

The Causeway Community Finance Fund



Blog Post 2: Financial Exclusion

This is the second part in a two-part series that highlights our work on the Causeway Community Finance Fund. In this series we reflect on our key learnings, challenge some of our assumptions, and look to reimagine a financial system that can work for everyone, specifically those vulnerable residents in our communities who feel there is no other option but to resort to a payday lender.

In our first post, we described how the Causeway

Community Finance Fund (CCFF) came to be in partnership with Alterna Savings, Frontline Credit Union, and Your Credit Union, and the many people we meet who are looking to break free from the predatory cycle of payday lending.

A major challenge resulting from the widening income gap in Canada is that low-income individuals are forced to make difficult choices when it comes to basic financial services. Those struggling with income insecurity now confront

a financial services system in Canada that has left them behind. As a result of this financially exclusive system, many low-income individuals are underbanked and have little recourse but to access high-cost debt options. Fortunately, we are seeing new opportunities through our partners and members of the community who are interested in helping to create sustainable community banking options.

The New Faces of Financial Exclusion

Financial exclusion has long been thought to occur when individuals lack access to mainstream retail banking options. During our first year of operation, we were surprised to learn that every single person we met with actually had a bank account. **They were all banked.** The biggest reason that they ended up getting caught in the payday lending debt trap was not because they were frivolous with their money or even that they had a large unexpected expense and no savings to cover it, but because they were **underbanked** and lacked access to credit and basic banking options. It's astonishing to see that these people are forced to use payday lending outlets because they are unable to correct things like billing cycles, or to have the confidence to ask

for overdraft protection, or generally to even feel comfortable entering their bank. **Not one person we've met with since launching the CCFF has first asked their financial institution for a loan prior to coming to Causeway.**

What the proliferation of payday lending outlets in urban areas across Canada, combined with the lack of access, or perceived access, to mainstream retail banking options suggests is that a new pattern of financial exclusion has emerged. We see people who have, for many reasons, become systematically marginalized from mainstream retail banking and are given no other choice but to use high-cost debt options. These are the new faces of financial exclusion.



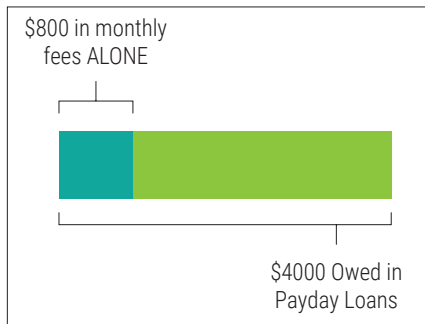
One of our clients we helped serve through the Causeway Community Finance Fund.

The New Faces of Financial Exclusion cont'd

What is systematic marginalization?

For low-income residents, not having access to basic financial services can mean the difference between using a payday loan and paying for groceries. To give an example of what we mean by someone who is systematically marginalized, let us share a couple of stories of those who have borrowed with the CCFF.

One of the first people we served after our launch came to us with **4 payday loans, totalling almost \$4000**. At the time she was paying close to **\$800 a month in fees alone**. In addition to her debt, she had poor credit



history because of her ex-husband who had racked up thousands of dollars in bills prior to their divorce. Her low credit score meant that she didn't qualify for a traditional loan. Given her circumstances, there was very little hope that she could break free from the payday lending debt cycle on her own. Although she had a steady income as well as the capacity to repay a loan over time, she was unable to access one through a mainstream financial institution on her own. After coming to the CCFF, we were able to help her connect with a partner credit union and she was able to get a loan.

Another person we served had **2 payday loans totalling close to \$2000**. As a newcomer to Canada, she got caught up in payday lending because she fell behind on her utility bills and she didn't have a Canadian credit history. With limited income and 4 children to care for, her only option was to get a loan from a payday lender. Since she has come to Causeway, this same woman just paid off her loans and has officially broken free from the vicious cycle of payday lending. She now has Canadian credit history that she can draw from if she needs to in the future.

Each unique person who comes through our doors often shares a similar story and they are all difficult to hear. These people rely on fringe lenders to take care of their basic



A payday loan storefront. (Photo: frankieleon/Flickr)

banking needs because of things like missing required identification to open a bank account, not being able to access overdraft protection, having no access to small-dollar credit, and even being denied credit because they are living on social assistance. These are the people who are being forgotten by mainstream financial services. As James Baldwin famously said, **"anyone who has ever struggled with poverty knows how extremely expensive it is to be poor."** The faces of financial exclusion aren't limited to Ottawa; these stories exist in virtually every community across Canada.

Even with the recent changes to the payday loans act, which **lowers the cost of borrowing to \$15 per \$100 borrowed**, limits the fees on cashing government-issued checks and empowers municipalities to zone these outlets, we're overlooking the central challenge. Why are people turning to payday lenders to begin with? These changes on their own are not enough to stop people from thinking that payday loans are their only option.

| Loan amount | \$6,250 |
|---|-------------|
| Grace period | None |
| Annual percentage rate | 59.90% |
| Total cost of credit for the whole term of the loan | \$7,222.57 |
| Total of all payments | \$13,427.57 |
| Term of loan | 36 months |

Figure 1: With the new changes in Ontario, there is an increase in installment loans. These loans are used for higher amounts with interest at almost 60%. A client looking for a loan of \$6,250 was facing paying more than the loan itself in interest alone.

We have to do better to serve our most vulnerable residents

Through our experiences serving financially marginalized people, we can see that there

is a market here that needs to be disrupted. For scalable disruption, we need to push forward with sustainable community banking options that provide accessible basic services. **We need to foster more cross-sectoral partnerships like the one we have between Causeway and our credit union partners.**

We refer to the Causeway Community Finance Fund as a social enterprise. We intentionally use this term because we want to make sure every day we move forward with a mindset of generating financial and social returns that will sustain us and our community. It's not enough to maintain ourselves as just a *program* because the need is too great.

In Canada, debt is far too easy to get today and as a result, we're one of the most heavily indebted countries in the world. It is no wonder why our most vulnerable residents have limited options that are often high cost when they need credit. Payday lenders who fill this need do very little to reinvest in our communities. Fortunately, there are examples of alternative options like community banking in Canada being led in Edmonton and Vancouver. Drawing from the experiences and models of these community banking initiatives, **our ultimate goal is to create a solution that is scalable, replicable and helps even more people get the services they need.**

As we progress over the next year, we will continue working with our partners to develop a community banking model that will bring sustainability to the people we serve and our own initiative.

If you'd like to join us in the development of a community banking model that works for everyone, is fair, and creates lasting social impact in your community, please contact us.



www.causewayfinancefund.org