

ALBERTA: SMALL SUM LOAN STUDY



Project Summary: December 2016 – February 2017

Project Purpose

The introduction of Bill 15 imposes significant restrictions on regulated, licensed small-sum short-term lenders. Licensed lenders will be unable to offer credit on a viable basis under these new restrictions. Many Albertans will be denied access to credit.

Shopper Profile

- Posing as a Non-Customer
- Seeks small sum loan between \$400-\$700
- Currently employed or CPP / AISH recipient
- 18 years of age or older

Role

To measure how well Financial Advisors are managing the customer approval experience when processing an application for a small sum loan.

Scope of Project

First Calgary Credit Union: Cash Crunch Loan
Servus Credit Union: Fast Forward Small Loan
Independent Providers: Payday Loan

TOTAL EVALUATIONS: 47

First Calgary Credit Union: Cash Crunch Loan

- 8 Branches evaluated
- 1 Approval
- 7 Declines *¹

Advisors were denying applications for a variety of reasons. One customer was told credit score had to be more than 680. However, a different customer with good credit was declined, with the financial advisor stating credit score was too high to qualify for a Cash Crunch Loan (Score 818). Another was told the ratio between current debt/commitments and income was too high to warrant any loan.

The single customer who was approved for a Cash Crunch 12-month fixed rate personal loan had a credit score of 762.

Servus Credit Union: Fast Forward Small Loan

- 28 Branches evaluated
- 5 Approvals
- 23 Declines *²

Advisors consistently recommended Lines of Credit/Credit Cards and Overdrafts to customers. One customer was advised credit score was too high for a Fast Forward Small Loan, and offered a line of credit instead. The Advisor encouraged the shopper to apply for more than the required funds requested or needed by the customer. (Credit Score 846)

Average approved Fast Forward Small Loan loan term is 12 months. Some customers were charged a fee for Life Insurance, Accident and Death, and Critical Illness insurance. For example, total additional charges applied to a principle of \$600 was \$60.37.

Customers who are permanent residents, on pensions, students and on EI were declined. However, the EI customer was offered a credit card or Overdraft instead.

Of note was one customer, who was advised their debt ratio was too high for a Fast Forward Small Loan, but was instead offered an high interest overdraft at 19%.

Independent Providers: Payday Loan

- 11 Branches evaluated
- 1 Approval
- 10 Declines

Larger majority of independent providers have ceased to offer payday loans. Instead title loans were offered, with vehicle being the most common required collateral (7 providers operating asked for vehicle collateral)

Two providers stated as of February 2nd, they were no longer offering loans of any type to consumers. Customers were turned away.

Conclusion:

- 85% of customers (40 out of 47) were declined a small sum loan.
- Credit unions as part of the loan approval required a credit check. Most if not all customers declined for a small sum loan from credit unions had credit scores below 700.
- 5 Customers who were approved for a small sum loan through the credit unions, had high credit scores. Average Credit Score 745 (one shopper was not able to provide credit score).
- Customers approved for a small sum loan, were generally required to open accounts at the Credit Union, which incur monthly account keeping fees. One approval customer stated an account keeping fee of \$30 per month.
- Consistent trend for credit unions to recommend other banking services in lieu of small sum loans (credit cards, line of credit and overdrafts being most popular recommendation).
- Independent providers appear to have migrated to a title loan product requiring customers offer their vehicle as collateral.
- Independent agencies towards the later part of the study, advised customer they are no longer providing loans of any format to consumers. Customer was turned away.

Appendix:

*1 One (1) declined customer was issued a \$1000 overdraft at 21% compounded monthly instead of issuing a Cash Crunch Loan. Credit score is 684.

*2 One (1) declined customer was issued a line of credit instead of issuing a Fast Forward Small Loan. Credit Score 846.

Prepared by: Shoppers Confidential Mystery Shopping Services

Our Story

We are an international mystery shopping company with over 40 years experience building trustworthy and customer focused mystery shopping programs. Shoppers Confidential is directly responsible for increasing our client's revenue thanks to our Revenue Acceleration Intelligence Solution program. We provide solutions that add value to the overall customer experience, therefore increasing revenue.

Corporate Office

Shoppers Confidential
500 King St. West, Suite 300
Toronto, ON M5V 1L9

Contact

Julie Anthony, Managing Director
Tel: 866-959-0516, ext. 101
Fax: 437-836-3501
Email: julie@shoppersconfidential.com