

ALBERTA: Small Sum Loan Study



Project Summary: December 2016 – May 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 Pay Day 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:	Pay Day Loan
TOTAL EVALUATIONS:	55

First Calgary Credit Union:

- 14 Branches evaluated
- 4 Approvals *¹
- 10 Declines

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. Yet another customer was told their credit score was too high for a payday loan.

Three customers who were approved for a Cash Crunch 12-month fixed rate personal loan had a credit scores of 762, 780, and 790. Two customers were approved for overdraft, not a short-term loan.

Servus Credit Union:

- 30 Branches evaluated
- 5 Approvals *²
- 25 Declines

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 term for a Fast Forward Small Loan is 12 months. Some customers were charged a fee for Life Insurance, Accidental 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: One customer was advised their debt ratio was too high for a Fast Forward Small Loan, but was instead offered a high interest overdraft at 19%.

Independent Providers:

- 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:

- 80% of customers (45 out of 55) were declined a small sum loan.
- Credit unions required a credit check as part of the loan approval process. Most if not all customers declined for a small sum loan by credit unions had credit scores below 700.
- 8 Customers who were approved for a small sum loan through the credit unions, had high credit scores. Average Credit Score 757 (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.
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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.

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