with a credit union being the most likely given its community-oriented mandate. This type of stakeholder provides financial stability and depth for a model that may at times require subsidisation. It also provides managerial, technical, and financial management and handling capacity and expertise that is integral to any alternative model to fringe financial services. A credit union is also more likely than a bank to be willing to operate or participate in a model that does not return profits in meeting community needs. This is not to say that a sound business plan is not needed. Indeed, long-term viability is enhanced greatly if the model is able to achieve self-sufficiency. However, particularly in the formative and early operational stages, such a model may not return the profits demanded by bank shareholders. Additionally, credit union participation would increase the likelihood that any realised profits would be reinvested in that community.

Services provided would need to address both short-term and long-term needs. Short-term services would include affordable access to small amounts of credit and cheque-cashing as well as easy access to low-fee deposit accounts. Services should also integrate savings plans, financial literacy, and money management education in an effort to improve the economic conditions of the community in the long-term. The use of technology and "e-money" could be integrated, with caution for potential drawbacks, to make financial transactions more accessible, safe, and expedient.

Bank closures in low-income communities and the resultant increase in fringe financial services in those communities has led to the creation of alternative models to these institutions. Most such models are relatively new and they continue to learn, evaluate, and adapt as they proceed. However, the ability to effectively analyse their viability and community impact is thus limited. In the context of long-term community development and initiative viability, it is important to remember that a re-evaluation of these same models in a decade could and likely would bring different results and insights. Nevertheless, there is a clear need for such models but the challenge is to find the model that will work. Drawing on the aforementioned best practices provides some insight into potential strategies for success. However, beyond this is the reality that each community contains its own strengths and needs, its own leaders and organisations, its own laws and regulations, and its own history and culture that necessitate model development to be tailored to each particular community. These differences will impact the applicability and viability of any given model in any community outside of the one that it is in. Nevertheless, the need for alternatives has been repeatedly demonstrated, as has been the ability for communities to develop and implement dynamic and creative solutions to their financial service needs.

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APPENDIX A: INTERVIEWEE CONSENT FORMS

Client Survey Consent Form

I understand that the research team, under the supervision of Dr. Jerry Buckland and Dr. Thibault Martin, are undertaking a study of the use of high-interest financial institutions (pawnshops, cheque-cashing firms, etc.) and their use by the residents of Winnipeg's North End. I understand that my participation in this project is voluntary and, if I agree, it will involve the recording or the transcription of the interview. I understand that any time during the interview I may refuse to answer any number of questions, or I may request that the tape recorder be turned off or withdraw from the project entirely without prejudice or consequence. If I request that the interview not be recorded, I understand that the researchers will be taking notes. Participants will be compensated for childcare, travel and incidental costs at a rate of $20.

I understand that the information I provide during the interview and survey materials will be held in strict confidence. Only the interviewers and the research supervisors (Dr. Jerry Buckland and Dr. Thibault Martin) will have access to the information. Confidentiality and anonymity will be maintained at every stage of the research and in the publication of the results. Interview materials will be kept in strict confidence in the offices of the researchers. Once the survey will be completed the interview materials will be stored and locked in a secure place at Menno Simons College or the University of Winnipeg.

I understand that the purpose of the research is to assist in the understanding of the use of non-conventional credit institutions. I understand that to participate in this survey I must be at least 18 years of age. I understand what my participation will involve and that reports and subsequent publications will arise out of this research. I give permission to the researchers to use the content of our interview for research purposes, academic publications and conferences. I understand that my words might be quoted in the research report and in some academic publications. Should I have any questions concerning the nature or the legitimacy of the research, I am free to contact the research supervisors, Dr. Jerry Buckland at (204) 786-9171, Dr. Thibault Martin at (204) 786-9187 or Professor Michael Weinrath, Chair of the Ethical committee of the Department of Sociology at the University of Winnipeg (204) 786-9364 or to contact Dr. Laura Sokal, Chair of the Senate Committee on Ethics in Human Research and Scholarship (204) 786-9915. Copies of the final report will be made available to the public. One copy of the report will be send to the North End Community Renewal Corporation and one other will be made available at The University of Winnipeg's library.

______________________	______________________	______________
Name of Participant	Signature of Participant	Date
______________________	______________________	______________
Name of Researcher	Signature of Researcher	Date
______________________	______________________	______________
Name of Researcher	Signature of Researcher	Date
______________________	______________________	______________
Name of Research Supervisor	Signature of Research Supervisor	Date

Key Informant Interviewee Consent Form

I understand that the research team, under the supervision of Dr. Jerry Buckland and Dr. Thibault Martin, are undertaking a study of the use of high-interest financial institutions (pawnshops, cheque-cashing firms, etc.) and their use by the residents of Winnipeg's north end. I understand that my participation in this project is voluntary and, if I agree, it will involve the recording or the transcription of the interview. I understand that any time during the interview I may refuse to answer any number of questions, or I may request that the tape recorder be turned off or withdraw from the project entirely without prejudice or consequence. If I request that the interview not be recorded, I understand that the researchers will be taking notes.

I understand that the information I provide during the interview and survey materials will be held in strict confidence. Only the interviewers and the research supervisors (Dr. Jerry Buckland and Dr. Thibault Martin) will have access to the information. Confidentiality and anonymity will be maintained at every stage of the research and in the publication of the results. Interview materials will be kept in strict confidence in the offices of the researchers. Once the survey will be completed the interview materials will be stored and locked in a secure place at Menno Simons College or the University of Winnipeg.

I understand that the purpose of the research is to assist in the understanding of the use of non-conventional credit institutions. I understand that to participate in this survey I must be at least 18 years of age. I understand what my participation will involve and that reports and subsequent publications will arise out of this research. I give permission to the researchers to use the content of our interview for research purposes, academic publications and conferences. I understand that my words might be quoted in the research report and in some academic publications. Should I have any questions concerning the nature or the legitimacy of the research, I am free to contact the research supervisors, Dr. Jerry Buckland at (204) 786-9171, Dr. Thibault Martin at (204) 786-9187 or Professor Michael Weinrath, Chair of the Ethical committee of the Department of Sociology at the University of Winnipeg (204) 786-9364 or to contact Dr. Laura Sokal, Chair of the Senate Committee on Ethics in Human Research and Scholarship (204) 786-9915. Copies of the final report will be made available to the public. One copy of the report will be send to the North End Community Renewal Corporation and one other will be made available at The University of Winnipeg's library.

____________________	____________________	______________
Name of Participant	Signature of Participant	Date
____________________	____________________	______________
Name of Researcher	Signature of Researcher	Date
____________________	____________________	______________
Name of Researcher	Signature of Researcher	Date
____________________	____________________	______________
Name of Research Supervisor	Signature of Research Supervisor	Date

APPENDIX B: INTERVIEW QUESTIONNAIRE

CLIENT QUESTIONNAIRE

Name, postal code and telephone number of interviewee:

Interview Code (Date/Interviewers/Interview #[e.g., Sep. 11; Jerry & Thibault; #1 = 911J&T1]):

Client Questionnaire

[Interviewer: explain this:] *Introduce the research project to the interviewee: We are currently conducting research concerning the existence and the prospect of high-interest financial services in the Winnipeg's North End. For the purpose of this research, high-interest financial services refer to: credit through local stores and/or bars, pawnshops, rent-to-owns, check cashing businesses, tax preparation facilities and household finance. Throughout the course of this interview, I will be asking you to describe your experience with each of these high-interest financial services. Questions will also be asked in regards to your experiences with financial institution such as banks and credit unions. Through these questions we are hoping to gain information about your financial needs and the potential for the development of alternative financial services*

Then read/walk through the consent form with the interviewee. Have all members of the interview sign two(2) copies of the form. Give one copy to the interviewee.

I would like to thank you in advance for your participation and valuable insight into this matter.

Client Questionnaire
Section I. Demographic Characteristics
[I would like to start by asking you some general questions about where you live, your age, education, occupation and financial situation. These questions will allow me to get to know you better as well as provide some valuable information that will be used in our study.]

1) Interview Code:

2) Are you currently a resident of the North End in Winnipeg?

3) How long have you been a resident in this area?

4) Where did you live before?

5) How long did you live there?

6) (Observation) Gender?

7) What was your age on your last birthday?

8) What would you define as your racial/ethnic background?

9) What is your current level of education?

10) Do you have a partner?
    a) How long have you been involved?
    b) What type of relationship is it? [boy/girl friend, common law, married]

11) How many people are living with you?

12) Are there any dependants living in the household? [children, elderly, disabled]

12) How would you describe your current residence? [rented, owned, other]

13) How long have you lived there?

14) How many people in the household share the financial responsibilities? [rent, food, bills]

16) Are you employed?
    a) What type of job is it?
    b) Would you describe it as full-time, part-time, casual, or self-employment?
    c) How long have you been working there?

17) Are you unemployed?
    a) How do you support yourself financially at the present time? [CPP, social assistance, employment insurance, long term or short term disability]

18) What is your approximate average personal gross income?
   a) less than $10,000
   b) $10,000-20,000
   c) $20-25,000
   d) $25-30,000
   d) $30-35,000
   e) $35-40,000
   f) $40-50,000
   g) more than $50,000

19) Are you able to save some money from each paycheque (or each month or over the year)?

20) Do you have any investments/assets? Please list. [bank savings, RRSP, pension plan, stocks, bonds, home, car, property, jewellery, vehicles, business]

   a) What is the total value of these investments/assets?

   b) Is there anything owing on any of your investments/assets and how much?

   c) How long have you owned these investment/assets?

Section II. Mainstream Institutional Financial Services
[The following questions deal with your participation in mainstream institutional sources of financial services, i.e., banks, credit unions and credit cards.]

21) Do have a **deposit account** at a bank or credit union?

   a) What type(s) of account(s) do you have? [savings, checking]

   b) How long have you had the account(s)?

   c) How often do you use the account(s)? [per month, per year]

   d) What do you use the account(s) for?

   e) How do you access the account(s)? [ATM, in-person, telephone, computer]

   f) What is (are) the name(s) and location(s) of the bank or credit union that you have the account(s) with? [North End, downtown]

   g) Are you aware of the service fees, interest or pricing packages on the account(s)? [Ask details to check]

22) Have bank closures in your neighbourhood made it more difficult for you to maintain a deposit account or stopped you from opening an account?

23) Do you have **a loan** at a bank or credit union?
   a) How many loans do you have?

   b) What did you need the loan(s) for?

   c) How often do you make payments on the loan(s)? [daily, weekly, monthly, yearly]

   d) What is the interest rate charged on the loan(s)?

   e) What is the repayment period for the loan(s)?

   f) What is the value of the loan(s)?

   g) What are the name(s) and location(s) of the bank or credit union that you have the loan(s) with? [North End, downtown]

24) Do you have a **mortgage** at a bank or credit union?
   a) How many mortgages do you have?

   b) What did you need the mortgage(s) for?

   c) How often do you make payments on the mortgage(s)? [daily, weekly, monthly, yearly]

   d) What is the interest rate charged on the mortgage(s)?

   e) What is the repayment period for the mortgage(s)?

   f) What is the total value of the mortgage(s)?

   g) What is the remaining principal owed to the bank?

   h) What are the name(s) and location(s) of the bank or credit union that you have the mortgage(s) with? [North End, downtown]

25) Do you have any **credit cards** through either a financial institution or some other institution? [Visa, Zellers, Canadian Tire]
   a) How many cards do you have?

   b) What type(s) of card(s) do you have? [Royal Bank Visa, Canadian Tire]

   c) What do you use the card(s) for? [food, clothing, bills, emergencies, extra spending money/entertainment]

d) How often do you use the card(s)? [daily, weekly, monthly, yearly]

e) How much is owing on the card(s)?

f) What is your credit limit?

g) How much is the interest rate on the card(s)?

26) Are there any other types of financial services that you use from a financial institution such as a bank or a credit union? [If yes, describe in detail]

[If you are not currently using a bank or credit union]
27) Have you ever used a financial institute such as a bank or credit union?
a) When did you last use a bank or credit union?

b) What type of services did you use?

c) How long did you use the bank or credit union?

d) Where was the bank or credit union located?

e) Why do you no longer use the bank or credit union?

f) Would you like to have access to the services provided by a bank or credit union?

g) If there was a bank or credit union in your neighbourhood (within 3-4 blocks), would you use it?

h) Which services would you like to use? [bank accounts, loans, credit cards]

[If you have never used a financial institution such as a bank or credit union]
28) Why have you not used a financial institution such as a bank or credit union?
a) Would you like to use the services provided by a bank or credit union?

b) Which services would you like to use? [bank accounts, loans, credit cards]

c) If there was a bank or credit union in your neighbourhood (within 3-4 blocks), would you use it?

Section III. Family/Friend and Moneylender Financial Services
[The following questions deal with your participation in family/friend and moneylender sources of financial services. ***For newcomers to the North End ask these questions for two periods: now and in their old community.****]*

29) Do you **borrow** money from your **family or friends**?

a) How often do you borrow money from family or friends? [per month, per year]

b) From how many different people do you borrow money?

c) Do you currently have any outstanding loans from family/relatives? How many? What are the value of these loans?

d) Why do you borrow money from family/friends (as opposed to other sources)?

e) Have there been periods in your live when you could not get these loans?

f) When these loans are not available, what other alternatives do you have?

g) What is the typical amount of money you borrow from the family/friends?

h) What do you use the money for? [food, clothing, bills, emergencies, extra spending money/entertainment]

i) What are the terms of these loans? [interest rate or amount, timeline, complete or partial repayment, in-kind repayment]

j) Do you expect family/friends that lend you money will expect you to loan them money in the future?

30) Do you **loan** money to your **family or friends**?

[If yes]

a) How many times did you lend money to a family/friends? [per month, per year]

b) Do you currently have any outstanding loans to family/relatives? How many? What are the value of these loans?

c) Why do you loan money to family/friends? [repaying a favour, being helpful]

d) What was the total amount of the money you loaned to the family/friends?

e) What do your family/friends use the money for? [food, clothing, bills, emergencies, extra spending money/entertainment]

f) Under what conditions was the money loaned? [interest rate or amount, timeline, complete or partial repayment, in-kind repayment]

31) Are you aware of people in the community who lend on an informal basis such as **moneylenders**?

31) Do you borrow money from a moneylender?

[If yes]

a) How many times have you borrowed money from moneylenders in the last month? In the last year? What was the value of these loans?

b) Why do you borrow money from moneylenders as opposed to other sources?

c) What are the terms of these loans? [interest rate or amount, repayment time]

d) What is the total amount of money you owe a moneylender right now?

e) What do you use the money for? [food, clothing, bills, emergencies, extra spending money/entertainment]

33) [If no to above] Why don't you borrow money from community moneylenders?

Section IV. High-interest Banking

[The following questions deal with your usage of the high-interest banking in the North End such as local stores and or bars, pawnshops, rent-to-owns, check-cashing businesses, tax preparation facilities and household finance.]

34) Do have **credit (or a credit line or a 'tab') with a store or bar**?

a) What store(s) or bar(s) do you have credit with? [location]

b) How often do you use you credit at these places? [per month, per year]

c) What do you typically purchase with the credit?

d) What is the present total credit outstanding in these places?

e) What are the terms of credit from the store/bar? [interest rate, fees charged, repayment period]

f) Why do you have credit with a store or bar as opposed to other options?

g) How do you feel about the service fees charged by the store/ bar? [satisfied, dissatisfied]

35) Do you **cash cheques** at a **store/bar**?

a) Name and location:

b) What are the terms of the cheque-cashing? [type of cheque, cash limit, fees]

c) Do you have a long-term relationship with that store/bar?

36) Do you **pawn items at pawnshops**?

a) How often do you pawn items? [per month, per year]

b) Do you have any items pawned at present?

c) What are the items you have pawned?

d) How much money did you receive for each item?

e) Did you haggle/bargain with the shop owner to get the price you wanted?

f) Did the haggling/bargaining raise the value of the item? By how much (%)?

g) What was the money used for? [food, clothing, bills, emergencies, extra spending money/entertainment]

h) As best you can, explain the terms of the pawn. [interest rate, other fees, maturity period, grace period]

i) Is the interest rate you were charged within the legal limit?

j) What is the name and location of the pawnshop?

k) Did you re-claim the item(s)?

[If you reclaimed the item]

l) How do you feel about the interest rate charged or the cost to reclaim the item? [satisfied, dissatisfied]

m) Why did you use pawnshops as opposed to other financial service firms or family/friends?

[If you did not reclaim the item]

n) When the item was sold, did the pawnshop refund you the difference between the loan you received and the price they received for the item?

[If you did not pawn items]

37) Why do you not use pawnshops to pawn items?

[All respondents]

38) Do you **purchase additional items at the pawnshop**?

a) How many items do you purchase from pawnshops? [per month, per year]

b) What are some of the items purchased?

c) What was the cost of each of these items?

d) Why do you purchase items from a pawnshop?

e) Do you worry that some of the pawn shop goods may be stolen?

[If you do not purchase items from a pawnshop]
39) Why do you not use pawnshops to purchase items?

[For all respondents]
40) **Without mentioning names of people or businesses,** are you aware of illegal transactions taking place through/at pawnshops?

______ YES ______ NO

41) [If yes]

What type of illegal activities?

_______ Sale of Stolen Goods

_______ Other, Specify: _______________

42) Do you use **rent-to-own services**?

[If yes]

a) Name and location of rent-to-own shop:

b) What are the items you are or have rented-to-own?

c) How many items do you rent-to-own? [per month, per year]

d) Do you know the interest rate or other fees charged for this service?

e) Describe the value of the good, the monthly fees and the payback period.

g) Why do you participate in rent-to-own plans as opposed to buying used, or new, or taking out a loan?

h) How do you feel about the cost of renting items to own them? [satisfied, dissatisfied]

[If you do not use rent-to-owns]
43) Why don't you use rent-to-owns?

44) Do you use **check-cashing services** through firms such as Money Mart, Money Now, and Financial Stop?

a) What type of services do you use? [cash checks, payday advances/loans, money orders, money transfers]

b) How often do you use these check-cashing facilities? [per month, per year]

c) Why do you use check-cashing facilities instead of banks/credit unions or friends/family?

d) What is the amount of money you cashed, borrowed or transferred? What is the interest rate and what are the other fees applied to this service? When do you have to repay the payday loan?

e) Have you ever renewed a payday loan?

f) What is the money typically used for?
(food, clothing, bills, emergencies, extra spending money/entertainment)

[If you do not use these services]
45) Why don't you use check-cashing services?

46) Do you use a **tax preparation/quick refund** service offered by firms such as H&R Block or Financial Stop?

a) What services did they provide you with? [preparation of tax return, quick refund]

b) How often have you used these services?

c) What is the name and location of the firm?

d) Can you explain the costs (interest rates, fees) and benefits (value of refund, how much earlier did you receive the refund) of this service?

e) Why do you use tax preparation/quick refund services?

f) How do you feel about the fee/interest that these facilities charge? [satisfied, dissatisfied]

[If you do not use this service]
47) Why don't you use tax preparation/quick refund services?

48) Do you use the services of other **financing firms** such as household finance through H&R Block?

a) How often do you use these financing firms? [per month, per year]

b) What services do they provide you with?

c) Can you explain the costs (interest rates, fees) and benefits of this service.

d) What did you use the money for? [food, clothing, bills, emergencies, extra spending money/entertainment]

e) Why do you use household financing companies as opposed to other financial service firms like banks/credit unions?

f) How do you feel about the interest rates and fees that they charge? [satisfied, dissatisfied]

[If you do not use these firms' services]
49) Why don't you use financing firms?

[For all respondents]
50) Are there any other high-interest-banking facilities that you use? If yes, describe in detail your dealing with this high-interest facility.

51) Do you think that the fees and interest rates for these high interest services (pawnshops, etc.) were clearly posted and understandable?

52) Did you find that there were there 'hidden' fees or costs? If yes, explain.

53) Do you think that the fees and interest rates for high interest services (pawnshops, etc.) are equivalent to those charged at banks/credit unions?

54) In general what is your perception of high-interest financial services? [satisfied, dissatisfied]

Section V. Alternatives Financial Services
[Up until this point in the survey, the focus has been on the effectiveness of financial services provided by informal, mainstream and high-interest firms. The focus will now shift to exploring what you would like to see in the future in terms of financial service firms in the North End.]

55) In your opinion, what do you think of the financial services (informal, mainstream and high-interest) currently existing in your community? [satisfied, dissatisfied]

56) What kinds of financial services or institution/organisation would you like to see in the community? [informal, high-interest, mainstream]

57) Are you aware of community-based programmes such as Individual Development Accounts (Savings Circles, *learn*$ave, Housing IDA), Seed Winnipeg (business training and loans), North End Housing Project (rent-to-own houses), or the PATH Centre?

58) [If yes] Do you or have you used these services?

[If yes,]
a) How often do you use this service? [per month, per year]

b) [If applicable] How much have you borrowed and on what terms? [interest rate and other fees, maturity period]

c) What is your evaluation of this service? [satisfactory, dissatisfactory]

d) Will you use the service again?

e) What would make this service more attractive to you and the community?

[If you do not use these services]
59) Why don't you use these services?

[For all respondents]
60) Are you interested in learning more about these services? Why or why not?

61) If a community-based alternative firm were to come into your neighbourhood, what service(s) would be most important for you? (cashing checks, accessing loans, financial planning)

62) If the establishment of a bank is unlikely, would you be willing to help with a community alternative project through personal use, promotion within the community, volunteering personal time to assist the program, or buying shares in a community initiative such as a co-operative financial services centre?

63) Are you interested in participating in a follow-up focus group discussion for this research project?

64) This completes our survey, is there any other information you would like to tell us about anything we have covered?

If you are interested the final report will be available here at the office, and at the University of Winnipeg.

[Thank-you for your co-operation in this interview.]

Key Informant Schedule of Questions
[Interviewer: explain this:] *We are currently conducting research concerning the existence and the prospect of financial services in the Winnipeg's North End. For the purpose of this research, financial services refer to, credit through local stores and or bars, pawnshops, rent-to-owns, check-cashing businesses, tax preparation facilities, money order/money transfer outlets, payday loans and household finance. Throughout the course of this interview, I will be asking you to describe your experience with each of these financial services. Questions will also be asked in regards to your experiences with financial institution such as banks and credit unions. Through these questions we are hoping to gain information about your financial needs and the potential for the development of alternative financial services.*

Then read/walk through the consent form with the interviewee. Have all members of the interview sign two (2) copies of the form. Give one copy to the interviewee.

I would like to thank you in advance for your participation and valuable insight into this matter.

Section I. Background Information

1) Name, postal code and telephone of interviewee: [This information will be kept confidential and used if a follow-up focus group discussion is necessary: Are you interested in participating in a follow-up focus group discussion? _______]:

2) Work place:

3) Employment designation:

4) Describe your role in the context of Winnipeg's North End or inner-city economy.

5) Interview Code [Date/Interviewer/Interview, e.g., Sep. 11; Jerry & Brendan; #1 = 911J&B1]:

Section II. Financial Services and Firms

6) **Interview Code:**

7) **List the firms, services and rules/costs of the financial sector that you are aware of as follows,**

    a) **List the financial *firms* and *services* available in the North End. [pawnshop, cheque-cashing, retailers with rent-to-own, payday loans, financing company, retail stores/bars providing credit, money orders, money transfers, moneylenders, friends/relatives]**

    b) **Explain the types, rules and client costs associated with the different financial *services* available through financial service firms. [provide sufficient detail to determine annualised interest rate, including timing, fees and interest rate]**

8) **In your opinion, do financial services and firms 'gouge' their clients? Why or why not?**

9) **In your opinion, do you think these firms contribute to the North End economy more generally?**

10) **Why do you think people use these services?**

11) **What are the typical characteristics of clients of these firms? [ethnicity, gender, income, education, long-standing residents or recent migrants, people with extended family networks or people without]**

12) **Do you think these firms are engaged in any illegal market services?**

[If yes]

    a) **What type of illegal services?**

    b) **Do these illegal services contribute a large share to the firms' business?**

13) **[For pawnshops] Do clients 'haggle' for the price?**

    a) **How many of your clients haggle (%)?**

14) **What are your perceptions of the general market dynamics of the financial service firms in Winnipeg's North End?**

    a) **Are these firms growing or declining in numbers?**

    b) **Are there particular *types* of firms or *services* that are growing? [pawnshops are a traditional way of providing credit to high-risk clients, whereas cheque-cashing**

firms are relatively new. Have these firms faced similar market dynamics in the last 10-20 years?]

c) **[If yes to the above] Please list growing and/or declining firms or services.**

d) **Do you think the market dynamics you have described for the north end are comparable to other parts of Winnipeg, inner-city and suburbs?**

15) **What are your perceptions of the general market dynamics of mainstream financial services, banks and credit unions in the North End?**

16) **How do you explain the market dynamics you have described? [inner-city under-funding, insecurity issues, city policy re peri- and sub-urban real estate, growing poverty and inequality, government cutbacks]**

17) **Please provide us with estimates of the costs and profits of providing financial services.**

18) **Why do these firms offer these services? [they are profitable; they are used as a 'front' for, or in combination with, other services; tradition]**

19) **What government (city, provincial and federal) policies apply to the financial services?**

a) **Are these policies enforced?**

Section III. Community and Policy Alternatives

20) **What financial services are presently being offered by community agencies in the North End?**

a) **Do you think these services are successful in terms of impact and viability? Why or why not?**

b) **What are the obstacles to their further success?**

c) **Do they foster community development?**

21) **Do you think that community agencies should explore further participation in the provision of financial services in the North End?**

a) **In so doing do you think these organisations are fostering community development?**

22) **What other kinds of activities should community agencies be involved with? [education, advocacy with government]**

23) **Do you think a community-based agency could offer financial services in an efficient and competitive manner?**

a) Why or why not?

b) What services could the community-based agency offer? [community-based pawnshop or cheque-cashing firm, education about the costs and alternatives to financial services]

c) How would the community-based agency design such a programme?

d) How would the community-based agency minimise its costs in order to keep interest rates and fees low?

24) What city, provincial or federal government policies are central to improving the quality of financial services available to north end residents?

a) What policies constrain a community agency from fair participation in the financial sector? [lack of control of monopoly, licensing]

b) What policies are absent or poorly enforced allowing for unfair treatment of North End residents? [lack of enforcement, posted complaint line, interest rate ceilings, minimum number of fees allowed per transaction, clearly visible and simple fees posted at outlet and on tickets/receipts, surplus return, minimum maturity length and grace period, mandatory submission of an annual report to be used in annual industry report]

25) Finally, do you know of other key-informants, data/statistics or other resources that will help us in this project? [community development, bank/credit union, government/policy, financial service firms, other research]

[Thank-you for your co-operation in this interview.]

Key Informant Schedule of Questions: Mainstream Banks

[Interviewer: explain this:] *We are currently conducting research concerning the existence and the prospect of financial services in the Winnipeg's North End. For the purpose of this research, financial services refer to, credit through local stores and or bars, pawnshops, rent-to-owns, check-cashing businesses, tax preparation facilities, money order/money transfer outlets, payday loans and household finance. Throughout the course of this interview, I will be asking you to describe your experience with each of these financial services. Questions will also be asked in regards to your experiences with financial institution such as banks and credit unions. Through these questions we are hoping to gain information about your financial needs and the potential for the development of alternative financial services.*

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2) Work place:

3) Employment designation:

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5) Interview Code [Date/Interviewer/Interview, e.g., Sep. 11; Jerry & Brendan; #1 = 911J&B1]:

Market Dynamics

Since 1995 nine bank branches have been closed in Winnipeg's North End. Two of these closures were Toronto-Dominion Banks (Redwood and Main branch in 1995 and Inkster and McPhillips in 1998).

6) Interview Code:

7) Why do you think banks in general are closing branches in Winnipeg's North End?

8) Why did your bank close these branches?

9) Are these reasons unique to Winnipeg's North End and inner-city neighbourhoods or are the reasons similar to closures in more affluent neighbourhoods?

10) What roles do new technologies such as automated teller machines (ATMs) and the Internet play in branch closures and locations in general?

11) Can you explain the factors that are taken into account when making a decision to close a branch?

12) We assume that low-income people in Winnipeg's North End are more dependent on public transportation than middle- and upper-income people in other parts of the city. This makes them less mobile. They are also less frequent users of computer-based technologies like the Internet. Does your Bank consider mobility and technology use of area clients as factors to determine if an inner-city neighbourhood Bank branch should be closed?

13) Does your bank offer and advertise a low-fee account to their clients? Do you think this option reaches people with low incomes and poor access to transportation?

Growth of Fringe Financial Services

14) In Winnipeg's North End, and more broadly in Winnipeg and across North America there has been a growth in the number of cheque-cashing and payday loan firms. These firms provide some financial services that banks offer. What do you think about this change in the financial services market?

15) Do you think these new firms compete with your services or complement them?

16) Do you think that the clients of these firms would be better served at a bank? Why or why not?

17) Does your Bank provide cheque-clearing services or credit to cheque-cashing firms or payday loan firms in Winnipeg or elsewhere in Canada?

[Thank-you for your assistance with these questions]

Key Informant Schedule of Questions: Cheque Cashing Firms

[Interviewer: explain this:] *We are currently conducting research concerning the existence and the prospect of financial services in the Winnipeg's North End. For the purpose of this research, financial services refer to, credit through local stores and or bars, pawnshops, rent-to-owns, check-cashing businesses, tax preparation facilities, money order/money transfer outlets, payday loans and household finance. Throughout the course of this interview, I will be asking you to describe your experience with each of these financial services. Questions will also be asked in regards to your experiences with financial institution such as banks and credit unions. Through these questions we are hoping to gain information about your financial needs and the potential for the development of alternative financial services.*

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2) Work place:

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4) Describe your role in the context of Winnipeg's North End or inner-city economy.

5) Interview Code [Date/Interviewer/Interview, e.g., Sep. 11; Jerry & Brendan; #1 = <u>911J&B1</u>]:

6) Interview Code:

7) Please describe the financial services that you provide.

8) What are the costs of these services to the client?

9) How many outlets do you presently have in Canada? In Winnipeg?

10) Can you provide data on the number of outlets you have had for each of the last twenty (20) years in Canada and in Winnipeg.

11) In your opinion, do these financial services and firms 'gouge' their clients? Why or why not?

12) In your opinion, do you think these financial services contribute to the North End economy more generally?

13) Why do you think people use these services?

14) What are the typical characteristics of clients of these (your) firms? [ethnicity, gender, income, education, long-standing residents or recent migrants, people with extended family networks or people without]

15) What are your perceptions of the general market dynamics of the cheque-cashing industry in Winnipeg's North End? In Winnipeg in general? In middle-income versus low-income communities? In Canada in general?

16) Are these firms growing or declining in numbers?

17) What are your perceptions of the general market dynamics of mainstream financial services, banks and credit unions, in the North End?

18) How do you explain the market dynamics you have described? [inner-city under-funding, insecurity issues, city policy re peri- and sub-urban real estate, growing poverty and inequality, government cutbacks]

19) Please provide us with estimates of the costs and profits of providing high-interest financial services.

20) Are your income statements publicly available?

21) What are your principal sources of financial capital?

22) What government (city, provincial and federal) policies apply to the high-interest financial services?

23) Are these policies enforced?

Section III. Community and Policy Alternatives

24) Do you think that cheque-cashing firms foster community development?

25) Do you think that community, non-profit organisations should offer these services? Why or why not?

26) Are you aware of pending provincial government legislation related to 'Disclosure of Cost of Borrowing'?

27) Do you agree or disagree with this legislation? Why?

28) Finally, do you know of other key-informants, data/statistics or other resources that will help us in this project? [community development, bank/credit union, government/policy, high interest firms, other research]

[Thank-you for your co-operation in this interview.]

APPENDIX C: REPORT ON FOCUS GROUP DISCUSSIONS

Report on Focus Group # 1: Community-oriented Key Informants
27 February 2003

The goal of this focus group was to determine what services and models were necessary and possibly feasible in the realm of alternatives to fringe financial services in Winnipeg's North End. The group consisted of community development practitioners from the North End. The facilitators were as follows: Nancy Barber, Jerry Buckland (lead facilitator), and Brendan Reimer. This report summarises key points raised during the discussion.

Important Values and Concepts
The values and concepts articulated by the key informants as being integral to any service and model included a holistic vision for community health (environmental, social, economic, and political). Services should increase community and individual independence, self-confidence, and should be done in a way that reduces the fear that many users have of utilising financial services such as banks. This would mean working *with* the client as opposed to creating solution *for* the client - involving the person in the process. Clients and service providers should feel safe and respected, with the safety of seniors being of particular concern. Also important would be other client concerns including convenience and cost factors. There should also be an anti-poverty and counter-consumerism education and advocacy component targeted at both low-income people and those with money and decision-making capacities.

Services
Identified service needs included traditional banking services such as cheque-cashing (without a five day hold period) and small loans, both of which would provide an alternative to fringe financial services such as pawnshops and cheque-cashing outlets and perhaps also to rent-to-owns and payday lenders. As not everyone has a satisfactory credit rating, there should be a mechanism by which individuals are able to prove themselves and build up a favourable credit rating, perhaps through some sort of initial pawn transaction or some other such mechanism that would allow them to earn a good credit record while minimising the risk to an organisation. Services offered should also include mechanisms for savings such as deposit accounts and matched savings programs such as the IDAs, or even a mechanism whereby those paying off loans would also pay into an accumulating savings account simultaneously. Community ownership and/or community investment options and mechanisms should also be integrated into the services. There should also be crisis counselling available for those who find themselves in a financial crisis and need someone to talk to or assistance in figuring out a short-term plan. Counselling/education services should also be offered to individuals seeking to improve their financial literacy and money management skills which would include topics such as budgeting, understanding credit concepts, working with creditors, and developing the capacity to make regular credit payments. It was also mentioned that existing peer support and networks should be utilised and taken advantage of, perhaps by capitalising on informal family borrowing, or by establishing a consumer credit circle. As well, services should include advocacy and education to bring awareness of CED to the broader community. Finally, services should address the needs of businesses in the North End that may include financing, accounts, credit card processing, and technical/financial support and expertise.

Delivery Mechanism
Key informants felt that the preferred delivery mechanism would consist of a decentralised, yet integrated, network structure that would be made up of a broad network of existing, recognised

community organisations who have established trust and healthy community relationships. Several locations would address the convenience-of-location issue and the use of existing institutions would take advantage of existing infrastructure, staffing, networks, diverse skills and capacities, and community relationships. Model terminology included “a web-like structure” as well as “a wheel with a central hub connected to and connecting the other service providers.”

The idea would be to have as many of the services delivered at each outlet, with the understanding that not every institution would desire or even be capable of delivering them all. But institutions would be brought into the network on the basis of what they could bring to the structure in existing capacity and strength as opposed to what aspects they could not offer. Some could offer cheque-cashing if they had the capacity and security for handling and storing cash (grocery or drug stores, credit unions), some could offer crisis counselling (women’s centres and shelters, counselling services, religious organisations, community education centres), and some could facilitate loans (credit unions or credit union subsidiary). Endorsement or character referencing for loans and cheque-cashing could be provided by community services organisations that have established relationships with those individuals in the community. Agencies not comfortable with having to turn down requests for endorsement or referencing could divert this responsibility to a credit counsellor, someone who is from the community and is known/trusted, who could rotate through the various organisations on a set schedule to meet with these individuals. Loans could also be facilitated by non-cash-handling organisations. These organisations, if they decided to approve a loan, could write a cheque or transfer funds electronically and the individual could then cash the cheque or withdraw the money at one of the cash-handling partners or an ATM. Risk factors of handling cash were mentioned, which is why the concept of networking was suggested in a manner in which cash-handling would be left to those already capacitated to do so. Nevertheless, a comprehensive insurance package would be important to cover risks taken by agencies.

The network could take advantage of technology through phone communication, electronic money transfers and deposits, and ATMs (as long as they are free or low-fee). As well, an ID card could be developed that would be accepted by the network partners. This ID card could be kept on a computer network so that it could be easily reproduced for replacement, but also so that transactions could occur without requiring the person to carry the card at all times. The ID card would be on the computer and could be accessed whenever needed. Perhaps this ID card could become recognised by other organisations/institutions in the area as well. Each partner organisation/institution would display a network logo prominently visible to the outside that would also include the names, addresses, services provided, and hours of operation for other partner organisations so that individuals could access other partners even if that particular one was closed at the time.

Since this model would involve commitment for the individual, this service mechanism would not be for everyone. Some, particularly those who desire instant and no-questions-asked service, would not be drawn to this mechanism. This would decrease the potential volume of service transactions, which may in turn decrease the independent viability of providing these services - the per transaction cost would escalate with decrease volume.

There was some discussion, without consensus, regarding the need for a “hub” to oversee or co-ordinate service delivery and network operations. Some felt that the strength came in the decentralised and informal nature of the structure while others felt that an administrative capacity and centre would strengthen the consistency, standards, efficiency, and smoothness of the delivery network.

Subsidies

Subsidies would likely be required for most of these services. However, the risk is that if a network/organisation is completely dependent on subsidies, it becomes vulnerable to funding changes or termination. Subsidies are less important if you build on an existing network of structures and organisations and capitalise on existing staffing and infrastructure, but it is important to remember and recognise the implicit agency subsidies if they take on this new capacity. Perhaps existing organisations could access funding to increase their service delivery capacities. The risk of utilising existing organisations is that the new responsibilities may be too much of an added burden. This might weaken not only the network, but also that organisation and might compromise the services that the organisation originally provided.

Services such as crisis counselling and education/training/mentoring would definitely require subsidy and a savings program, particularly a matched savings program, would also require a subsidy. Alternative services to fringe financial services have the best chance of bringing in some revenue and perhaps even subsidising the others. However, this would depend completely on the volume of transactions and the pricing structure for these services. As already mentioned, the decentralised, integrated community network model would not be for everyone. This would result in lower transaction volumes that would decrease the chances of independent viability.

Report on Focus Group #2: Fringe Financial Service Clients
March 25, 2003

The goal of this focus group was to follow up on key results from the client survey and to gather ideas from fringe bank clients about alternative financial services they would be interested in. The focus group involved four fringe bank clients who participated in the client survey. The facilitators for the focus group included: Nancy Barbour, Jerry Buckland (lead facilitator) and Rana McDonald. The following is a description of the questions that were asked and the points that were raised by the participants.

What financial services are most important to you to meet day-to-day needs and longer-term needs?

Day-to-day needs:
- Get short-term loans for $50 to $150 without hassle and less interest than pawnshop
- Face-to-face financial advice for those with low and fixed incomes
- Pay bills
- Cash cheques
- Picture ID

Longer-term needs:
- Larger loans for household items like furniture and appliances, car repairs
- Reasonable rent-to-own or layaway programs for household items for those on Employment and Income Assistance
- Mortgages for homes in areas where some banks will not approve
- Financial advice for retirement savings on low and fixed incomes
- Dollar matching program
- Locked-in savings for children and retirement
- Financing for education in order to get a career/job
- Welfare policies that allow you to save
- Easy to understand information on existing programs from city, province, federal, Hydro, community agencies
- A means to build a credit rating while on a low income

What types of delivery means are best for you (face-to-face, hours and location, electronic, ATM, direct deposit)?
- Face-to-face, personal service is important so a relationship can be built with client and trust developed; therefore greater flexibility and leniency will be allowed with some rules such as no holds on cheques; being able to get a loan without collateral
- Walking distance; easy access for parents who must walk with small children especially in winter
- more ATMs without fees at numerous locations which are easy to walk to
- ATMs which give five and ten dollar bills instead of just twenty dollar bills; money in hand tends to be spent; smaller withdrawals allow for more control
- Central location like Selkirk Ave and Powers or Andrews Streets
- Longer hours of operation than standard bank hours (Money Mart is open Mon-Fri 9 a.m. to midnight, Saturday 9-9, and Sunday 10-6), weekends
- Availability of computer for those who bank electronically
- If there was a bank or credit union it should employ more tellers on days when Employment and Income Assistance cheques are released

What kind of organisation is best for you? (bank/credit union, community-based service requiring voluntary co-operation, or limited service outlet with referral)

- Community-based service would be preferred by some over a bank; would switch from current bank account to a community-based service if it was offered
- Local credit union is preferred by some
- Most would be willing to take the time to sit down privately for 20 minutes to develop a character reference with a bank/credit union employee if the interview was personal and free from stereotypic views of Aboriginal people or North End residents
- The process of developing a character reference should be a one time thing
- Use of the repayment of micro-loans as a means of establishing a credit rating and enhancement of character reference
- If people have to pawn once or twice a month now, and manage to redeem their items, they could be counted upon to repay micro-loans given for less interest.
- Most like the idea of an institution which would take a small amount from every cheque cashed and put it into a fixed savings account for the person
- An organisation which is tailored to and personally friendly to North End residents

Additional Comments:
- pawnshops are a key to survival for many people in the North End who are on Employment and Income Assistance and do not have a network of friends and/or family in place to borrow from between cheques
- virtually everyone on Employment and Income Assistance cannot get from one cheque to the next without having to borrow small amounts of money in between
- the idea of long-term savings is not even brought to mind for most on Employment and Income Assistance; they are totally focussed on how to survive from one day to the next
- mothers who receive back-pay from family allowance cheques (as late as five months after a child is born), have their Employment and Income Assistance cheques reduced by the amount of the back-pay, leaving them with a larger family to feed on the same amount of money before the new child arrived
- all income must be declared for those on Employment and Income Assistance; if a small inheritance is received then the Employment and Income Assistance cheque is reduced by the amount of income, thus disabling the person from saving any money
- financial assistance is needed more in the winter since many of the houses in the North End are not properly insulated and heating bills are huge
- those administering the Special Needs aspect of Employment and Income Assistance are required to give money for a bed allowance for young children but they will often give parents a hard time making them believe that the money is not available to them.
- a local drug store is a convenient and inexpensive place to cash cheques and pay bills, but cannot always be used if the store does not have enough money on hand on a given day
- banks require picture ID; most picture ID (eg: drivers licence) is too expensive for people on Employment and Income Assistance to obtain
- for those with bank accounts, paying bills via telephone is inexpensive
- the number of bank ATMs are few in the North End so those who have bank accounts may have to spend $1.50 to get to the ATM so they do not have to pay the service fee of the white label ATMs, thus defeating the purpose
- most banks require $50 to start an account and will put holds on cheques; these factors make it completely unfeasible for low-income people
- since you can't get a loan when you are on Employment and Income Assistance, the easy cash from the sale of drugs and involvement in gangs is appealing to some
- what will the consequences of the Kyoto Accord be?; if the money spent on gas for winter heating was spent instead on renovating houses so they get off the grid, the savings would turn things around in the North End

- some insurance companies will not insure North End houses; some banks and credit unions will not give mortgages for houses in the North End
- day care is too expensive for young mothers to use so they can go to school so they can get a job, thus a vicious circle of poverty
- the welfare system does not allow people to save money, so no funds can be put aside to ensure their children's education
- everyone could manage and would want to put $5 in a locked-in savings account if it was available
- rent-to-own programs or layaway plans for larger household items are desired by some on Employment and Income Assistance since this is the only way some things can be obtained, but lack of credit rating can prevent them from participating
- some are afraid they will be robbed when walking home after having cashed a cheque at a store
- most believe that the local credit union has a closed membership

APPENDIX D: RESPONSES TO REQUESTS FOR INTERVIEWS FROM CHEQUE-CASHING AND PAYDAY LOAN FIRMS

One of the research assistants endeavoured to contact cheque-cashing and payday loan firms for an interview; however, these firms were generally unwilling to be interviewed. The following is a description of the efforts made by the research assistant to contact these firms.

Firm A

- the manager was pleasant but said I would have to speak with the regional manager and provided the regional manager's name and phone number
- the regional manager was very receptive on the telephone but said the board of directors would have to be consulted first
- several days and phone calls later, the regional manager said an answer would be available by the next week and confirmed that Monday would be a good time to call
- on the designated Monday, the regional manager was out of town for a week

Firm B

- the manager at one branch was rude and abrupt on the telephone but did provide the name of the top manager, who was at another branch
- the top manager was also rude and abrupt and repeatedly challenged the request for an interview with "What's in it for me?"
- appealing to a sense of community service had no effect whatsoever

Firm C

- at my first visit to the store, I was told to come back in an hour when the owners would be there
- upon returning I met one of the owners who, with her husband, had bought the business a few months before; she said that she would discuss the request for an interview with her husband
- she telephoned me a few days later to say that they had decided against the interview but wouldn't give a clear reason why
- when I mentioned that because no payday lender would speak with us, we wondered if the firms have something to hide, she was very defensive

Firm D

- the first thing I was asked when I walked into the store was: "Are you here for a loan?"
- after being made to wait for several minutes I spoke with the manager who told me they were no longer in the payday loan business, but were now running "Home Phone Reconnect - *NO ONE REFUSED - NO DEPOSIT REQUIRED*"
- the manager repeatedly refused an interview, then would start speaking about the very things our research is looking at
- the manager finally consented to an interview after some persuasive encouragement

- when phoned the morning of the day when the afternoon appointment was scheduled, the manager cancelled the interview
- when asked if the appointment could be rescheduled on several different specific dates, the manager stated that all potential dates were already too busy and stated that we should wait for a call back about what would work

Firm E

- after waiting for a full half-hour at one branch, I was able to speak with the staff person in attendance who deferred me to the regional manager, who works out of another branch
- at this branch I was invited into the regional manager's office after waiting for fifteen minutes
- the regional manager was friendly and receptive but said that an interview without consent from the superiors would be impossible and would require a letter outlining the nature and purpose of the interview and a copy of the consent form
- the requested letter and form were sent to the regional manager
- the regional manager has not returned phone messages. In one subsequent phone conversation, the regional manager stated that they had not yet heard back from the proper authorities

APPENDIX E: EMPLOYMENT AND INCOME ASSISTANCE RATES AND POLICIES REGARDING PERSONAL SAVINGS

For many of the fringe bank clients interviewed during the research, the stated income source was “Social Assistance.” “Social Assistance” or “SA” are the common terms used to describe a program which has undergone many changes over the years and is now officially called Employment and Income Assistance (EIA). The clients reported varied accounts regarding the policy and/or practice of saving money under current EIA policy. Many perceived that savings was not permitted and would invoke EIA deductions. As the presence of savings is considered to be an important determinant in the use of fringe financial services, this policy or practice became of interest in the context of the research project on fringe financial services. To clarify the rates, policies, and practices of EIA, a person in a key administrative position within this government program and a community leader outside the program, who assists people to understand their EIA entitlements, were consulted.

EIA is meant to be a last resort when all other means of generating an income are exhausted. While the EIA policy manual is publicly accessible, it is a lengthy and complex document that is difficult to decipher. To remedy the lack of clear and easily attainable information, EIA is currently in the process of developing single information sheets in basic language that outline various elements of the policy.

The policy manual outlines three categories of EIA basic allowance rates. The first is for "Persons with Disabilities" who "by reason of physical or mental ill health, or physical or mental incapacity" are given a monthly basic allowance which ranges from $254.80 for a single person to $989.40 for two adults and three children aged 12 to 17 years (Table 1). There are about 16,000 individuals receiving disability EIA in Manitoba. The second category, "Persons Without Disabilities," is predominantly for single parents with the basic monthly allowance beginning at $407.20 for a parent with one child, and ranging to $743.20 for a parent with three children aged 12 to 17 years. Out of 9,054 single parents receiving EIA in Manitoba, 94% are single mothers. The third category is called "General Assistance" for people who are free and able to find employment; this ranges from $175.00 monthly for a single adult to $929.40 for two adults and three children aged 12 to 17 years.

In addition to the basic allowance, assistance is available for various special needs including: providing items such as a crib or layette for a new-born, major appliances, essential household furnishings, beds and bedding, moving costs, and school supplies. While the written policy appears straightforward, its implementation may vary widely on a case by case basis. Case loads average from 170 to 230 per worker and the administrative respondent described the staff as “hard-pressed just to keep up with phone calls." The community leader respondent said it is the caseworker’s responsibility to inform the clients of and provide the various special needs funds to which they are entitled. The administrative respondent was aware of inequities resulting from policy implementation, which is at the discretion of the social workers, and explained that the new information sheets are partially intended to address this problem. The administrator also stated that policy complexity is a factor as different policies apply to different people.

A single mother with three young children on EIA who says she uses a pawnshop monthly to access the small loans which enable her feed her family, reported that her caseworker deducted the back-pay from the Canada Child Tax Benefit (CCTB) for her last child from her EIA cheque. The back-pay, which comes from Ottawa, arrived six months after the mother's third child was born. The woman could not understand why this money, which she thought was designed to assist in paying for her infant's needs, led to a deduction in her basic allowance, putting her into an extremely fragile financial position. The administrative respondent did not have an explanation for this story other than to suggest that it must predate current policy. This respondent insisted that the social workers were intent upon satisfying the needs of their clients, not depriving them. This positive depiction was in contrast to the community leader respondent, who stated that in the cases of many government employees, "their minds are poisoned to the poor."

Table E.1 Monthly EIA Rates and Allowable Liquid Assets

Category	EIA Basic Allowance Rates (Single Adult)	EIA Basic Allowance Rates (2 Adults & 3 Children 12-17)	EIA Allowable Liquid Assets (Individual)	EIA Allowable Liquid Assets (Family)
Persons with Disability	$254.80	$989.40	$2,000.00	$4,000.00
Persons without Disability	$242.10	$743.20**	$1,000.00	$3,000.00
General Assistance	$175.00	$929.40	$400.00	$2,000.00

Source: Manitoba EIA Policy Manual
** As the majority of those in this category are single parents, this number reflects the EIA Basic Allowance Rate for one adult and three children ages 12-17.

With regard to allowable savings, the administrative respondent said there is a fair amount of flexibility "per application." The policy manual's printed guidelines state that Persons with Disabilities may as individuals have liquid assets up to $2,000.00 with a family maximum of $4,000.00. For Persons Without Disabilities the figures are $1,000.00 with a family maximum of $3,000.00. And for General Assistance cases the first person may have $400.00 with a family maximum of $2,000.00. The majority of fringe financial service clients on EIA interviewed were unaware that they were entitled to save or have these liquid assets as outlined. It is commonly understood by these clients that they must report any money received by inheritance, gifts, and other sources, and that amount is then deducted from their basic EIA allowance. Lack of information about what they are entitled to, and the perceived or actual intervention of social workers, has created the general assumption that people on EIA are not allowed to save.

The administrative respondent described a new policy announced in April 2003, which allows permanently disabled people on EIA to have up to $100,000.00 held in trust. These funds may be passed on to a child if the person dies, or may be used for social worker-approved expenditures such as technological aids or special needs in accommodation. This respondent also explained that other gifts of "small value" (less than $100.00) given on occasions such as birthdays may be allowed, but if the gifts are ongoing the amount will be deducted from the person's assistance cheque.

In addition to EIA, parents may be entitled to federally-funded Canadian Child Tax Benefits (CCTB) and National Child Benefits (NCB). The CCTB has evolved through many forms and phases since the Family Allowance Program, or "baby bonus," began in 1944. The CCTB has two components: the CCTB base benefit for low- and middle-income families and the National Child Benefit (NCB) supplement for low-income families. The annual maximum CCTB for the July 2002 to June 2003 benefit year for families with net incomes below $22,397.00 in 2001 begins with a monthly benefit of $203.66 for the first child and approximately $186.50 for each additional child (Table 2). Those with an income between $23,397.00 and $32,960.00 receive the maximum CCTB benefit and a partial NCB supplement.

Table E.2 Maximum (Per Child) Canadian Child Tax Benefit and National Child Benefit

Children	Basic CCTB (Annual)	NCB (Annual)	Total (Annual)	Monthly Benefit
1	$1,151.00	$1,293.00	$2,444.00	$203.66
2	$1,151.00	$1,087.00	$2,238.00	$186.50
3+	$1,231.00	$1,009.00	$2,240.00	$186.66

Source: Government of Canada

Pregnant women with a net family income less than $21,744.00 may also receive the Healthy Baby Benefit through the Manitoba government. The maximum monthly benefit is $81.41 and is designed to assist pregnant women on low incomes to eat properly so that their babies are born healthy. The benefit stops once the child is born.

One problematic aspect of the EIA system arises out of the policy of deducting child support and maintenance payments from the single parent's EIA. A common predicament many women experience is that when the father does not pay, the amount of the expected support is still automatically deducted from their cheques, leaving them in a precarious or even desperate financial position.

The community leader respondent said that EIA workers generally give ample opportunities to young mothers. However, if a worker is for some reason not supportive of a mother who, for example, may want to attend an adult education centre to gain a high school diploma, the mother may not be made aware of or provided with the available funds. As a result, the funds for this education would need to come out of her EIA and CCTB income. This would make it difficult and therefore less likely that the young mother would get the education needed to increase her employability and income potential that would be helpful in raising her family out of the vicious cycle of poverty.

APPENDIX F: COMMUNITY FINANCIAL SERVICE CENTRE MODEL FOR THE FEASIBILITY ASSESSMENT STUDY

One of the goals of the research project was to examine whether a community-owned non-profit service that could lower prices North End consumers face has prima facie feasibility and to examine whether alternative models to provide these financial services show any basic evidence of market feasibility while striving to meet the social and economic needs of users. In order to do this, the research team hired an independent contractor to complete a preliminary feasibility assessment. The team developed an alternative model drawing on the client and key informant surveys and the focus group discussions. This model is outlined below. The feasibility report follows the outline of this model.

The Community Banking Centre Model
A consortium of agencies including a deposit-taking institution (preferably a credit union) and community economic development (CED) agencies will own the outlet. The outlet will provide a variety of core financial services. The outlet will also have the mandate to deal with additional services either by providing them directly or referring clients to an affiliated agency. As well, the outlet will draw on affiliated CED agencies for such things as character referencing.

Services Provided
The community banking centre will provide a set of core services. In addition, the feasibility assessment will consider if another set of services can be provided by the centre. Alternatively, the centre may refer clients for these services to other agencies in its network.

Core Services:

1) Cheque-cashing
2) Micro-loans (possibly a loan fund or pawning): $50-200 (approximate range)

Additional Services: (may be provided or may be referred by the centre)

1) Credit counselling
2) Financial planning, education and training
3) Deposit accounts for savings including access to government and community agency savings schemes, e.g., Individual Development Accounts, Learn-Save, Savings Circle

In addition to these services the feasibility assessment might also examine the following:

- Electronic transactions such as automatic teller machines and direct deposits
- Money orders and bill payment services

APPENDIX G:
COMMUNITY FINANCIAL SERVICES CENTRE: A FEASIBILITY STUDY

Community Financial Services Centre
A Feasibility Study

A supplementary report to the work of the

Fringe Financial Services & Community Development Research Project

June 16, 2003

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1.0 Model Overview

The creation of a Community Financial Services Centre is predicated on the belief that basic financial services should be available to all citizens at approximately the same cost. At present, low-income individuals are more likely to pay more for financial services and access to credit than are middle and upper income citizens.

Low-income individuals who pay the same flat monthly or annual service charge on an account pay a relatively higher rate when viewed as a percentage of their disposable income. Of more concern is the cost of utilising fringe financial services such as pawnshops, payday loans, and cheque-cashing outlets.

A research project, sponsored by the Alternative Financial Services Coalition and funded by the Winnipeg Inner-City Research Alliance, has studied the fringe financial sector in Winnipeg's North End. The research team, led by Professor Jerry Buckland and Professor Thibault Martin explored both the reality of transactions in the fringe financial sector, and common motivations of low-income consumers.

One intended outcome of the research has been to describe a potential alternative model for delivering financial services to low-income people. This document, prepared by Dungannon Consulting Services, outlines such a model and carries out some basic feasibility calculations. The document is meant to stimulate discussion regarding alternative financial services, with some reference to costs. Implementation of the model will necessarily entail modifying the model to meet the demands of various partners, and will require a more detailed business plan based on these modifications.

Low-income people use fringe financial services for a variety of reasons. Most commonly, they are used because low-income people lack access to mainstream financial services. This lack of access may be attributed to one or more factors such as inner-city location, low personal mobility, poor credit history, a low level of personal financial skills, or the way in which the financial institution and the individual perceive each other.

The establishment of a Community Financial Services Centre model will aim at lowering these barriers through a variety of means. In some cases this will mean the creation of parallel "alternative" services, in others it will mean finding ways to effectively bring the individual into the credit union or bank as a "legitimate" member or consumer. While a Community Financial Services Centre would attempt to provide services across a wide spectrum of need, there are issues it will not address. The provision of financial services (including credit) can not, in and of itself, resolve the issue of insufficient income. As well, there are users of fringe financial services who are part of an underclass that deals in illegal transactions. Clearly, a Community Financial Services Centre will not accommodate their needs. Rather, such a Centre is aimed primarily at those people in the low-income strata who are striving to normalise their relationship with the financial services sector.

The creation of such a Centre, with the social mandate indicated above, will entail the development of a model that combines elements of both social service and private business. The provision of financial services to low-income people involves dealing in transactions that are high in both risk and the actual cost of the transaction. The price of borrowing from a pawnshop is often described as "gouging" yet likely reflects the costs of such lending accurately.

One can not expect such services to offer lower fees and to be self-supporting. In order to offer more reasonable fees, the cost of providing these services must somehow be shared between the user, broader society, and the highly profitable financial services sector. The model proposed strives to establish a service that is sustainable, yet not self-supporting. In this model, user fees should be more affordable, yet still bear some relationship to the cost of the transaction. At the same time, it presumes ongoing supportive roles for government, foundations and the financial services sector.

2.0 Potential Demand for Services

The following section attempts, in summary fashion, to describe the demand for various financial services that might exist in Winnipeg's inner-city. It is based on a combination of research done by the project research team, industry data, anecdotal evidence, and observed trends. Each subsection evaluates whether there is a rationale for including that service in a Community Financial Services Centre, and if so, what assumptions should be made about the volume and size of transactions.

2.1 Pawning Services

The pawnshop serves two functions in the community. In one sense, it is a place to buy and sell used goods such as jewellery, musical instruments, electronic consumer goods, and tools. The second function is as a lender, where small loans may be procured by offering personal possessions as collateral.

The presentation of collateral secures the loan, reducing the risk to the lender. This allows the lender to forgo lengthy applications, references, and credit checks which are more mainstream risk management tools. Taking this collateral does entail certain risks and costs on behalf of the lender, which are reflected in the interest rate and various surcharges applied to the loan. The collateral is sold to repay the loan if the lender fails to pay. The pawnbroker's risk is in correctly assessing the re-sale value of the item. If the item is eventually sold for less than was lent out, the pawnbroker suffers a loss. The pawnshop has to maintain records and provide documentation on each transaction to the police. If an item is stolen, it may be forfeited to police, resulting in a loss to the pawnbroker. Other costs include the staff time to process the transaction, the cost of capital lent out, and the costs to store the collateral.

There is a history of "progressive" or socially responsible pawnshops. When an item is forfeited and then sold, these shops will only retain the amount needed to repay the loan and cover the cost of selling. Any balance is returned to the borrower. These shops may or may not lend out a higher amount relative to the value of the collateral.

The literature suggests that the average pawn loan would be around $50. Pawnbrokers will normally lend an amount from 50 – 60 percent of the re-sale value of an item. (Re-sale value should not be confused with replacement value, which is often much higher). Most loans are redeemed by the lender (approximately 70 percent), although many of the loans are extended beyond their original term. (40 – 50 percent).

According to data from Caskey, the amount of business done by a single pawn shop can vary widely. In Indiana and Oklahoma, each pawnshop does over 3,000 loans per year, totalling about $165,000 lent. Some annual data for the period 1998-2001 is available for the state of Illinois. In Illinois, each pawnshop employee (counting both part-time and full-time) made an average of 1,374 loans for a value of $107,448 (5 year averages). This suggests, at least at an intuitive level, that a "typical" pawnshop would have 2-3 employees, at least one of which is part-time. In Delaware during 1989, a single pawnshop was tracked over 8 days, according to individual transactions. In those 8 days, 221 loans were made (27.6 per day). The collateral offered for these loans was distributed as follows:

Watches & Jewellery	68%
Electronics	21%
Musical Instruments	4%
Camera Equipment	2.7%
Firearms	2.7%

Although we do not have data that accurately defines the extent of pawning in Winnipeg, we can make some rough estimates. A project interview with Winnipeg police suggests 300 loans per month for each shop. When we multiply this by the 29 pawnshops listed in the phone book, there are roughly 8700 pawns per month. At an average of $50 per loan this translates to an annual market of $5.2 million in Winnipeg pawnshop loans. (Around 3,600 loans and $180,000 per pawnshop). This suggests that pawning activity is higher in Winnipeg than in Illinois, and roughly comparable to Indiana and Oklahoma. About 40 percent of the pawnshops are located in the North End of Winnipeg, so the "local market" is over $2.0 million annually.

The business case can be made that there is sufficient demand in the North End to support a community-based pawning service. However, the project team research seems to indicate that many occasional users of pawning services only do so as a last resort. Many of these people expressed a desire to have a credit union or bank account, and the ability to borrow small amounts from time to time. If they had access to these basic services, they would no longer use pawnshops. There are other people who prefer to pawn, in order to avoid straining relationships with family or friends.

Appendix B contains a feasibility calculation on how a community-owned pawnshop might operate. It uses some of the margins and industry data described above. This example assumes that any surplus from the sale of forfeited items is returned to the borrower. It further assumes that the community pawnshop charges a net interest rate (inclusive of storage and other fees) of 30 percent per month, typical of existing pawnshops. The example assumes an average $70 pawn, which is likely higher than the actual average. The benefit provided by this community pawnshop would only be marginal relative to existing pawnbrokers.

The example shows that the given the stated assumptions, the community pawnshop would essentially break even. The fact that existing pawnshops continue to operate profitably using roughly the same margins, suggests that a combination of the following factors are at play:

a) Pawning may not represent the entire revenue stream for existing pawnshops, but co-location with payday loans or other services may achieve some economies.

b) Some pawnshops may be dealing in goods and transactions that are are not recorded or reported to the authorities.

c) The number of pawns done by each employee may be higher than the statistics cited here.

d) Existing pawnbrokers may own their own building and use their own loan capital, which would require a lower rate of return in order to break even.

e) Pawnshops likely achieve significant surplus profit from the sale of forfeited goods. In this case, surplus profit is where the selling price exceeds the total of the loan principal, the accrued charges, and the cost of selling.

Our rough feasibility calculation makes no real provision for any costs related to regulatory requirements, bonding/insurance costs, loss to theft, or other likely expenses. It also assumes that the employees in this hypothetical example are 99 percent accurate in their assessment of the re-sale value of pawned items.

This calculation suggests that the feasibility of a conventional pawnshop would be linked to the conversion of forfeited goods. In other words, the success of the pawnshop would be predicated on a certain percentage of community members losing their collateral. This would seem to be an unacceptable basis for a community-based service.

Addressing this inequity by returning the surplus from sold goods to the borrower is only a partial remedy. It applies to the 30 percent of borrowers who do not redeem their collateral. This feature would not benefit the bulk of borrowers, and would jeopardise the viability of any community pawn service.

2.2 "Micro" loans

The "micro" loan is typically for an emergency or an overdue bill, and is for a small amount ($20-$200). Most people would generally use a credit card, a bank account overdraft or borrow from family/friends. The low-income individual without access to credit may borrow from family/friends or may go to the pawnshop to meet this need.

Based on the demand for pawn loans, as well as project team interviews, it is clear there is significant demand for a micro-loan service. It is also clear that the regulatory environment, start-up capital required, and physical infrastructure for a micro-loan service would be much less onerous than that required for a pawnshop. There are however, a number of considerations to be weighed:

a)	Transaction costs:	The cost of staff time to write, disburse, administer, and collect the loan are prohibitive, unless a separate fee is charged. This fee will push the effective annual interest rate into triple digits, unless it is entirely subsidised.
b)	Collateral:	Unlike the pawn loan, the micro-loan is a character loan based on direct knowledge of the individual, or through character and credit references. This reference process will either add to the transaction cost or need to be subsidised.
c)	Demand	If no-collateral loans with no service fee attached become available, demand will quickly outstrip the available capital. It is likely that eligibility for the micro-loans would be limited to people who are affiliated with some sort of community program, which may also provide the character referencing.
d)	Term	Are the loans short-term bridge loans to be repaid in full within 30-60 days, or are they to be repaid over a longer period? The longer loans have easier payments, but are more expensive to administer.
e)	Risk	The risk affiliated with making character loans to poor people is hard to quantify. Assuming a proper screening and eligibility mechanism is in place, the risk may be manageable. The project team has discovered a Caisse Populaire program that offers these type of loans and the portfolio apparently has a 6 percent default rate. This rate is linked to both the screening process, and the relationship of the individual with the Caisse as a community institution.

Based on the above, it seems that a community-based micro-loan service will be heavily subsidised, and available on a restricted basis.

2.3 Payday loans

The payday loan sector provides short-term loans (generally 2 weeks or less) to individuals with steady employment and an established bank account. The borrower receives the loan by granting the lender an automatic debit or post-dated cheque on their bank account, due on the day the borrower is next paid. More and more of the payday loan services operate on the basis of fax applications and electronic debits, lowering their overhead.

Based on data collected by the project team, the effective annualised interest rate for payday loans is in the range of 500 – 600 percent, driven mostly by item or application fees. Industry proponents take the position that payday loans are never taken out for long periods, and an annualised interest rate calculation does not represent the true cost to the consumer. Most payday loans appear to cost the consumer about 25 percent of the amount borrowed.

Appendix C shows some rough calculations for a payday loan service scenario. In this hypothetical example, we assume that we can access loan capital of $40,000 at an annual cost of 8 percent. We further assume the capital can be fully lent out and repaid every 2 weeks. Two hundred loans are distributed among $100, $200 and $300 loans, and are granted for a transaction fee of $5 per $100 and at an interest rate of 4.5 percent for the 2 week period. Assuming a single staff person staff person at $26,000 per annum (who can do 3 loans per hour), and a loan loss ratio of 2 percent, we can arrive at a better than break-even position. This scenario also includes some allowance for rent and overhead.

This hypothetical service would be providing payday loans at approximately half of their current cost to the consumer. Yet the annualised interest rate would still range between 160 percent and 247 percent. While such a competitively priced service may prove popular with payday loan clientele, it is unlikely to meet the mandate of a community-based service provider. The payday loan client is employed and has a bank account, but does not have an account overdraft or a useable credit card. Given this established access to mainstream financial services, the need for the short-term loan can usually be attributed to poor financial discipline or bad credit history. The interests of this consumer are likely best served by education rather than access to cheaper credit.

2.4 Cheque-cashing

Based on interviews by the project team, access to cheque-cashing services is not problematic. Aside from outlets such as Money Mart, a number of local merchants will also cash cheques readily. The fees are based on differing formulas, but generally speaking, one can expect to pay about $4 per hundred as a net fee. When weighed against the time and cost to travel to a bank or credit union, the expense is not unreasonable. As well, the money is immediately available, where a bank or credit union may place a 5 day hold on the cheque.

If we were to examine the viability of a community-based cheque-cashing service, we must first establish how low we want the fees to be. Let us assume that we wish to charge a straight 2 percent of the cheque, about half of current rates. Let us further assume that demand for cheque-cashing can be concentrated into two afternoons per week, that the service can be administered by a half-time employee who is paid $300 per week, and that $587 per month will be required for uniformed (unarmed) security and a security camera.

If this service cashes an average of 125 cheques per week at an average cheque size of $350, it will require a minimum of $44,000 in capital, revolving through the service every week. If we allow for the ebb and flow of consumer demand, the capital required will be closer to $58,000. This capital, acquired at 8 percent, would cost $388 per month. If we assume a bad cheque ratio of .5 percent for every time the capital is sent out, that cost would be $940 per month. A nominal allowance for rent and overhead is made at $500 per month.

On the highly optimistic assumptions above, the service would break even. It would save the community a total of $3,548 savings in fees every month. The volume of 125 cheques per week is still highly restricted, and would not be a service available to the community-at-large. If the economies stay proportionate, and the service cashed 250 cheques per week, $116,000 in capital would be required. This would increase the need for security substantially.

Of course, if there was a locally available bank or credit union and a person can wait for the hold on funds, cheque-cashing would be free, a much better alternative. If the bank or credit union is locally available (perhaps through an ATM), the need to cash cheques at all would be reduced.

Given the security and capital issues related to a cheque-cashing operation, it seems much more feasible to apply resources to breaking down the barriers that prevent people from accessing mainstream financial institutions.

2.5 Tax Discounting

Historically, tax discounting has been a notoriously predatory practice in the inner-city. Income tax firms would charge a fee for preparing the return, and then offer to finance the immediate disbursal of monies in exchange for a percentage of the refund.

A number of changes have impacted on this practice. Firstly, the child tax credit is now paid to low-income families on a monthly basis. In the past, these refundable tax credits were part of the tax return process, making refunds often worth several thousand dollars. The monthly payment of these credits puts money in the hands of families sooner, and reduces the size of the annual refunds, making them less vulnerable to discounting.

The second development is the ability to file taxes electronically, and to receive the refund by direct deposit. The application of technology to this process has reduced the time to have the return processed. What was once a waiting period of several months, is now as short as 10 days. Some people are able to wait this short period when they realise the savings (about $55 on a $500 refund).

Interviews by the project team indicate that perhaps 25 percent of interviewees use the tax discounters, often motivated by force of habit or poor financial discipline. A community-based tax discounting service would simply reinforce these bad financial habits.

Many interviewees were more concerned with the $25 - $35 fee charged for preparation of the return itself. It would seem from the reduced impact of the discounters, and the apparent motivation behind "quick cash" solutions, that extending a free or low-cost income tax service would have a more beneficial effect for the community.

2.6 Rent-to-Own

The rent-to-own transaction is typically between $1,000 and $3,000 and is used to acquire furniture, appliances, or other household goods. The customer pays a monthly fee over a period of time. This monthly charge is apportioned between a rental fee for use of the items and the actual retail cost of the goods. The customer often ends up paying 2 to 2.5 times the retail value of the goods.

Using an hypothetical example, if a customer buys goods with a retail value of $1,000 and agrees to 24 monthly payments of $84, they will end up paying $2,016, or just over 2 times the actual value. This means the customer is paying 6.6 percent per month, or 79 percent per year in effective interest (categorised as rental fees). While these rates are low when compared to pawnshop and payday loan rates, they are still very high when compared to mainstream alternatives. By way of comparison, if the same customer paid for the purchase with a credit card at an annual interest rate of 16 percent, over the same 24 months, the payments would be $49 per month. The total cost of the goods would be $1,176.

Rent-to-own customers are motivated by a number of features. The goods are available with no down payment, and with no credit check. The contract can generally be cancelled by returning the goods and foregoing all payments made to date. It is precisely these features which increase the risk to the rent-to-own provider. Rent-to-own stores must account for the cost of repossessing items where the payments are not made. In cases where the customer moves and cannot be traced, the store may have to write off the cost of the goods.

A community-based rent-to-own program would face many of the same risks. The chief way to reduce risk would be to limit this type of financing to people who have been screened and/or referred by community agencies. It may be best to limit loans of this size to those who have established their character and credit worthiness through past performance at lower levels (i.e. through micro-loans).

In addition to the element of risk, a community-based rent-to-own would have other challenges. It would have both overhead costs related to a storefront, and inventory costs for the consumer goods. Both of these factors require the store to sell a minimum amount of merchandise to break even. As well, the community store would be in direct competition with local small business who sell similar products. The best solution would seem to be a community financing program that could identify good credit risks and provide them with the financing to allow purchases at local businesses. Such a financing program could be structured in partnership with a financial institution and local merchants, and could maintain viability even with small or fluctuating numbers of loans.

3.0 Proposed Service Model

Section 2 examined the basic features of transactions in the most common fringe financial establishments. This section proposes a model that addresses some, but not all, of the needs currently being met by the fringe financial services. Section 4 attempts to project some of the revenues and expenses related to offering such a service.

The model for a community financial services centre is based on a series of values-based assumptions. These assumptions include:

a) Costs for financial services should be made more affordable, but should also reflect some relationship to the cost of providing these services.

b) Subsidies for financial services to low-income people are not likely to be politically attractive, nor are they likely to be universally applied.

c) Services and subsidies should be utilised as a means for low-income individuals to build skills and demonstrate credit worthiness.

d) Most low-income people would prefer to have a normalised status with a credit union or bank where they are viewed as valued members and customers.

This suggests that services should be structured in a "stepped" fashion, where low-income individuals progress from small loan amounts with higher levels of social intervention to larger loan amounts delivered through conventional services. Developing a credit history that is of use both locally and with a recognised financial institution is as important a goal as the provision of credit itself.

The following sections describe a potential model, with a specific array of services that strive to address the articulated values and the demonstrated community need. While it is believed the model has "replicability", it is developed in the context of Winnipeg's North End. There are other combinations and permutations of the described services, which may be of equal benefit.

3.1 General Features

The community financial services centre will be operated by a non-profit entity that enters into a series of strategic alliances with financial institutions, local merchants, philanthropic organisations, government departments, and community agencies. Such a centre should be a physical location where an array of services can be provided by different organisations. The delivery agent for any specific service should be determined by a careful review of organisational capacity, internal expertise, applicable regulatory environment, and the appropriate delineation between social service and private sector roles.

The core features of the proposed model start around the most basic requirements and builds upon these services incrementally. These core features are:

i) a capacity to build a local credit file and provide affordable picture ID to community members (see below).

ii) access to small micro-loans that replace pawn transactions and build a credit history (see section 3.2).

iii) a strategy to provide initial access to a financial institution through a supported "special" account (see section 3.3).

iv) serve as a location and environment where complementing services can be delivered, and act as a platform to pilot new service innovations.

It is recommended that the non-profit entity design and issue a photo ID card that is common to all programs offered at the centre. A digital Polaroid camera system that interfaces with a desktop computer can be purchased for about $3,000. This system, similar to that used for driver licenses, would print an ID card for about $4 in material costs. This local picture ID could be offered to eligible area residents on a cost-recovery basis (likely for a $5-$10 fee).

The application process to obtain this ID card would be a logical point at which the referencing from community organisations could occur. From that point forward, the non-profit would be able to build a credit file which reflected which services the resident utilised, and how they have handled credit. This would give the non-profit the ability to give references to partner organisations, affiliated credit unions/banks, and perhaps local merchants.

3.2 "Micro" Loans

It is recommended that the non-profit entity establish a revolving micro-loan fund for the purpose of providing very small consumer loans to those that can demonstrate credit worthiness. Such a loan fund could be capitalised to the amount of $10,000 in a manner similar to the Jubilee Fund. Social investors could provide the capital for below-market rates, and the revolving fund would need to generate enough income to offset loan write-offs. Staff costs to administer the fund would be subsidised through foundation and government funding, or through secondment of existing non-profit staff. Some projections for such a fund are described in section 4.

The micro-loan fund described above is simply one delivery option. Different structures could eventually be offered in response to demonstrated demand. For instance, a peer-lending model could be another delivery option for small consumer loans that helps to manage risk through peer relationships.

3.3 Credit Union/Bank Access

As discussed in earlier sections, access to credit unions and banks is limited by the actual physical locations, by certain policy positions, and by how low-income people perceive the institution (and vice versa). The Assiniboine Credit Union has undertaken a project in West Broadway, offering a "mini-branch" in a low-income neighbourhood. At present, indicators are favourable, but the long-term viability of this model has yet to be demonstrated. Should the model prove sustainable, co-location of such a branch with a community financial service centre would be optimal. In the absence of such a possibility, it is recommended that access to a partner credit union or bank be configured in the manner described below.

It is recommended that the community financial services centre install a deposit-taking ATM machine on site. The capital cost of this ATM, installed with appropriate security would be about $53,000, and should be raised by the non-profit organisation. The ATM would then be leased to a partner credit union or bank for $1 per year. The terms of the lease would require the credit union/bank to service the machine, and these terms would be linked to a commitment to provide some special services. By absorbing the capital cost of the machine, the non-profit makes the business case for the operation of the ATM more viable. The ATM would need to conduct some 5,600 transactions per month to justify its operation. (see Appendix D for a more detailed description of ATM economics).

The provision of the ATM provides a locally accessible link to a full-service financial institution, set in a friendly community environment. This ATM would allow cheques to be deposited and cash to be withdrawn on an as-needed basis. The ATM technology should be supplemented by additional technical access. The centre should have two small kiosks (one with a phone line and another with a computer and internet connection). This would allow area residents to do telephone and internet banking from the site. Staff of the non-profit could provide coaching on use of this technology, as part of a support service. The Assiniboine Credit Union offers a basic chequeing account that has a monthly service charge of $4.00 (which compares favourably with cheque-cashing fees described earlier). The account allows 15 free debit transactions per month, so an account holder could electronically pay 5 regular bills (rent, heat, hydro, telephone, and cable), make a weekly cash withdrawal, and write up to 6 other cheques per month without incurring additional fees.

The strategy to enhance access to the partner financial institution should also include a commitment from the financial institution to perform an outreach function. This would require the institution to provide a staff person on-site for 3 hours per week. This would allow users of the centre to open accounts, and to ask questions about various services and products, including mortgage eligibility, RRSP's, credit cards, etc. It is recognised that this would be an out-of-the-ordinary internal cost to the financial institution.

It is recommended that the non-profit entity and the financial institution negotiate the creation of a limited number of "special accounts". These accounts would incorporate features that are meant to address some of the policy barriers for low-income people. These accounts would waive the mandatory 5 day hold on deposited cheques (perhaps to a certain dollar maximum). Releasing this requirement would entail a certain risk to the financial institution, which could be shared by the non-profit. The non-profit entity could secure this commitment with a term deposit it raises independently.

These "special accounts" would be limited in number and duration (say 12 months). The intent is to create a realistic alternative to the cheque-cashing operation, while recognising the risk to the financial institution. Only residents who have shown reliability in repaying micro-loans and/or have participated in financial skills programs like *learn*$ave or the IDA programs would be eligible. If 100 such accounts were opened, and each account holder could receive up to $400 of a cheque without waiting for the mandatory hold, the total maximum risk would be $40,000 at any given time. The non-profit would secure this risk with a $20,000 term deposit. Actual losses would be much lower, and need to be tracked over time to determine a predictable ratio. For interim purposes, losses on these special accounts are estimated at 10 percent.

Once the account holder has demonstrated credit worthiness, they can "graduate" to a regular account, perhaps with an overdraft that would neutralise the 5 day hold. Alternatively, the special accounts could require a mandatory savings plan, and upon "graduation" the account holder would be able to secure the overdraft with their own term deposit. The performance of the account holder during the 12 months they hold a "special account" would be forwarded to the credit file maintained by the non-profit. (see section 3.1).

The special account strategy requires the financial institution to undertake additional internal administrative costs. These can be justified by three factors:

1. Providing enhanced access to low-income people is a demonstrable indication of good corporate citizenship.

2. This strategy will enlist new members/customers on an ongoing basis. Two-thirds of the low-income population is dynamic, meaning they will eventually move out of poverty and be people the institution

wants to attract.

3. The capital costs of the ATM borne by the non-profit will ameliorate some of the administrative costs created by the partnership.

The overall strategy of the partnership with the financial institution (ATM, outreach, and special accounts) will address many of the needs currently being met by payday loans, and cheque-cashing operations. It provides physical or virtual proximity, it meets the basic service requirements, it moves the resident towards status as a "legitimate" account holder, and it builds the skills of the individual in an incremental way.

3.4 Supplementary Services

In addition to the micro-loan program and credit union/bank access strategy, the community financial services centre would be a delivery point for a range of supplementary services offered by additional community partners. These community partners are already delivering a range of financial skills programming, and have considerable experience and expertise that may shape overall program delivery. The importance of this existing network of community partners cannot be over-emphasised.

Additional, new supplementary services would have to be resourced independently through grants or in-kind contributions. Some of the possibilities include:

Budgeting & Consumer Education:	Workshops or small courses on a range of topics related to personal finances, including rent-to-own, household budgets, planning for retirement, etc.
Local Merchant Credit Service:	A service where, with the consent of the consumer, local merchants who wish to offer credit to residents could receive a credit report from the non-profit.
Household Financing:	In conjunction with the local merchants, a loan program could be set up where a financial institution finances purchases of furniture and appliances by residents who have performed well on micro-loans and special accounts. Risk could be shared by merchants and the financial institution.

Credit Counselling:	Residents could attain information and counselling on handling creditors, etc.
Existing Programs:	Existing programs such as IDAs, *learn*$ave, or money management courses could be delivered on-site.
Tax Return Preparation:	The centre could offer free or low-cost preparation of basic income tax returns.

3.5 Ownership & Governance

The ownership of the community financial services centre would likely best be served through the creation of a new non-profit corporation or community service co-operative. Appropriate representation of community representation and organisational stakeholders is easily accommodated in either model. Consideration may also be given to an unincorporated coalition operating through an administrative host agency. This latter approach is not recommended, as the liability/exposure related to various loans should be legally distinct from any existing non-profit organisation.

It would be most desirable to have established financial institutions such as credit unions or banks remain at arms-length from ownership and governance as such, and to define the partnerships through a series or protocols or contracts for service. Such clarity of separation would be necessary to avoid placing the proposed centre within the regulatory framework of banks and credit unions. It would also provide a clearer definition of risk and responsibility for the financial institution, which is necessary to satisfy credit union and bank examiners.

3.6 Future Expansion

The model of a community financial services centre is adaptable to different circumstances. For instance, the infrastructure and administrative systems from an initial centre could be used to establish a satellite centre in a different neighbourhood, with only incremental costs. Another possibility is that if the micro-loan capital were under-used in one location, the service could be expanded to other neighbourhoods without increasing the basic funding footprint.

Such flexibility must be viewed with caution however. The true strength of this model is the ready access to the full range of services as the participant moves through the various steps. Without access to an ATM and the special accounts, the long-term benefit of micro-loans is likely marginal. Expansion into other neighbourhoods should be thoughtfully planned, and only undertaken once sufficient experience has been gained with the model.

4.0 Feasibility & Financial Projections

This section of the document outlines, in narrative fashion, a series of feasibility tests and financial projections. Most of the subsections have affiliated appendices, with more descriptive detail. All of these calculations have been made in broad strokes and based on a series of assumptions. The intent is to test the baseline feasibility of a concept, and whether the idea is worthy of further examination. Readers of this document should critically examine the validity of the assumptions in these calculations, and should remember that these calculations in no way diminish the need for a fuller business planning process prior to implementation.

The provision of the core services as summarised in section 3.1 will require a certain physical and human resource infrastructure. This array of services can be provided within an overall operating budget of $198,000. Section 4.5 and the notes to Appendix A detail a pro forma operating budget.

4.1 General Features

The service model has been established around a physical centre of some 1,200 square feet, employing three core staff. If we assume co-location with an existing organisation that can provide access to a training room, the space utilisation is anticipated as:

Space Use	sq. ft.
3 workstations	300
Internet station	50
Telephone station	50
ATM	50
2 interview rooms	150
Washrooms	200
Reception area	100
Storage & misc.	300
Total:	1200

The staff positions include an overall Program Co-ordinator, a Loans Co-ordinator, and an Administrative Assistant. Additional project staff, students, and collaborating staff from other organisations would complement the core staff. Cost estimates associated with the physical and staff infrastructure are included in Appendix A. Costs specific to a service (such as loan fees or interest) have been internalised to the feasibility calculations for that service, and in the case of micro-loans, the Loan Co-ordinator position has been allocated to that program area.

4.2 "Micro" Loans

A feasibility calculation was conducted on a possible micro-loan program. The detailed calculation can be found in Appendix E. The calculations were made assuming $10,000 in loan capital could be located at a cost of 2.5 percent per year. Loans would be offered for $40, $60, or $100. The first level loan is repaid entirely within 30 days. Borrowers could opt to repay the two larger loans over 30, 60 or 90 day terms. It is assumed that loan demand will be fairly evenly distributed among the loan levels, and that about two-thirds of borrowers will choose 30 day terms.

All loans would be charged an administrative fee of $3.25, and a monthly interest rate of 3 percent (equivalent to 36 percent annual interest). This rate is approximately twice that of a credit card, and about half of the legal maximum of 60 percent per annum. It is about one-tenth of the cost of pawning. This is a compromise between maintaining affordability and reflecting transaction costs. The cost to borrow $40 for 30 days would be $44.45.

Based on the loan mix described above, the loan capital could comfortably make 1,000 loans per year, and the total value of these loans would be $65,280. It is assumed that with proper screening and character referencing, loan losses would be 10 percent of the total value of loans, resulting in a loan loss cost of $6,528.

If all these assumptions hold true, the income of the fund from interest and administrative fees will cover the cost of capital and projected loan loss. The staff time, office supplies and other incidental costs would be subsidised from the core budget of the non-profit entity. While the micro-loan program would not be truly self-sustaining, it does seem reasonable to conclude that the loan capital can be preserved and earn a modest return for social investors.

4.3 Credit Union/Bank Access Costs

The delivery strategy for credit union/bank access is centred upon the provision of an ATM machine at the community site. A "white label" ATM can be purchased (used) for as little as $7,000 or as much as $33,000. They can also be placed on a consignment basis. Although these machines generally have surcharges, the purchase of a machine would allow a non-profit community group to lower or eliminate the surcharges. These machines, however, are not deposit-taking machines, and would not meet the needs of residents who still have a physical cheque to deposit (it could, however, be useful to residents on direct deposit).

A deposit-taking machine is more expensive, typically around $43,000. The operational costs for a deposit-taking ATM are substantially higher, as the ATM needs to be serviced daily in order to process deposits. The operational costs and revenues affiliated with ATMs can be quite complex, but the Assiniboine Credit Union has provided some data that suggest a typical deposit-taking machine (depending on a number of variables) would need to generate 8,500 transactions per month to break even. (see Appendix D for detailed calculations). By way of comparison, the ATM in the West Broadway branch of ACU has recently done 4,700 transactions per month.

If a community financial services centre was able to achieve levels of use similar to the West Broadway ATM, the owner of the machine could expect to lose over $1,100 per month. If however, a community financial services centre was able to purchase the ATM outright and contract with a financial institution to operate the ATM, the number of transactions required to break even would be about 5,600. Such a purchase, including installation and security hardware would cost about $53,000.

The project research team has examined ATM locations in the North End. The ATMs operated by financial institutions are located on McPhillips Street, Main Street, and Arlington Street. The "white label" ATMs occur at an equal rate (13 versus 12) to those operated by financial institutions. While these more expensive ATMs are located in a similar pattern, there is a significant difference. Along Selkirk Avenue, between Salter Street and Arlington, there are four "white label" ATMs and no bank or credit union machines. Selkirk Avenue acts as a central commercial artery for the poorest part of the North End. Placement of a financial institution's ATM in this location would provide the ATM with a competitive advantage of $1.50 to $1.75 per transaction relative to the four existing ATMs. In this context, the target of 5,600 seems achievable.

There will be additional costs to the bank/credit union access strategy. The model calls for the partner institution to provide staff resources on-site for one-half day per week. As well, the institution will require staff time to administer the 100 special accounts called for in the strategy. In order to place a value on this staff time, we can assume that a staff person of the financial institution might be assigned to spend 20 percent of their time on these tasks. At an annual salary of $30,000 plus 15 percent benefits, we can assign a nominal value of $6,900 to the staff time. It must be acknowledged that this costing of staff time contributed by the financial institution does not reflect the costs related to designing and setting up the special account functions in collaboration with the non-profit partner. The true value of the in-kind contribution is significantly higher.

The model calls for the financial institution to internalise this cost, viewing it as an investment to recruit long term members/customers. The special accounts' loan loss provision is projected at $4,000 (see section 3.3) and this cost is expensed.

The additional technology recommended to provide wider credit union/bank access will incur both start-up and operating costs. An internet workstation will cost about $2,500 to set up, and about $100 per month to operate (phone line and internet account). An additional phone line will be required for a telephone banking station, at an approximate cost of $50 per month.

4.4 Supplementary Service Costs

The supplementary services described in section 3.4 would only be offered if independent revenue or resource streams could be identified on a project by project basis. Much of this may be available through the allocation of in-kind services from existing service providers. The cost to the community financial services centre would be in providing physical space for the programming to be provided.

4.5 Operating Budget and Sources of Funds

A pro forma budget has been developed for an hypothetical community financial services centre as described in this document. See Appendix A for the full budget and explanatory notes. It is estimated that such a centre would require an annual operating budget of $198,000 based on a core staff of three. A feasible funding mix might be:

Revenue Source	Amount	%
Manitoba Family Services	$60,000	30.3%
United Way of Winnipeg	$33,000	16.7%
Corporate & Individual donations	$20,000	10.1%
Fundraising events	$6,000	3.0%
In-kind Staff allocations	$42,740	21.6%
User fees and interest	$36,433	18.4%
	$198,173	

This operating budget would include the provision of in-kind services from other community groups and the internalisation of credit union/bank staff costs related to the outreach and special account functions. In addition to operating costs, the proposed centre would require $90,000 in start-up capital, to be allocated as follows:

Capital Required

Micro-loan Capital	$10,000
Special Account Security	$20,000

ATM purchase	$53,000
Digital camera system	$3,000
Office Furniture	$4,000
	$90,000

The start-up capital would be raised through a variety of sources. The micro-loan capital and the capital to secure the special accounts could be raised through social investors of an individual, corporate, or institutional nature. This would require 15 investors willing to place $2,000 each. The community organisations who are the referral sources for the micro-loans would be logical investors in this capacity.

The capital required for the digital camera system (to produce local identification cards), and the initial office furniture could likely be obtained from a combination of service clubs and smaller local foundations (such as the W.E. & Shirley Loewen Foundation).

The larger challenge will be to raise the capital required for the purchase and installation of the ATM machine. This capital may be available from a combination of the Winnipeg Foundation and the Thomas Sill Foundation. Alternatively, an appeal could be made to Manitoba Family Services based on the rationale that area families on income support are spending disproportionate amounts of that support on high-cost financial services.

5.0 Concluding Comments

Attempts to provide affordable financial services to low-income people can take many different approaches. The model described in this document relies not only on observations regarding the economic nature of transactions, but on what people have said about their experiences, aspirations, and frustrations. Implicit in the model is a recognition that people engage in economic behaviour that, at first glance, appears irrational. Changing that behaviour is not simply a matter of providing lower cost. In this instance, the model has tried to incorporate room for learning new skills, and to create an opportunity for low-income people to interact with financial institutions in a community setting.

Provision of the services described in this document on the scope and scale intended, can be seen as a cost-effective investment. The micro-loans and special accounts will create an annual savings (relative to using pawnshops and cheque-cashing services) of $57,000 to program participants. The total subsidisation of the services from private and public sources is $161,740 per year. This means the “payback” period is three years. Stated another way, if each program participant retains the financial skills learned in the program for three years, the subsidy for that participant will be more than offset by savings. In fact, the benefits of better financial skills and access to regular banking services are likely to accrue to the individual for many years to come.

The model of a community financial services centre is meant to be both sustainable and replicable. In the context of alternative financial services, sustainability does not mean self-supporting. It is known that market forces alone will not provide the alternative. Pawnshops, cheque-cashing outlets, and rent-to-own firms are the current market response. Proposed solutions can and should generate revenue from user fees, but subsidisation must also occur, particularly if there is a skill-building component. Section 4.5 shows that user fees can comprise 18 percent of the costs associated with providing the core services.

The political realities are such that we are not likely to see a universally applied subsidy, where each low-income person has guaranteed access to affordable financial services. Instead, the model proposes that a partnership between community organisations, financial institutions, philanthropic foundations, and government can offer an opportunity for a limited number of individuals to build their skills and develop a conventional relationship with a financial institution.

While this model has been developed with North End Winnipeg in mind, the actual implementation is likely to look somewhat different. The model is merely a starting point for negotiations between funders, community partners and financial institutions that will change and shape the actual structure of services. Of course, the consumer will act as the ultimate judge as to whether the model meets community needs. The services offered, as well as their method of delivery, will be revised, amended and reshaped, based on actual experience, and on the extent to which people choose to use the services. Should the model prove successful, replication in other jurisdictions can be expected. In each instance, the specific configuration of a community financial services centre will vary according to the needs of the community and the aims of the local partners.

Appendix G (A) - Operating Budget

EXPENSES	***note***		**REVENUES**	***note***		***+/(-)***		
General Operations			**General Operations**				**Space**	
rent	*1*	9600	Manitoba Family Services	*22*	60000		program room	0
utilities	*2*	6000	United Way of Winnipeg	*23*	33000		3 workstns	300
phone & internet	*3*	8400	Donations & grants	*24*	20000		internet stn	50
office supplies	*4*	4000	Fundraising	*25*	6000		telephone stn	50
office equip. lease	*5*	7200	ID card cost recovery	*26*	3000		ATM	100
promotion	*6*	3000					2 interview rms	100
staff training	*7*	2000					washrooms	200
Prog. Coordinator	*8*	35000					reception area	150
Admin Asst.	*9*	28000					storage & misc.	250
staff benefits	*10*	7560						
supplies for ID cards	*11*	2500					**1200 sq. ft.**	
legal & consulting	*12*	3000						
audit	*13*	1500						
miscellaneous	*14*	5000					**Capital Required**	
Sub-Total		**$117,760**			**$122,000**	**$4,240**	Microloan capital	$10,000
							Special Accts	$20,000
Bank Access Program			**Bank Access Program**				ATM purchase	$53,000
spec. acct loan losses	*15*	4000					digital camera	$3,000
ATM operating costs	*16*	28467	ATM revenues	*27*	28469		office furniture	$4,000
Outreach staff	*17*	6900	In-kind staff cont.	*28*	6900			
sub-total		$**39,367**			**$35,369**	**-$3,997**		
Micro-Loan Program			**Micro-Loan Program**					
Loan Coordinator	*18*	32000	In-kind staff cont.	*29*	35840			
benefits	*19*	3840	Fee & interest income	*30*	6696			
loan loss costs		*20*	6528					
cost of capital	*21*	250						
sub-total:		$**42,618**			**$42,536**	**-$82**		
OTAL BUDGET		**$199,745**	**TOTAL REVENUES**		**$199,905**	**$161**		

Appendix G (A (continued) - Notes to the Pro Forma Operating Budget

<u>note</u>

1. rent is based on approximately 1200 square feet at $8.00 per square foot. This assumes the non-profit will be able to co-locate with existing programs and have access to a shared program/meeting room.

2. Allowance for $500 per month for hydro and other utilities not included in base rent.

3. Assumes 8 phone lines @ $75 per month (3 staff, one client, one fax, one internet, and 2 lines for alarm systems) plus 2 internet accounts @ $50/month.

4. General office supplies.

5. allowance of $600 per month for lease of 4 computers, photocopier, and other office machines.

6. Promotional budget for local advertising and signage.

7. Staff training allowance.

8. Program Coordinator salary at approximate non-profit standard.

9. Administrative Assistant salary.

10. Staff benefits for lines 8 & 9 at 12%.

11. Supplies for making photo i.d. cards at about $5 per card. (500 cards)

12. Allowance for legal and consulting related to promissory notes, loan documents, etc.

13. Budget for audit. If the program is administered by an existing non-profit, $1500 would be an incremental cost to include in a larger audit. A stand-alone audit would likely cost twice as much.

14. Miscellaneous allowance for expenses not otherwise categorized.

15. Assumes that the special accounts will incur losses of 10% (see section 3.3 of report).

16. ATM revenues & operating costs will be internalized to the operation of the partner financial institution, but are shown here to give a sense of the overall scale. (see also line 27).
17. Outreach staff will be provided by the partner financial institution, but approximate value is shown here to indicate extent of the partnership

Appendix G (A (continued) - Notes to the Pro Forma Operating Budget

note

18. Loan Coordinator salary at approximate non-profit rate.

19. Staff benefits at 12% of line 18.

20. Loan loss costs of the micro-loan portfolio, estimated at 10.0%.

21. Cost of loan capital of $10,000 sourced from social investors at 2.5%.

22. Possible grant from Manitoba Family Services based on a dual rationale. First, the service is achieving reductions in the costs of financial services to income assistance recipients. For instance, users of micro-loans will save about $14,000 by having an alternative to pawnshops. Secondly, the graduated steps of the service will build skills and credit ratings that allow many low income people to maintain these reduced costs years into the future.

23. Possible contribution from United Way of Winnipeg. This is scaled to the overall budget, and is meant to define a sustainable funding role for the United Way in such a service.

24. A budgeted amount to be raised through a combination of small foundation grants, and donations from individuals and corporations.

25. Fundraising target to be met through activities carried out by the staff and clients of the financial services center.

26. ID cards are to be issued for a $6 fee that is essentially cost recovery (see note 11).

27. see note 16.

28. see note 17.

29. Assumes that the micro-loan coordinator could be a staff person seconded from an existing non-profit organization at no cost. There is historical precedent for this in the CED sector. SEED Winnipeg was launched with staff 'borrowed' from C.E.D.A. and M.C.C.

30. Fee and interest income from the micro-loans, see Appendix E.

Appendix G (B)- Feasibility Calculation- Hypothetical Community Pawnshop

# loans/month	avg loan size	loan capital	# loans/year	$ loaned/year	monthly rate	annual rate
300	70	$21,000	3600	$252,000	30%	360%

Expenses	***note***	
cost of capital	a	1680
loss on sold items	b	2520
staff (2 f.t.e. @ $24,000)	c	55200
rent (1000 sq. ft @ $8)	d	8000
utilities	e	1000
miscellaneous	f	2400
security	g	2400
advertising	h	2400
total expenses	i	**$75,600**
total revenue	j	**$75,600**
Profit/Loss		**$0**

Appendix G (B (continued) - Notes to the Feasibility Calculation- Hypothetical Community Pawnshop

a. Cost of the loan capital of $21,000 assuming that it will require an annual return of 8%. It is assumed that this loan capital can be fully lent out through pawns every 30 days. Extensions of pawns are assumed to be under conditions identical to the original pawn.

b. Assumes a loan loss provision of 1% of all dollars loaned during the year. This implies that the staff are 99% accurate in estimating the re-sale value of collateral items.

c. Assumes 2 full-time staff, which would allow for longer hours of operation. The staff are projected to perform similarly to pawn shop employees from other jurisdiction in terms of both number of pawns and amount lent per employee.

d. Rent is based on a small pawn shop of 1,000 square feet that would specialize in smaller high value items such as jewelry. Taking electronics, tools, appliances, etc. would likely require more room.

e. Assumes heat, water and property taxes are included in the rent, leaving $83 per month for hydro and phone.

f. An allowance of $200 per month for miscellaneous expenses such as insurance, cost of documenting transactions, etc.

g. An allowance of $200 per month for a monitored security system to protect against break-ins and to provide video security to deter robberies.

h. An allowance of $200 per month for advertising, which would allow a Yellow Pages listing and perhaps some signage.

i. Total of lines a through h. This is likely a serious under-estimation of the true costs.

j. Assumes that the loan capital is fully lent out each and every month for a monthly rate of 30%, which is about the effective rate currently used in the sector. The effective rate incorporates the various surcharges. No income has been estimated from the sale of forfeited collateral other than simply recovering the loan principal and interest. This implies that the hypothetical shop would return surplus from such sales to the borrower, the only social dimension to this hypothetical case.

Appendix G (C) - Feasibility Calculation - Community Payday Loan Service

rate		Loan size	# loans	amount loaned	Loan Fee	Interest	Earned Income	Rate/2 weeks	Annual
	Note								
	a	$100	45	4500	$5	$4.50	427.5	4.5%	247%
	b	$200	80	16000	$10	$9.00	1520	4.5%	247%
	c	$300	65	19500	$15	$13.50	1852.5	4.5%	247%
			190	$40,000			$3,800		
Annual Revenue	d	$98,800							
Annual Expenses									
Advertising	e	6000							
Cost of Loan Capital	f	2400	6%						
Loan Loss/Bad Debt	g	31200	3%						
Staffing	h	27993.33							
Staff benefits	i	3359.2							
Phone/Fax	j	2400							
Rent	k	12000							
Security	l	2400							
Bank Chgs & Accting	m	6000							
Miscellaneous	n	5000							
Total	o	$987,52.53							
Net Income	p	$47.47							

Appendix G (C (continued) - Notes to the Feasibility Calculation - Community Payday Loan Service

a - c. Shows presumed loan mix in $100 increments. Loan fees are $5 per $100 borrowed, and the interest rate is 4.5% for every 2 week period. The effective annual rate is calculated by adding the loan fee and interest, dividing by principal, and multiplying by 26 periods per year. This effective rate is a substantial saving over existing payday loan rates.

d. Annual revenue is the total from the biweekly earned income column multiplied by 26 periods per year.

e. A nominal allowance for advertising in the Yellow Pages and perhaps in local newsletters. This may be under-reported.

f. Assumes loan capital of $40,000 requires a 6% return.

g. Loan losses are projected at 3% of all loans.

h. Staffing represents a single person operation that assumes 3 loans can be written per hour of paid staff time, at $17 per hour.

i. Mandatory employment related costs at 12%

j. allowance for phone and fax costs of $200 per month.

k. Assumes rent of $1,000 per month. this implies an internet or fax service only, where no storefront is required. All cash disbursed through electronic debits.

l. Security costs assume a modest allowance for an alarm system, based on the electronic debit form of disbursal. Storefront delivery would require more cash and more sophisticated security.

m. allowance for book-keeping assistance and various bank charges.

n. allowance for expenses not otherwise categorized.

Appendix G (D) - Feasibility Calculation - Conventional vs. Community ATMs

Normal ATM Operating Costs (monthly)			"Community ATM" Operating Costs (monthly)			ATM Capital Costs	
	note				note		
security system	a	100.00	security system	100.00	o	ATM (deposit-taking)	43000
phones $ modems	b	100.00	phones $ modems	100.00	p	installation	5000
servicing	c	1500.00	servicing	1500.00	q	security hardware	5000
switch fees	d	672.24	switch fees	672.24			
interest costs	e	141.30	interest costs	0	r	total	$53,000
depreciation	f	716.67	depreciation	0			
total costs	g	$3,230.21		$2,372.24			
Normal ATM Revenue			"Community ATM" Revenue				
# transactions	h	5602	# transactions	5602			
Interac fee	i	1.25	Interac fee	1.25			
% home transactions	j	35%	% home transactions	35%			
fee revenue	k	3058.69	fee revenue	3058.69			
less proprietary chgs	l	686.25	less proprietary chgs	686.25			
net revenue	m	$2,372.45	net revenue	$2,372.45			
Profit/Loss	n	-$857.76	Profit/Loss	$0.21			

Appendix G (D (continued) - Notes to the Feasibility Calculation - Conventional vs. Community ATMs

note

a. Reflects monthly cost for a monitored alarm that is sensitive to shaking or hammering. Common cost to both scenarios.

b. Reflects monthly costs for 2 phone lines for ATM data transmission and alarm hook-up. Common cost to both scenarios.

c. Approximate cost to service an ATM on a daily basis, which is required for deposit-taking machines. (replenishing cash, picking up deposits). Includes an allowance for repairs. Common cost to both scenarios.

d. Switch fees are estimated at $0.12 per transaction, and are fees charged by Interac to be part of the network. Common cost to both scenarios.

e. Crude interest based on the financing of an ATM purchase over 60 months at 5% interest. Financial Institutions can finance their ATM purchases internally at prime + 1%. In the community scenario, it is assumed the purchase of the ATM will be made with grants, and that there will be no financing cost necessary.

f. Monthly cost of straight-line depreciation over 5 years on the cost of the ATM at $43,000. The community non-profit will not have to depreciate the ATM for tax purposes. It is assumed that at the end of the machines useful life, the customer base will be established enough to make the business case for the financial institution to replace the machine.

g. Total monthly operating costs of the ATM based on the volume of transactions from line h.

h. Transactions of 5,600 will be the break even point for the community ATM, all other assumptions holding true. The regular ATM is projected at a similar level for comparison purposes. Under normal circumstances, 8,000 transactions are required for an ATM to breakeven.

i. Interac Fee charged for each transaction conducted at another institution's ATM.

j. It is assumed that 35% of the transactions will be on accounts held in the host financial institution, with 65% of transactions on accounts from other banks and credit unions.

k. This is the revenue generated by the 3,641 non-host transactions (5602 x 65%) at $0.84 per transaction. This is the portion of the $1.25 that is credited to the host financial institution.

l. Interac will charge a fee of about $0.35 per transaction on accounts in the host institution. Using Assiniboine Credit Union as an example, an account holder at ACU is not charged an Interac fee for using a credit union ATM . ACU absorbs this cost as part of the cost of servicing members.

m. Net revenue is the total of lines h through l, and is the same in both scenarios.

n. Example shows that at 5,602 monthly transactions the conventional ATM would operate at a loss of $857.76 per month, while the community ATM would break even. This is achieved by taking the interest and depreciation costs out of the community ATM scenario.

o. A deposit-taking ATM that meets applicable standards will cost about $43,000. If the machine is operated by a recognized financial institution, it needs to meet standards set by the Underwriters Laboratory in order to be insured. A cash-dispensing ATM (no deposits) that meets the same standard would be about $33,000. Used 'white label' cash dispensers can be had for as little as $7,000 - $15,000, but do not meet the UL standard.

p. Installation costs vary by site, and this assumes an ATM can be placed in a building without major renovations.

q. Security hardware would generally include a digital camera linked to a PC, which stores digital video on a hard drive. The camera records only when it detects motion near the ATM, and up to one week of video footage can be stored on the hard drive. The PC comes with a CD burner, so video that is of interest to the authorities can be fixed in a permanent record. Hardware costs are about $3,500 with an additional $1,500 allowance for installation.

r. Total capital costs for the ATM and security hardware, installed. (total of lines o through q).

Appendix G (E) - Feasibility Calculation - Micro Loan Fund

Admin fee= $3.25 Rate/month 3.00% Total Loan Volume= $65,280 Projected loss rate= 10%

note		month	1	2	3	4	5	6	7	8	9	10	11	12	TOTALS
loan size		term													
a	$40	30 days	30	30	30	30	30	30	30	30	30	30	30	30	360
b	60	30 days	10	10	10	10	10	10	10	10	10	10	10	10	120
		60 days	12	12	12	12	12	12	12	12	12	12	12	12	144
		90 days	7	7	7	7	7	7	7	7	7	7	7	7	84
															348
c	100	30 days	10	10	10	10	10	10	10	10	10	10	10	10	120
		60 days	5	5	5	5	5	5	5	5	5	5	5	5	60
		90 days	10	10	10	10	10	10	10	10	10	10	10	10	120
															300
d	Cash Outflow		5440	5440	5440	5440	5440	5440	5440	5440	5440	5440	5440	5440	$65,280
e	fees	30 days	0	162	162	162	162	162	162	162	162	162	162	162	1788
		60 days	0	55	55	55	55	55	55	55	55	55	55	55	608
		90 days	0	55	55	55	55	55	55	55	55	55	55	55	608
															$3,003
f	P & I paid	30 days	0	2884	2884	2884	2884	2884	2884	2884	2884	2884	2884	2884	31724
		60 days	0	628	1257	1257	1257	1257	1257	1257	1257	1257	1257	1257	13194
		90 days	0	488	975	1463	1463	1463	1463	1463	1463	1463	1463	1463	14626
															$59,544
g	Cash Inflow		0	4273	5389	5876	5876	5876	5876	5876	5876	5876	5876	5876	$62,547
		start													
h	Balance	$10,000	4560	3393	3342	3778	4214	4650	5086	5522	5959	6395	6831	7267	

	Average Monthly Revenue	Average Annual Revenue	Average Annual Expenses	
	Fees $273	Fees $3,276	loan loss	$6,528
	Interest $285	Interest $3,420	cost of capital (2.5%)	$250
	TOTAL: $558	TOTAL: $6,696	TOTAL:	$6,778
			Annual Profit/(Loss):	-$82.00

Appendix G (E (continued) - Notes to the Feasibility Calculation- Micro Loan Fund

note

a. Assumes 30 loans made each month for $40 each. All $40 loans are on 30 day terms. This constitutes 37.5% of all loans.

b. Assumes 29 loans for $60 each, split among 30, 60, and 90 day terms.

c. Assumes 25 loans for $100 each, split among 30, 60, and 90 day terms. Shows a shift towards longer terms for larger amount.

d. Shows total value of loans disbursed for the month, totaling $65,280 in loans for the year. This means the loan capital of $10,000 is turning over 6.5 times.

e. Shows fee income broken down by loan term. Fees are charged at $3.25 per loan, regardless of term or loan size, and are added to the first payment 30 days after the loan is disbursed.

f. Shows the Principal & Interest payments made on loans, broken down by loan term. Interest is calculated by multiplying the rate by the number of months defined by the term. This simple interest calculation is added to the principal and divided by the number of payments. One, two, or three equal payments are made depending on the term.

g. Cash inflow if cash from the P & I payments and fees is collected.

h. Balance line shows how much cash is available for lending in any given month. The capital of $10,000 could likely support a higher volume of loans and/or a limited seasonal fluctuation in demand.

Operating Assumptions:

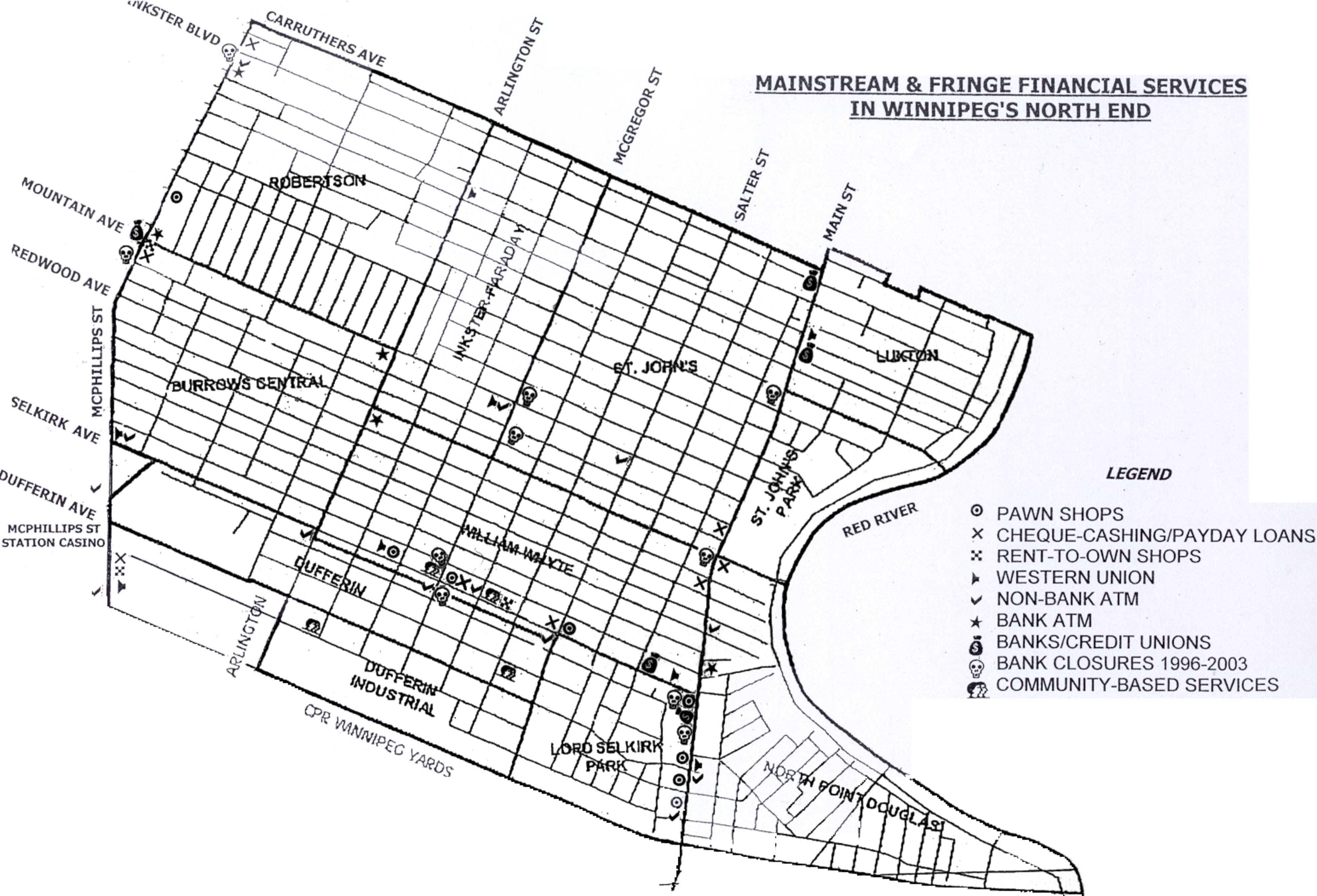
Average Monthly Revenue: Looks at the average monthly fees and the interest accrued on the typical loan mix from the pro-forma cashflow.

Average Annual Revenue: This figure does not match exactly with the cashflow, as some of the loans still have outstanding balances at year end. For simplicity, we are taking the fees and interest into income in the month in which the loan is disbursed. Therefore the annual revenues are simply twelve times the average monthly revenues.

Average Annual Expenses: No staff cost is shown, on the assumption this will be a form of social subsidy. Loan losses are calculated by multiplying the loan loss rate by the total volume of loans in the year. This is expensed against earned revenue. It is assumed that a source of social capital can be identified which will make $10,000 available for a return of 2.5%.

Profit/Loss: Revenue less Expenses, excluding staff costs. The test for viability is if the fund can cover loan losses and give a modest return on capital from earned revenues.

The remaining assumptions on the administrative fee, rate, total loan volume and projected loss rate are self-explanatory.


MAINSTREAM & FRINGE FINANCIAL SERVICES
IN WINNIPEG'S NORTH END
LEGEND
PAWN SHOPS
CHEQUE-CASHING/PAYDAY LOANS
RENT-TO-OWN SHOPS
WESTERN UNION
NON-BANK ATM
BANK ATM
BANKS/CREDIT UNIONS
BANK CLOSURES 1996-2003
COMMUNITY-BASED SERVICES
CARRUTHERS AVE
ARLINGTON ST
MCGREGOR ST
SALTER ST
MAIN ST
MOUNTAIN AVE
REDWOOD AVE
MCPHILLIPS ST
SELKIRK AVE
DUFFERIN AVE
MCPHILLIPS ST
STATION CASINO
ROBERTSON
BURROWS CENTRAL
INKSTER-FARADAY
ST. JOHN'S
LUXTON
ST. JOHN'S PARK
RED RIVER
WILLIAM WHYTE
DUFFERIN
DUFFERIN INDUSTRIAL
ARLINGTON
CPR WINNIPEG YARDS
LORD SELKIRK PARK
NORTH POINT DOUGLAS

The Rise of Fringe Financial Services in Winnipeg's North End: Client Experiences, Firm Legitimacy & Community-based Alternatives

A Presentation on the Research Study into Fringe Financial Services in Winnipeg's North End
29 September 2003

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CMHC SCHL

*Credit is a basic human right...*Muhammad Yunus

*I use [a Cheque-Cashing Firm] to cash cheques and get money orders. My bank places a hold on my cheque for five days. At the cheque-cashing facility I get my money right away. There is no extra paper work there either. It's just more convenient...*A client of a cheque-cashing firm

*We [pawnbrokers] provide a service…People won't pay [for the service] if the price is too high. Compare our profit with, for example, Robin's Donuts. We expect a [fair return] on investment...*A pawnbroker

Research Objectives

- Do fringe financial financial services overcharge low-income customers? Or do their high costs reflect high risk and high transaction costs?

- What motivates low-income users of fringe bank services? Are these consumers behaving in an economically rational way?

- Examine whether alternative models, that more effectively meet the financial service needs of low-income people, show any basic evidence of market feasibility.

Research Methods

- **Client Survey:** Completed 41 surveys with respondents selected in the North End using a snowball sampling technique.

- **Key Informant Survey & Data on Fringe Firms:** Completed 27 surveys with respondents from community agencies, credit unions, fringe banks, government officials, mainstream banks and politicians.

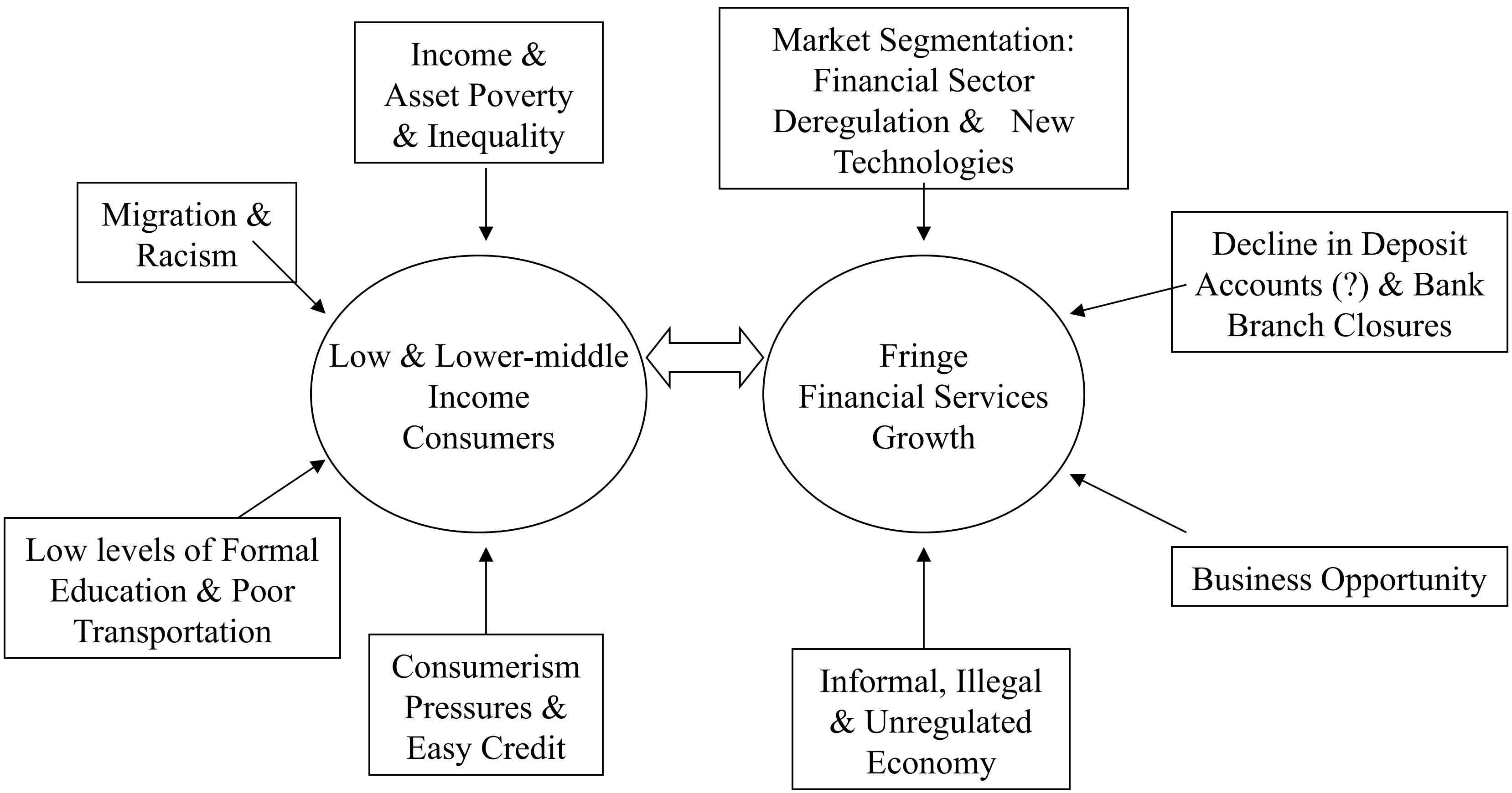
Research Methods (cont.)

- **Sample Transaction & Outlet Follow-up:** For some fringe financial services there was insufficient secondary and key informant data. In these cases it was necessary to run sample transactions and do some outlet follow-up to determine the procedures, costs and benefits. One sample transaction was undertaken with a cheque-cashing firm.

- **Focus Group Discussions:** Two focus groups discussions were undertaken: one with fringe bank clients and one with key-informants.

- **Feasibility Assessment:** A final component of the research was the feasibility assessment to examine if there is prima-facie support for an operation in the North End that would provide an alternative to fringe financial services.

Some Factors Influencing the Relationship between Fringe Financial Service Firms and Users



Fringe Bank Growth, Costs & Legitimacy

A Presentation on a Component of the Research Study into Fringe Financial Services in Winnipeg's North End

29 September 2003 Workshop

by Jerry Buckland & Nancy Barbour

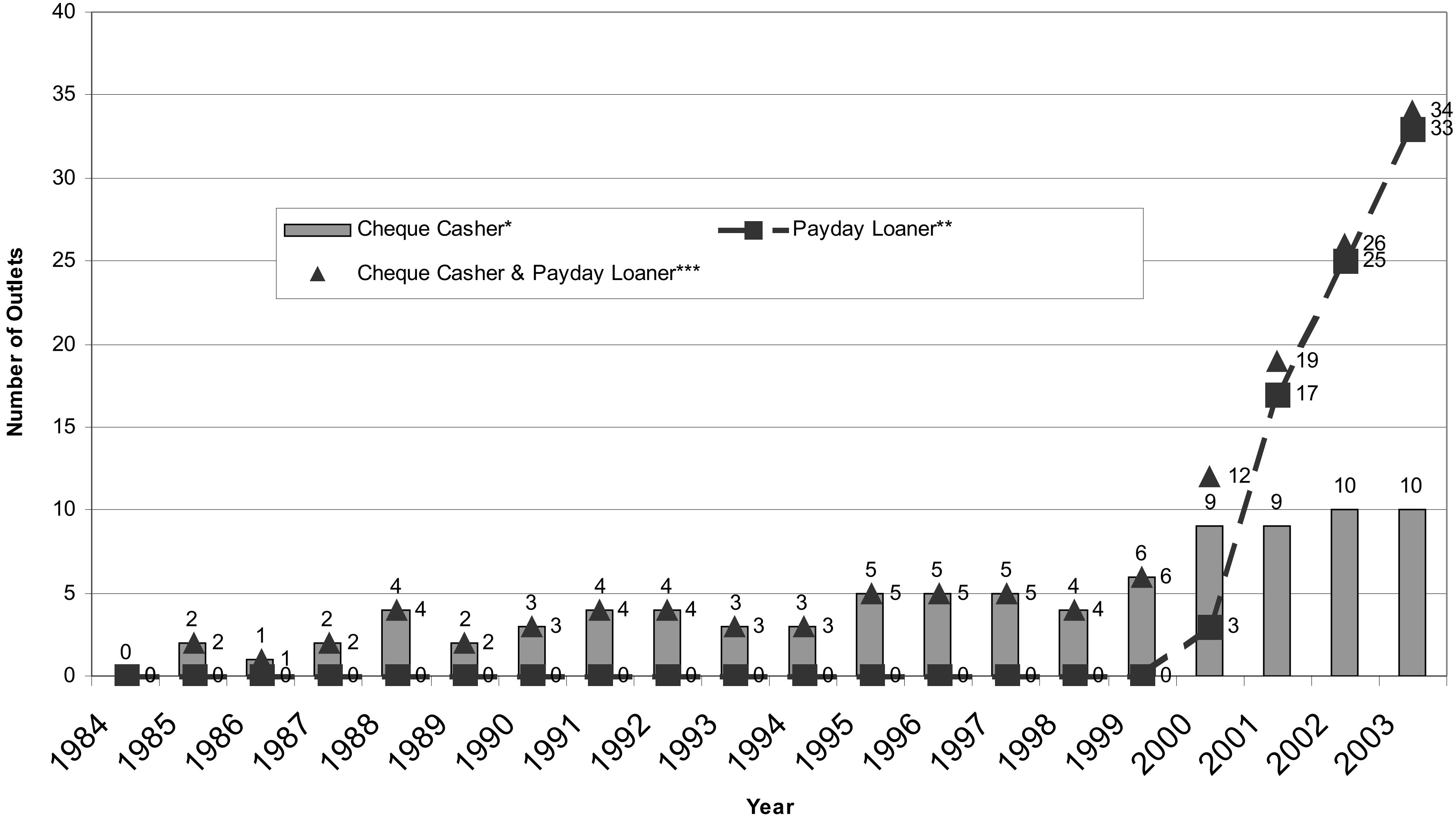
Key Points

- Growth of Fringe Banks
- Legitimacy Issues
  - Business practices, esp. service fees & profitability
  - Socio-economic background of clients
- Policy Environment

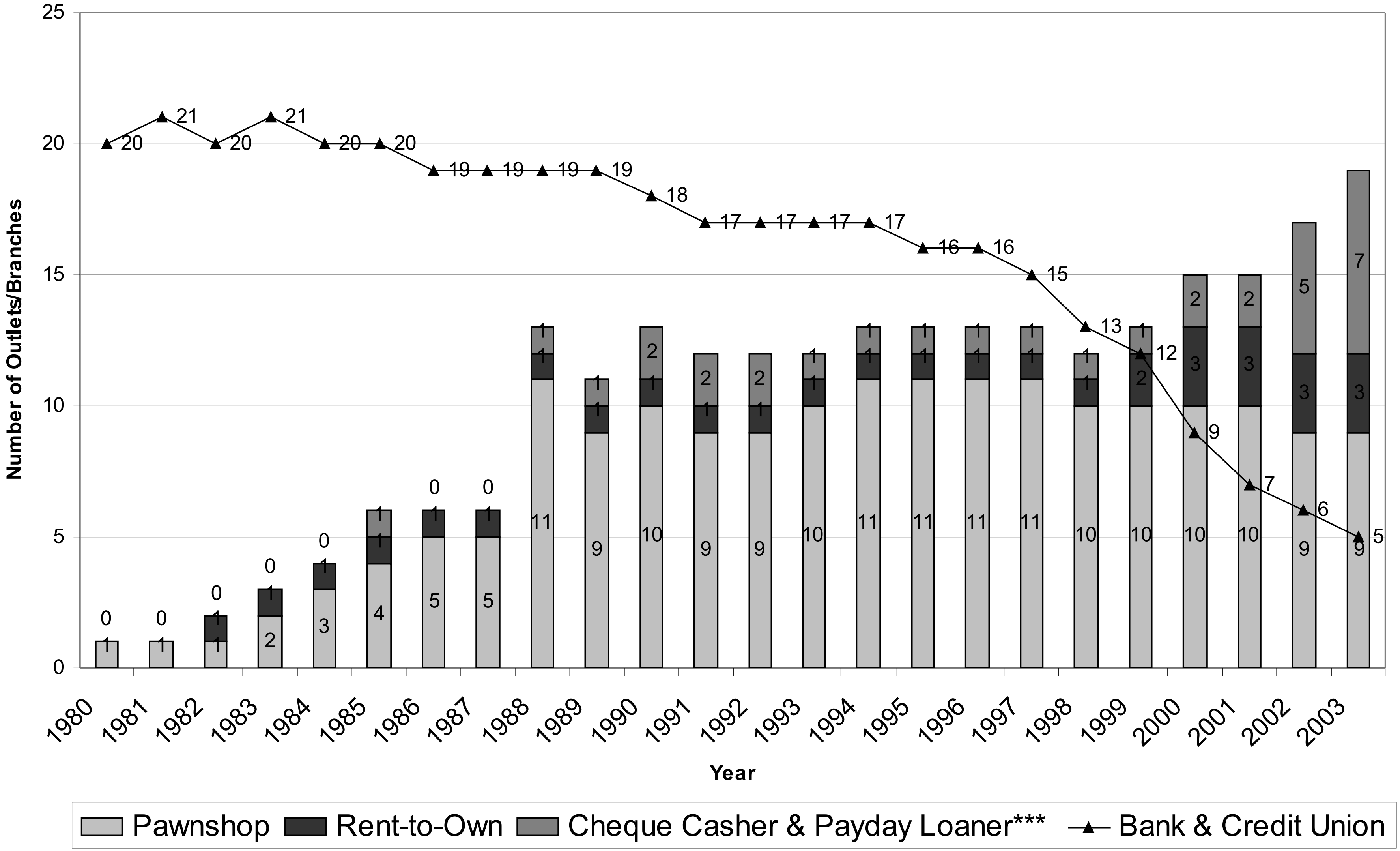
Growth of Fringe Banks

- Studies have documented the growth of fringe banks:
  - In the US there has been a sharp growth in pay-day lenders in particular as well as pawnshops and cheque-cashers (see Caskey, 1994)
  - In Canada, PIAC (2002) estimated 200,000 people have used pawnshops; 550,000 people used cheque-cashing or pay-day lending service; and 1-1.4 million people used some type of fringe bank in the last 3 years.

The Number of Cheque-cashing Firms and Pay-day Lenders in Winnipeg, 1984-2003



Number of Selected Fringe Financial Services and Mainstream Banks/Credit Union Branches in Winnipeg's North End, 1980-2003



Legitimacy Issues

- Our research revealed a number of issues related to fringe bank legitimacy:
  - Business practices, in particular service fees & profitability
  - Socio-economic background of clients

Business Practices

- Studies on fringe financial services have identified a number of controversial business practices:
  - High service fees & complex and undisclosed fee formulae,
  - Encouraging loan 'rollovers' & unfair collection practices.

Service Fees & Overcharging

- People debate the legitimacy of fringe bank fees:
  - Proponents argue these services are not comparable to mainstream bank services: they are risky, small sum and short-term.
  - Critics argue fringe bank services are comparable to mainstream bank services: in essence they involve loans or financial services, used largely by low income and lower middle-income consumers.

Service Fees & Overcharging (cont.)

- Our research found that service fees amounted to high annualised interest rates:
  - These rates were almost universally above 60 percent, the criminal rate of interest, sometimes well above it (e.g., payday loan for almost 1000%)
  - payday and rent-to-own loan rates varied significantly by loan amount; the rates varied a great deal among firms.

Service Fees & Overcharging (cont.)

Value of Pawns and Interest Rates

	Firm A	Firm B	Firm C	Average
Large Pawn: $50-$100 Pawn				
Value of Pawn	$100	$50	$100	$50-$100
Redemption Cost (1 Month)	$125	$65	$120	
Monthly Interest Rate	25%	30%	20%	25%
Annualised Interest Rate	300%	360%	240%	300%
Small Pawn: $10-$30 Pawn				
Value of Pawn	$10	$30	$10	$10-$30
Redemption Cost (1 Month)	$14.50	$39	$12	
Monthly Interest Rate	45%	30%	20%	38%
Annualised Interest Rate	540%	360%	240%	450%

Source: Key Informant Interviews

Service Fees & Overcharging (cont.)

Cheque-cashing Requirements and Fees

Cheque-cashing Firm	Personal Identification (ID) Required	Fee	Total Fee for $100 Cheque	Annualised Interest Rate on a Five Business Day Loan
A		$10 for $300	$3.33	173%
B	2 photo ID	$2 for $100; $1 per subs. $100	$2.00	104%
C	ID	>$100 = $1.99 + 2.99%	$4.98	259%
D	"whatever you have"	$1.99 + 2.99% cheque	$4.98	259%
E	1 photo + 1 other ID	$1.99 + 2.90%	$4.89	254%
Average			$4.04	210%

Sources: Key Informant Interviews and Outlet Follow-up

Service Fees & Overcharging (cont.)

Pay-day Loan Requirements, Fees and Annualised Interest Rates

Firm	Requirements for Eligibility[a]	Fee	Annualised Interest Rate
A	ID, 3 months same employer, 2 pay stubs, bank statement, utility bill and 2 post-dated cheques	For $100 return $138 in 2 weeks	988%
B	ID, 2 pay stubs, bank statement, utility bill, post-dated cheques	For $100 return $135.12 in 2 weeks For $300 return $375.70 in 2 weeks	913% 656%
D	3 months same employer, checking account and post-dated cheque	For $200 return $247 in 2 weeks	611%
E	ID, pay stub, proof of address, bank statement and post-dated cheque	For $100 return $118 in 2 weeks For $200 return $220 in 2 weeks For $300 return $330 in 2 weeks	468% 260% 260%
Average (for 11 pay-day lenders)			
$100		$26	675%
$200		$33	551%
$300		$63	546%

Source: Key Informant Interviews and Outlet Follow-up

Service Fees & Overcharging (cont.)

Rent-to-Own Example Contracts, Fees and Annualised Interest Rates

	Firm A	Firm B	Average
Retail Price of Item	$733	$649	$691
Months to Own	18	22	20
Total Cost at End of Contract	$1,467	$865	$1,166
Implied Interest Rate (month)	41%	10%	25%
Implied Annualised Interest Rate	489%	120%	305%

Source: Key Informant Interviews and Outlet Follow-up

Service Fees & Overcharging (cont.)

Tax Refund Advances

	Firm A and B
Cost of Tax Refund Advance	15% first $300, then 5% on additional refund
Approximate Time Saved	10 working days
Cost for $500 Refund**	$55
Annualized Interest Rate	286%

Source: Key Informant Interviews and Outlet Follow-up

** Excludes cost for income tax preparation and cheque-cashing.

Service Fees & Overcharging (cont.)

- Are these service fees legitimate? On the one hand, there is a drammatic difference in comparison with service fees charged at mainstream banks and credit unions:
  - Cashing one cheque close to the cost of a low-fee account involving 10-12 transactions
  - Loans through pawnshops, payday loan and rent-to-own firms annualised interest rates range from 260% to 1000%, at least 22 times higher than the going rate for a small loan at a bank or credit union.

Service Fees & Overcharging (cont.)

Fees for Services at Mainstream Banks and Credit Unions

Credit Union/Bank	Lowest Fee Account Fee Per Month		Per Transaction Fee	
	Fee	Number of Transactions	Automatic teller machine	Person
Credit Unions				
Assiniboine Credit Union	\$4.00	15	\$0.50	\$0.75
Desjardins Caisse Populaire	\$2.00	7		
Holy Spirit Credit Union	\$4.95	15	\$0.50	\$0.50
Average	\$3.65	12.3	\$0.50	\$0.63
Banks				
Bank of Montreal	\$3.50	10	\$0.50	\$1.00
CIBC	\$4.00	12	\$0.60	\$0.60
Laurentian Bank	\$2.95	8		
National Bank	\$3.50	12		
Royal Bank	\$4.00	15	\$0.50	\$0.75
Scotiabank	\$3.95	12	\$0.50	\$1.00
TD Canada Trust	\$3.95	14		
Average	\$3.69	11.9	\$0.53	\$0.84

Sources: Key Informant Interviews, mainstream bank websites and pamphlets

Service Fees & Profitability

- On the other hand, perhaps these fees reflect the high costs and risks associated with the industry. We were unable to gather significant data on profit levels in the fringe financial service sector. However we found:
  - widely disparate profit levels from the two pawnbrokers that supplied these data & information from one pay-day lender informant describing very high profit

Service Fees & Profitability (cont.)

- feasibility assessment using survey data demonstrated that, pawning & cheque-cashing are costly businesses to operate; pay-day lending appears more lucrative
- rapid growth in parts of fringe financial industry, especially pay-day lending suggests super-normal profits are attracting new entrants into the market
- finally, some fringe banks might have a regional monopoly if there are no local competitors

Service Fees & *Caveat Emptor*

- Through our sample transactions and outlet follow-up we found that fee formulae are not easily accessible nor understandable in one annualised interest rate.
  - Pawnshop fees relatively standardised but wide variation in fees for pay-day lenders and rent-to-own firms
  - Pawnshop fee structure relatively simple while rent-to-own and pay-day lender fee structure complicated & not accessible (in poster, literature & not in annualized interest rate format). In fact one rent-to-own firm would not disclose their fees to us and described their fee formulation as being 'demand-driven.'
- How can the buyer beware if they cannot compare fees across firms due to:
  - Compicated & inaccessible fee structure
  - Regional monopoly

Other Business Practices

- Rollovers are common among pawnbrokers we spoke with. One payday loan firm that spoke with us has a policy of not rolling-over their loans; a respondent from another firm said it was commonly encouraged.
- We found that collection practices are an important part of the fringe banks, whether it is through telephone calls, house visits to collect rent-to-own items or cases brought to small claims court. One informant described highly objectionable practices for payday loan collection.

Clients' Socio-economic Background

- Studies have tried to identify the typical fringe bank client. Fringe bank respondents' perception is consistent with other studies that find clients' socio-economic background depends on the type of fringe bank. In the North End:
  - Clients of pawnshops and cheque-cashing firms are likely from a low-income background
  - Clients of pay-day loan firms are likely from a lower middle-income background.

Pawnbroker Perception of Pawnshop Client Characteristics

Clients	Firm A	Firm B	Firm C	Average
Local Residents	85%	95%		90%
Non-local Residents	15%	5%		10%
Repeat Clients			50%	50%
Aboriginal	50%	70%	50%	57%
Non-Aboriginal	50%	30%	50%	43%
Female	60%	50%	30%	47%
Male	40%	50%	70%	53%

Source: Key Informant Interviews

Rent-to-Own Respondents Perception of Their Clients' Characteristics

Clients’ Characteristics	Firm A	Firm B	Average
Winnipeg Residents	60%	Not available	
Neighbourhood Residents	42%	Not available	
Aboriginal	75%	85%	80%
Non-Aboriginal	25%	15%	20%
Female	40%	80%	60%
Male	60%	20%	40%
EIA Recipients	80%	90%	85%

Source: Key Informant Interviews

The Policy Environment

- Regulation of fringe financial services is primarily a provincial responsibility except:
  - Financial Consumer Agency of Canada (FCAC) has responsibility to educate consumers about all financial services
  - The City of Winnipeg provides zoning variances, licenses and the Police Pawn Patrol monitors pawnshops

The Policy Environment

- Regulation varies across provinces: Manitoba has *Consumer Protection Act* (CPA) and *Business Practices Act*
  - CPA addresses disclosing the cost of borrowing and prohibited collection practices
  - According to a key-informant case law clearly supports including all service fees in determining the cost of borrowing

The Policy Environment

- Provincial government key-informants claimed:
  - Enforcement of policy is complaint-based and limited to addressing service fee over-charging. If the relevant government department receives a complaint they will work with client and fringe bank to reduce service fees below criminal rate of interest.
  - Rationale for this system is that consumers are generally satisfied with fringe financial services and the department has limited resources to enforce policy.