Letter from Canadian Banker's Association to Marketplace

For more than 40 years banks have been strong supporters of not-for-profit credit counselling agencies and the good work that they do to help borrowers learn better money and credit management skills and to repay their loans. This is part of a broader and on-going banking industry commitment to financial literacy for all Canadians. Banks believe that education, counselling, and financial literacy skills are essential parts of the services that credit counselling agencies offer and that these services are critical in helping people with debt problems to avoid them in the future.

As you know, the credit counselling industry has been evolving in Canada. We were aware that there were some abuses in parts of the credit counselling sector in the US (such as excessive client fees and employee incentives to put clients on Debt Management Programs (DMPs) leading to "DMP mills" – agencies pushing clients into DMPs rather than needed counselling and education, simply so the agency could get more revenue), and we didn't want the same thing to happen here. In particular, we wanted to ensure that the education and counselling services that Canadian consumers need were still being achieved and not diluted.

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The banks have taken these areas of common understanding and developed their own donation policies.

Maintaining the overall level of support at 22%
This was part of the old policy and continues to be the target level of donations going forward. Our sense is that most banks will continue to base the donation on recoveries, although some banks may incorporate parameters using education and counselling deliverables instead of or in addition to recoveries.

50% of counselling has to be face-to-face
As we understand it, the Ontario Association of Credit Counselling Services (OCSS) passed a resolution that its members must meet a standard of 50% of counselling being face-to-face. Our view is this is the most effective way to provide the appropriate and tailored education to clients, so this measure is included in the common understanding. Of course, the banks are prepared to make exceptions to this where necessary, for example if an agency has a greater proportion of clients living in remote communities or with mobility issues.

No more than 20% of revenues can be spent on advertising
The banking industry understands that CCAs need to do some advertising to let people know about their services, but there were concerns that some CCAs were spending sizable amounts on advertising to attract customers in a geographic area where there was already an existing not-for-profit CCA. Banks would prefer that their donations be spent delivering service to clients rather than luring clients away from another agency. This requirement was added to the national policy in 2008 and is included in our new common understanding.

The ratio of clients who can be placed on DMPs
Our earlier policy specified that at least 75% of a CCA's activities were to be related to counselling and education. Under the new areas of common understanding, that is now 70%. Our understanding is that, over the decades that we have been supporting credit counselling, only a small proportion of new clients are put on debt management programs. Most can be assisted with counselling and education. But with the donation amount based on DMP recoveries, there could be an incentive for some agencies to increase the proportion of DMPs to maximize agency revenues – perhaps turning away clients that need more counselling in favour of those with straightforward DMPs. Since that is not what banks want to happen, and since it

was difficult for CCAs to set up processes to measure and report on education and counselling activities, it was simpler to address the concern by limiting the proportion of DMPs to the traditional level.

CCAs have to be charitable organizations to qualify for bank donations
This has always been a requirement and continues to be now.