



A Microcredit “How To” Guide for Atlantic NGO’s.

A step by step guide with forms

This guide accompanies the Final Report presented to Atlantic Connection- It is imperative that this Final Report be read prior to the implementation of the program contained herein.

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EXECUTIVE SUMMARY

INTRODUCTION

This study was undertaken to review existing best practices in microcredit lending to internationally educated healthcare providers (IEHP's) in Canada and make recommendations based on these findings; evaluate the costs and benefits of introducing a program of this nature in Atlantic Canada; explore existing settlement agency clients' perceptions of a potential microfinance venture; and analyze the larger socio-economic forces that make this an important issue to address.

APPROACH AND METHODOLOGY

Research was carried out through multiple data collection methods:

- *A literature review and web search*, conducted on the internet with Google Scholar, and a search of the University of Victoria's online library database.
- *Key informant interviews*: were conducted via phone, internet, and in person from 2008-2009. Those interviewed were drawn from the provincial government, settlement agencies, existing microcredit providers, now defunct microcredit providers, IEHP's, academics, financial institutions, and other related community organizations.
- *An environmental scan*, was conducted using web based resources, word of mouth recommendations, and through solicitation of responses from existing clientele. This data was used to create a list of currently offered microcredit lending programs.
- *A mass email* to existing ANC clients of the IEHP project workers. The letter was also sent to various other community organizations which circulated it through their internal email lists.

RESEARCH QUESTIONS

A few key questions guided this research:

1. Are there existing models in place in other jurisdictions that could be replicated? If so, what key elements do they have that contribute to their success? What might a successful program look like?
2. Are those same key elements in place in Atlantic Canada? If not, is it reasonable and possible to put those elements into place?
3. What are the key financial needs of immigrants at Atlantic Canadian Settlement agencies?
4. How do our clients define their needs, and what do they see as being most important?
5. How does Microcredit fit into the larger socio-economic picture?
6. Considering broader program objectives, are there other models in place that would be more efficient and effective?
7. How does the paradigm we adopt influence our recommendations? "Rights" perspective vs. economic determinism.
8. What recommendations are being made by other researchers looking at the area of community economic development, and financial assistance for immigrant professionals? Do our recommendations mirror or counter these recommendations?

KEY FINDINGS

If government wants to support the newcomers, the best way is to offer them job opportunities or small amount of grant, giving them money with high interest rate!!! Doesn't solve much.

PEIANC client

The term IEHP is not a monolithic concept; the needs of individual IEHP's vary greatly depending upon their immigration status, their age, their career goals, their level of financial security, and their culture of origin. When asked about the need for a Microcredit project their answers varied tremendously. In general:

- Despite the fact that the term 'microcredit' seems to suggest a particular form or structure; there is in fact a wide variety of lending forms that may fall under this umbrella term.
- Depending upon the individual's country of origin, their prior experience with financial institutions, their home country's cultural attitudes towards borrowing in general, and their psychological disposition, the responses could range from extremely positive to decidedly negative.
- Just as there is no one IEHP, there is also no one best strategy or program template that can be adopted beyond the local level. Although IEHP's may encounter similar struggles, roadblocks or hurdles, the best response to those challenges is highly variable. Flexibility in options is really the best course of action.
- The sources of capital for microcredit lending and community investment funds are diverse. According to the Final Report (2003) of the Social Investment Organization, and the Riverdale Community Development Corp. they may include: "contributions and loans from private donors, private investors, faith-based institutions, foundations, government loan guarantees, financial institutions, pension funds, and other institutions" (p.3). Likewise the level of risk for lenders and investors is similarly diverse; the spectrum ranging from CDIC insured funds in credit unions to non-secured funds held by NGO's. Many of the programs operating in the western provinces also had access to limited loan loss reserves through Western Diversification, a program similar to the Atlantic Canadian Opportunities Agency.
- Without addressing possible structural and systemic racial barriers, the provision of financing will do little to help the plight of new immigrants. Microcredit financing should be viewed as part of a comprehensive strategy.
- When immigrants begin working at 'survival' jobs, it becomes far more difficult for them to re-enter their skilled profession. The ability to move quickly through the licensure process is critical.
- Calmeadow's "experiments showed that stand alone exclusively targeted microcredit operations are not commercially viable in fully developed countries. The absence of a critical mass of customers or offsetting income from other financial services offered make it impossible to cover all costs within the bounds of a fair interest rate structure" (www.calmeadow.com/canadian.htm).

- Some of the most successful microcredit programs, are operating in areas that have strong historical community economic development links and partnerships (Libro Financial-started by Dutch immigrants in the 1950's), or operate in an area that has a culture of private and corporate philanthropy (Momentum in Alberta).
- The group liability structure that has traditionally characterized microcredit may not be feasible in many modern Canadian communities.
- Client needs go beyond mere 'credit' provision when it comes to potential microcredit programs; any new program should allow for training and development and other related assistance services to be factored into program budgets. Personal relationships are still a primary factor in program success.
- Success of a microcredit project needs to be examined in terms of both social and economic outcomes. Even if a project cannot be said to be a success financially, it may still be successful in light of the social benefits it provides.

RECOMMENDATIONS

1. Any program devised must be flexible; not only must a potential microcredit program adapt to the needs of distinct clients, it also must be able to change with the changing patterns of immigration, provincial settlement strategies, and federal government priorities.
2. Any organization that plans on implementing a microcredit program should remember that microcredit is "only useful in certain situations and with certain types of clients" (www.acic-caci.org/microcredit/faq.html). However, this may mean that a 'trade-off' may need to be made in terms of universality and accessibility for IEHP's. Organizations will need to be guided by their mission, values, organizational culture and operating budget when determining which direction to proceed.
3. NGO's interested in helping IEHP's address their financial needs should advocate for an expansion to the financial assistance services that are currently offered to their clients.
4. Organizations should see if funds are available from the Provincial government's (LMA¹) funds so that a small grant could be administered.
5. Based upon the findings of (SP Consulting, 2008) this report recommends that optimally any financial assistance offered to new immigrants to help them obtain 'skills commensurate employment' should be "mainstreamed" and offered through existing institutional providers like the Canada Student Loans program. If this is not possible then the cost for counselling and case management services should be absorbed into the operating budget of the organizational provider. The costs for the administration of the loan would need to be covered by a potential financial services partner.
6. Any organization considering implementing a microcredit program should partner with a financial services provider who would administer the loans and cover the administrative costs incurred.
7. Ideally, the financial services provider would eventually take over the loan program. However, organizations should be prepared to have to shoulder the costs involved considering the poor response to date from many credit unions.
8. Organizations will need to look for stable and diversified sources of funding.

¹ Former Federal LMDA funds transferred to Provinces

9. Finally, financial literacy classes might be necessary prior to launching a microcredit loan program, as many clients may not be familiar with the Canadian financial system. The Ottawa Community Loan Fund recently released a free *Financial Toolkit* for Newcomers which can be linked to from their website. Organizations may want to either provide this link to clients, or adapt the material for their own internal use.

Program Template

For those organizations that decide to proceed with a lending initiative for IEHP's the following is a template for a program that could be adapted to suit particular local needs. It is based on best practices identified at existing lenders, earlier research conducted by the PEIANC, and draws heavily upon the programs at Maytree Alterna Savings in Ontario <http://www.maytree.com/> , WIL Employment Connections/ Libro Financial in London Ontario www.wil.ca and the grant program recently established at MISA <http://www.misa.ns.ca/>

What are the loan criteria?

- Loans are short term, one to three years, depending upon the purpose of the loan.
- The loans go towards training, licensure fees, exam resources or exam costs that would lead directly to employment.
- Training is provided by a credible community based or institutional provider that has an established track record and is recognized by the licensing body.
- The loans should be targeted to individuals who are entering high demand professions.
- The applicant must have sufficient command of English (or French if in NB) to be considered "job ready".
- Security will not be required nor will a credit bureau check unless organization partners with a credit union. In that case they will require a credit check to ensure that the individual does not have a history of default.

Discussion:

Organizations must be willing to be flexible and be willing to keep up to date with recent labour market trends. An employment category that is in demand one year may be on the wane the next. The Canadian government site *Job futures* or the Provincial Sector Councils should be consulted on an ongoing basis in order to ensure that up-to-date information is used. In addition, flexibility is important in deciding who will be considered for the loans; care should be taken to not out rightly exclude a particular profession because the job prospects are only rated as fair for that profession. The case counsellor might encounter an exceptional individual he or she feels has a better than average chance of obtaining employment once registered.

It will be extremely important to have an open line of communication established between the regulatory bodies that govern these "in demand" professions and the organization. A letter should be obtained from the Registrar that is in charge of licensure for the particular profession of the applicant that provides confirmation that the training program the client is asking financing for is one that will be accepted by the regulatory body. Failing this, confirmation by way of a phone call to the registrar or the assistant should be obtained.

Although some microlenders try to secure loans with real or personal property, this will not be expected for an IEHP loan. This avoids having the cost of registering the chattel, and also having to deal with the possible cost of collection. It also sends the wrong message to clients, and is not in keeping with the “character” or “personal” lending style that is consistent with microcredit values. However the requirement that all loan proceeds be issued to regulatory bodies, bookstores, or training institutions is reasonable and offers the organization a guarantee that the funds are going towards what they were requested for. It is also recommended that the case worker receive regular updates from the borrower on their progress.

Finally, an organization will need to decide to whom or to what class of immigrant they will offer this potential program. Currently Maytree does not fund those who are visitors, refugees, or Canadian Citizens. If the potential borrower is not a registered client of the organization registration must take place first, and all ID must be copied and kept on file.

What is the loan range?

- The maximum loan will be \$5,000, and the minimum loan amount will be \$500.
- If an applicant requires a second loan installment for another exam fee the maximum lifetime loan limit will not exceed \$5000.
- If an applicants training is substantially greater than the loan, the applicant must show that they have resources to cover the difference.
- Loans will be administered at a floating rate of prime plus 3% or amount set by partner credit union equivalent to the rate charged to borrowers who would fall in the median credit score range. Alternately, the rate charged may depend on if the potential borrower is a credit union member or not.
- An administration fee is not recommended, as it is not in keeping with the principles of fairness, and making financial products and programs available to all citizens regardless of their status. For example, some lenders like the Ottawa Community Loan Fund charge administration fees of up to \$500 per loan. Although this may be financially prudent of them, the author feels administration fees are not in keeping with the values or mandate of the *Atlantic Connection* project.

Discussion:

In time, organizations might find that larger loans may be possible, but in the initial stages and to lessen the risk, it is recommended that smaller loan amounts be granted. However, if an organization feels that they have secured sufficient capital and they are able to administer larger loan amounts there is no overriding reason why this could not be done. The loan amounts granted may also depend on individual negotiations with potential credit union partners. If for example the credit union is being asked to take on or to cover a larger percentage of potential loan losses, before the program is well underway and sufficient data on default rates is available, they may not be willing to accept the increased risk that accompanies larger loans. In the Maytree Foundation/ Alterna Savings agreement the split is 75% Maytree and 25% Alterna (www.maytree.com/). The interest rate charged, if not set by the NGO but instead set by the partnering credit union, may vary depending upon the IEHP’s choice of options. For example a credit union may decide to charge a lower rate if the borrower opens an account with them or

buys a share in the credit union. In order to maintain control over interest rates and offer a very competitive rate of prime plus 1.5% IAF in Alberta “required a substantial pool of capital, as well as the ability to guarantee the loan. Fundraising efforts secured corporate and private donations of \$500,000, which was deposited into a line of credit that borrowers would eventually draw from. Ten Calgary business people independently agreed to act as guarantors, in the case of loan defaults” (Maytree, 2008, p.7).

What are the loan repayment terms?

- If the loan is to cover training costs the loans will become payable a maximum 90 days after training has ceased, or earlier if employment begins immediately.
- If the loan is to cover exam fees, the loan will become due and payable no later than 90 days after exam results are received.
- If the loan is to cover licensure fees, the loans will become due and payable 60days after licensure in profession is obtained.
- During the training period borrowers are only required to make monthly interest payments.
- The loan is expected to have a maximum amortization period of three years.

Discussion:

Although 90 days is a shorter period of time than the typical 6 months granted to regular student loan borrowers, the loan amounts under consideration are significantly smaller than those taken out by University students and as such the monthly payments will be smaller and much easier to manage. Monthly interest payments while the borrower is in school or awaiting exam results should also be small and manageable for clients. If due diligence was done at the loan’s outset and the right “type” of IEHP client was picked, neither of these conditions should be difficult for borrowers to fulfill.

What is the application procedure?

- Applicants must have confirmation from the accrediting body that the training the applicant wishes to take will lead to licensure, or have a high probability of leading to licensure.
- Detailed information about the training program or exam must be provided.
- Applicants must complete an application form, fully disclose all assets and liabilities and other relevant credit history.
- Applicants must provide a current CV or Resume, or be prepared to create one with the case worker, along with one to two references depending upon case workers familiarity with client
- If employed, proof of employment by way of letter or paystub(s) should also be included.

Discussion:

Traditionally banks require proof of 3 months continuous employment in addition to the previous year’s Notice of Assessment (NOA) from Revenue Canada. This requirement might be too stringent if the person is currently unemployed or underemployed and looking at taking an upgrading program. Organizations should therefore use their best judgment based on personal knowledge of the client and the reference letter(s) to determine what requirements they are comfortable with.

As collateral is not being sought to secure the loan it is extremely important that the case worker has had enough of an opportunity to establish a rapport with the client and therefore feels confident recommending the client for a loan. Ideally, once the referral is made the remainder of the loan application and disbursement will be handled by a partner financial institution. In this situation the potential borrower would be recommended by their case worker to a financial services officer who would then review their application file, conduct a background credit record check, and upon their approval disburse the loan. The final decision to grant the loan thus rests with the financial institution.

If however, an organization is unable to secure a partnership and still wishes to proceed it is recommended that a *loan review board* made up of volunteers from the community be established to further review the loan applications and make final funding decisions. This removes the funding decision from the case worker and thus helps avoid allegations of favoritism, which could potentially harm the client/caseworker relationship; this is especially important considering that these individuals may be working together for some time and a certain degree of trust and openness is essential if the relationship is going to be productive.

So as to not overburden volunteer board members loan reviews should be done on a set quarterly schedule as opposed to an ongoing basis. This arrangement should help case workers incorporate this activity into their current workload and keeps the organization from having to hire specialized staff for the loan portfolio. A review board consisting of four members should be sufficient. Alternately, the organization could recruit a larger pool of potential reviewers from which they could draw if one or more members were unavailable or the members recruited were reluctant to commit to the time requirement. To lessen the commitment that being a reviewer would entail an agreement for a period of one year would be a suggested timeline for length of service agreements.

In selecting members it is recommended that at least one individual have either an accounting or banking background. Other members may include organization board members, community partners, past loan recipients, interested citizens or individuals drawn from the health professions.

A special thank you to Jan Kutcher, Employment Services Manager at MISA in Halifax for sharing the strategies they have found helpful in initiating a “grant giving” program that to date has been run quite successfully.

Other considerations

- *Loan loss reserves*- in addition to the capital required to administer these microloans a certain amount also needs to be set aside to cover potential loan losses. Typically most traditional banks set aside 5% to cover potential losses. Some existing microloan providers like the Immigrant Access Fund in Alberta is covered for loan losses under the government’s Western Diversification program. So unless a similar arrangement can be reached with the Atlantic equivalent ACOA, potential lenders will need to set aside a loan reserve fund. Currently the Saint John Community Loan Fund sets aside an equivalent to 30% of the loan

value they have outstanding. Depending on the organization, and the agreement that they have reached with a credit union if a partnership can be established, they may find that they are comfortable with a lower loan reserve fund amount; 30% then should be seen as the maximum amount required. It should be remembered that many of the conversations to date between Atlantic Settlement agencies and local credit unions have not produced favourable results (personal communication, Melanie Bailey, 2009; Jan Kutcher, 2009). Like traditional banks many credit unions have over time moved away from their grassroots beginnings and have come to approach a structure that is operationally quite similar to traditional financial institutions. Without government backing to cover potential loan losses many are not interested in pursuing this type of lending as not only does it yield little profits for them, as small loans are not profitable in general; but because the credit requirements are more lax than those required of “regular” loan applicants they open themselves up to greater risk.

- *What do I need for start up funds?* To get a rough idea of what type of funding might be required by an Atlantic organization we can look to the current number of loans being disbursed in other areas of Canada. One of the largest micro-lenders in Canada is the Immigrant Access Fund (IAF) which is administered by the Edmonton Mennonite Centre for Newcomers (EMCN) and Momentum in Calgary; since inception in 2007, 305 loans have been approved. However, the scale of this organization is beyond anything that would be needed in the Atlantic Region. In comparison, the Saint John Community Loan Fund had in 2007, 8 years after its inception, administered 150 loans. Another smaller yet successful lender would be that of Maytree/Alterna Savings. As of last year Maytree/ Alterna in Ontario had only disbursed 151 loans out of 440 total applications since 2001. This amounts to about 22 loans a year. If the full \$5000 limit was taken out by all 22 borrowers this would be \$110,000 in loan funds, plus the additional amount that would be required to be kept for potential loan losses. This amount, as previously discussed can vary from 5-30% depending upon what agreements the organization has made with any government guarantors like ACOA. The Ottawa Community Loan Fund started out with 30 loans in 2003- 11-12 in 2008 (Brown, G. September, 2009).
- If an organization decides to administer the loans themselves, and they feel that they will be able to solicit sizeable donations from the community (largely corporate sponsors), a partnership with a local Community Loan Fund would be prudent. With this arrangement, the amount available for funding each year will be drawn from the interest proceeds of the Investment fund. Depending upon market conditions the amount available for lending purposes (or potentially grant purposes) could vary greatly year over year. For those interested in learning more about these funds see www.cfpei.ca for an example. One of the advantages of pursuing these partnerships is that they handle all of the fund administration, and investment decisions. No specialized staff with mutual fund or other securities licensing are therefore required to be on the NGO’s staff.

CHECK-LIST

- Read accompanying report to gain a better understanding of the risks and possible benefits of establishing a microcredit initiative.
- **First Option**-Ensure sufficient staff levels are in place to manage the extra workload.

- Approach your local Credit Union to see if they are interested in the initiative.
- If they have reservations see if ACOA would be interested in establishing a loan loss agreement/ fund.
- If successful approach credit union again; review forms and application procedure with partner financial institution, and agree upon loan rates, and loan loss percentage splits.
- Adapt form templates by adding your logo and information.
- **Second Option**- Establish a loan review board that will process loan applications on a quarterly basis.
- Solicit funds from the community to establish the loan capital.
- If your potential capital base is substantial, seek out a Community Loan fund that will handle the operation of your potential investment fund.
- With this option, the NGO will be responsible for collection of loan payments. How that organization plans to deal with loan default will also have to be considered.
- **Third Option**- Apply to your Provincial government for LMA funds that could be used to establish a small grant- giving initiative for IEHP's. This option is currently being used by MISA in Halifax, NS and to date has been successful. With this option the process is the same as the first option: you establish a review board, and process these loans on a quarterly basis. This does however; require you to submit applications for funding at regular intervals. Furthermore to maximize the amount of money received, the grants will be smaller than if loans were given out. In order to prevent overburdening staff with grant applications, this option is only mentioned to the client after they have met with a case worker, and the worker feels that the issue of finances is the only barrier keeping the individual from moving forward with employment or licensure. According to Jan Kutcher, employment manager at MISA, for the most part they have been able to assist most of the individuals that the case workers refer to the grant review board. It was only in the last quarter that the requests exceeded the funds available (First round of loans-\$25,000; second -\$15,000; third round-\$11,000). These grants are available to a maximum of \$2000 per disbursement, with an aggregate limit of \$3000 (Jan Kutcher, personal communication, September, 2009).



September 29, 2009

Dear Credit Union Loans Officer:

Please accept this referral letter on behalf of (Full legal Name) _____.

(First Name)_____ has requested a meeting with you to discuss a loan and signed a confidentiality/consent form has been forwarded to accompany this letter.

I have been working with this individual regarding career development and believe that financial assistance in the form of a loan would help her/him meet training, education, assessment or licensing requirements.

A review of education earned outside of Canada and employment history has been conducted and a discussion of employment and education pathways suited to this individual has also been explored. In addition, contact has been made with the provincial licensing body to verify that the course of action identified is the one required by the licensing body.

The following documents are attached for your consideration:

Personal photo Identification

Diploma (certified copy)

English translation of diploma (certified copy)

Resume

Course information and Fee schedule

Licensing Fee requirements

Exam fees statement

Declaration of Applicant Form

Thank you.

*Adapted from the one used by Libro Financial



IEHP Loan Program

Declaration of Applicant

I hereby certify that all information provided to my Employment Counsellor with respect to my referral to _____ IEHP Loan Program is true and correct.

I understand that I am expected to be prepared to discuss all aspects of my current financial status with Loans staff, including statements of my assets and liabilities.

I the undersigned understand that the obtaining of a credit information check may be required at any time during the loan application; I hereby give my consent for BLANK NAME credit union to obtain a credit report from a third party credit agency in order to determine my eligibility for an IEHP loan.

Name: _____

Signature: _____

Date: _____

Witness: _____

*Adapted from the one used by Libro Financial



IEHP LOAN APPLICATION FORM

PERSONAL INFORMATION

Date of this Application: _____

Name: _____

First Name

Middle Name

Last Name

Date of Birth: _____

Address: _____

STREET

APT. NO.

CITY

PROV.

POSTAL CODE

Phone: (Home) _____ (Work) _____ (Other) _____

When did you arrive in Canada? _____

Landlord's name if applicable: _____ Tel: _____

Single Parent

Number of Children: _____

Single - no children / no children living with you

Married/living with partner (with children)

Ages of Children: _____

Married/living with partner

- no children / no children living with you

SIN# _____ Immigration Status: _____

Confirm ID

Healthcare occupation in former country of residence: _____

Healthcare occupation I want to have in Canada: _____

Current Employment Status: _____

DETAILS OF LOAN REQUEST

Please describe the items you will pay for with the loan and cost for each item

Licensing _____ \$ _____
Exam Fees _____ \$ _____
Books _____ \$ _____
Training _____ \$ _____
TOTAL LOAN REQUESTED: \$ _____

Please indicate any other institution you have gone to for a loan and the result:

DEBT DISCLOSURE

Please describe your current debt in the following table. (Attach a separate sheet if necessary)

Type of Debt	Individual/Institution Holding Debt	Amount of Original Loan	Current Loan Balance	Monthly Payments	Date of Loan	Purpose of Loan
Private Loan						
Bank Loan						
Gov't Loan						
Credit Cards						
Collections						

Monthly Income		Monthly Expenses	
Employment	_____	Rent/Mortgage	_____
Self-Employment	_____	Food	_____
Pension	_____	Electricity	_____
Rental Income	_____	Child Care	_____
Spousal Income	_____	Phone	_____
Employment Insurance	_____	Cell Phone	_____
Income Assistance	_____	Cable	_____
Child Support	_____	Internet	_____
Child Tax Credit	_____	Tobacco Products	_____
Other (Investments)	_____	Clothing	_____
TOTAL	\$ =====	Laundry	_____
Assets		Medical	_____
Please list available resources you might have access to:		Transport:	
_____		Bus	_____
_____		Taxi	_____
_____		Car Payment	_____
_____		Fuel	_____
_____		Insurance	_____
_____		Maintenance	_____
_____		Miscellaneous	_____
		Entertainment	_____
		Loan Payments	_____
		TOTAL	\$ =====
Surplus or (Deficit) (<i>Total Income minus (-) Total Expenses</i>)			\$ =====

Have you ever applied for bankruptcy? If yes, please explain.



Education

Graduated University

Specialized Diploma

Some University/College with Certificate

Graduated Masters/ PhD

Employment Status and History

*Or Attach Resume

Beginning with the most recent or current

1. Employer: _____
Your Position: _____
Responsibilities _____
Start Date: _____ Finish Date: _____
Reasons for Leaving _____

Employment History (continued)

2. Employer: _____
Your Position: _____
Responsibilities _____
Start Date: _____ Finish Date: _____
Reasons for Leaving _____

Other Relevant Experience: (training, internships or courses)

REFERENCES

Please list employers, supervisors, instructors or landlords. **DO NOT** list friends or relatives as this may delay the application.

1. Name: _____

Relationship: _____

Telephone: _____

2. Name: _____

Relationship: _____

Telephone: _____

Signature of Applicant

Date

SIN _____

Signature of Co-applicant

Date

SIN _____

False claims or misrepresentations discovered during credit check will result in automatic refusal of loan.