Financial Literacy and the Canadian Credit Counselling Services Industry

Adriana E. Molina

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Adriana E. Molina
Business and Financial Writer

Executive Summary

Since its inception, the Canadian credit counselling services industry has been concerned with increasing the financial literacy of Canadians facing financial difficulties, particularly those arising from the mismanagement of consumer credit. The charter of the first credit counselling services agency stipulated that, in addition to providing debt management services, the agency was to promote financial education. The provision of financial skills education and resources was thus an operational cornerstone for the agency, which later became the model for the entire industry.

Since then, the industry has undergone many changes, some of which have led to the creation of industry standards, the institution of mandatory insolvency counselling in Canada, the withdrawal of government funding for not-for-profit agencies, and the introduction of Canadian for-profit and US not-for-profit agencies into the Canadian market. In addition, new agencies have emerged whose business model represents a departure from the original grassroots, community-oriented model. In light of these changes, consumer advocacy groups and researchers have scrutinized the industry's overall dedication to, and capacity for, the delivery of effective financial tools.

This report gives a comprehensive overview of the Canadian credit counselling industry and the financial literacy resources it provides to the public. The first section provides a brief history of the industry and discusses general developments and changes that have affected it as a whole. The second and third sections focus on the financial literacy services delivered by the industry today: the second section describes the not-for-profit sector, while the third section describes the for-profit sector. The fourth section examines the

effectiveness of financial literacy initiatives, beginning with insolvency counselling and how it fares along with credit counselling in reducing recidivism. This discussion is followed by a summary of the results of client evaluation of specific financial literacy efforts, and of academic evaluation of financial literacy education by credit counselling agencies.

The final section discusses emerging issues affecting the credit counselling industry, particularly in the not-for-profit sector, and the implications of these issues for financial literacy.

In conclusion, a brief recommendation is presented concerning the overall effectiveness of financial literacy initiatives and the ability of the credit counselling industry to provide financial management education and skills.

Introduction

Since its origins in the mid-1960s, the Canadian credit counselling services industry has focused on providing debt reduction services and financial literacy education to all consumers and debtors. The industry's original business model was based on a grassroots approach that emphasized community outreach. Today, the industry is segmented between for-profit and not-for-profit agencies, and for the most part Canadian not-for-profit agencies have retained a traditional business model. A significant portion of the Canadian credit counselling services industry is represented by charitable not-for-profit agencies (CCSAs). This sector alone has served more than 250,000 Canadians across the country since 2009, representing nearly $1.248 billion of unsecured consumer debt.

In addition to providing personal debt management counselling and services, the industry is concerned with increasing the financial literacy of Canadians through the use of various financial education resources. Limited evaluation research indicates that one-on-one counselling provided by Canadian CCSAs is one of the industry's most effective means of increasing clients' financial literacy. This report will discuss the results of this research along with other data pertaining to the industry, as well the results of existing evaluative work on the financial literacy efforts assumed by the Canadian credit counselling services industry as a whole.

1. The History of Credit Counselling Services in Canada

1.1 Ontario after World War II

Following the Second World War, Ontario enjoyed a booming economy (Brownsey and Howlett, 2001, 166). Consumer demand had been suppressed during the war as manufacturing facilities were retooled for war work. In the 1950s, soldiers returning home started families, and pent-up demand for housing and consumer goods was unleashed (ibid., 167). Huge numbers of displaced families found refuge in Canada and settled mainly in southern Ontario (ibid.). Canada's manufacturing sector resumed its peacetime activities, providing unprecedented employment and income growth, which in turn supported an increasingly affluent (and growing) population (ibid., 166).

The postwar boom in consumer demand allowed for a movement toward an economic model based on the stimulation of consumerism to drive the economy. Wants in slight excess of income motivate the average consumer to go into debt (Galbraith, 1978, 247–8), and by the 1960s some people took on more debt than they could handle. Retailers and finance companies dominated the credit industry, and options were made available that provided people with the opportunity to consume beyond their immediate capacity to pay (Anderson, 2004, 668). As credit became more accessible, the effects of over-indebtedness began to become apparent. Failed marriages, alcohol abuse, and foreclosure came to be recognized as collateral damage of a vibrant economy.

In response to these emerging issues, a small number of pioneer credit managers representing a variety of professional fields, including architects, educators, lawyers, barristers, manufacturers, corporate directors, consultants, secretaries, and managers, decided to open the first credit-counselling agency in Toronto's downtown core in 1965 (Province of Ontario, 1965, 4). The mandate of this agency was to create a structured social program to provide advice and other resources to consumers who had difficulty coping with the new credit-oriented consumer society (ibid.).

1.2 The First Credit Counselling Services Agency in Canada

Founded in 1965, the Credit Counselling Service of Toronto (CCST)[1] was the first credit counselling services provider to operate in the country and went on to become Canada's oldest and largest consumer-credit counselling agency (Uribe and Tait, 2007, 9). The purpose of the agency was to provide free advice to consumers and to act as an intermediary between debtors and creditors in working out satisfactory arrangements for

1 The CCST was the forerunner of what is now known as Credit Canada.

the orderly payment of clients' total unsecured consumer debt.[2] In doing so, the agency operated pro-rated[3] work-out programs involving geared-to-income voluntary repayment schemes.

Along with providing both remedial and preventive debt counselling and assistance in debt consolidation, the CCST charter set out a foundation for the enterprise that was based largely on providing financial education as part of its core operations. For example, the Charter stipulated that the CCST was to conduct educational projects to acquaint the public with the proper uses of credit and, where necessary, propose corrective and remedial measures (Province of Ontario, 1965, 5). It was also to promote budgeting, thrift, and the protection of individuals and families facing embarrassment and difficulties in financial matters, with particular emphasis on those situations related to the improper use of consumer credit (ibid.). The general guidelines stipulated in the charter placed significant importance on making financial literacy available and accessible to individuals and families.

The operating expenses for the program were met by voluntary contributions from creditors and from a series of grants from the then Ministry of Consumer and Social Services. Further offices were opened in Toronto and throughout Ontario; eventually, by 1977, 29 agencies were providing services in most urban areas across the province.

1.3 Emerging Need for Standardization

In order to standardize their programs and coordinate funding efforts, these agencies formed the Ontario Association of Credit Counselling Services (OACCS). This association

2 Consumer debt is any kind of debt unrelated to business debt, such as debt related to automobile ownership, credit cards, lines of credit, or mortgages. See Appendix I for a full definition. All CCSAs are concerned only with eliminating a client's total unsecured consumer debt.

3 Pro-rated repayment programs take into consideration each creditor's proportion of the client's total unsecured consumer debt. When the client makes a payment toward eliminating his or her debt, each payment is distributed among the creditors according to the portion of the client's debt they each hold. See Appendix I for a full definition.

developed, manages, and imposes an accreditation program[4] for its Member Agencies that is grounded in legislation specific to the OACCS under the *Ontario Association of Not-For-Profit Credit Counselling Services Act, 1997*.

No formal federal legislation exclusively governs the operations of the industry.[5] Owing to a lack of federal and provincial legislation governing CCSAs, the industry is susceptible to difficulties in maintaining uniformity in its practices and operations. For this reason, in Canada most CCSAs are monitored by associations, and these associations are responsible for assessing whether Member Agencies abide by their stipulated standards. Currently, the not-for-profit sector is governed by three associations: the Canadian Association of Credit Counselling Services (CACCS), the OACCS, and Credit Counselling Canada (CCC). The only association governing the for-profit sector is the Canadian Association of Independent Credit Counselling Agencies (CAICCA);[6] however, the participation of CAICCA Member Agencies in the national market is marginal, given the sheer number and size of not-for-profit CCSAs operating in Canada.

1.3.1 The Ontario Association of Credit Counselling Services

To become a member of the Ontario Association of Credit Counselling Services (OACCS), a CCSA must be recognized as a charitable entity by the Canada Revenue Agency.[7] It must also undergo the OACCS Accreditation Program (as grounded in OACCS legislation) every five years, and all counsellors operating from the agency must be registered Financial Counsellors (have counsellor certification). The OACCS is the only credit counselling

4 Accreditation is a detailed assessment of an agency's ability to meet mandatory standards in governance (Board of Directors), administration, general programming, and credit counselling. See Appendix I for more information.

5 See Appendix II for information on legislation governing the operations of the industry.

6 The for-profit sector and the CAICCA are discussed in Section III of this report.

7 To date, all not-for-profit CCSAs are also registered charities. This is to secure creditor donations that financially support the operations of not-for-profit CCSAs. See Subsection 1.1 in Appendix IV for more information on how charitable not-for-profit CCSAs secure creditor donations through debt management plans (DMPs).

association with legislation governing its accreditation program. It is also the only certifying body in Canada for counsellor certification.[8]

The data presented in Table 1 will give a sense of the size of the credit counselling industry and the market share held by the OACCS. These data represent the 2009 fiscal year for all OACCS Member Agencies operating in Ontario alone.

Table 1: OACCS Operational Data

Total number of clients counselled/served Consumers who receive a complete financial assessment, as well as education in money management. This number represents the total number of clients served.	209,251
Number of new debt-repayment programs opened Consumers who have chosen to repay debts using the assistance of an OACCS Member Agency.	7,640
Total personal debt for new cases Total amount of personal debt as witnessed through clients of OACCS Member Agencies.	$1.098 billion
Number of clients who received bankruptcy counselling These are separate from the number of clients who receive non-bankruptcy counselling.	16,817
Number of telephone consultations Consumers who have received financial assessments and consultations over the phone, as well as educational resources, financial information, and general assistance.	95,657
Number of individuals reached through preventive educational programs Total number of individuals who attended workshops and seminars hosted by Member Agencies of the OACCS.	35,454
Service outreach and delivery contact points This number represents those individuals who received information but did not become clients with a counselling case file number.	280,000

1.3.2 The Canadian Association of Credit Counselling Services

The Canadian Association of Credit Counselling Services (CACCS) was founded in 2009 by the OACCS and its members; given that the OACCS is the founding association, all of its

8 See Subsections 1.1 and 1.2 in Appendix III for more information on the OACCS Accreditation Program and the counsellor certification requirement.

founding Member Agencies are automatically considered members of the CACCS. Currently, the CACCS and OACCS consist of the same Member Agencies.[9]

The CACCS represents a Canada-wide network of accredited, not-for-profit agencies and affiliates with certified credit counsellors and financial coaches who offer preventive education and confidential services to clients experiencing financial difficulties.[10] This association focuses on providing financial counselling education, the accreditation of agencies, and the certification of credit counsellors (ibid.). Given that the CACCS was founded by the OACCS, Member Agencies of the CACCS must abide by the same standards and requirements upheld by the OACCS.

1.3.3 Credit Counselling Canada

Credit Counselling Canada (CCC) is a national association of not-for-profit CCSAs located throughout Canada.[11] The primary focus of CCC Member Agencies is to provide confidential assistance for individuals and families with personal financial issues through education, counselling, and debt repayment programs. To become a member of CCC, a CCSA must be a registered charity and must undergo accreditation.[12] Recently, the CCC passed a formal policy for the certification of its counsellors, but it is expected that a policy will be passed adopted in June 2010[13] (White, 2010). All new CCC counsellors must complete the Accredited Financial Counseling and Planning Education certification courses made available through the OACCS.[14] Designation through these courses must be achieved within 30 months from the date new counsellors are hired (2 years plus a probation period) or for current credit counsellors, it must be completed by July 31st, 2012, along with a continuing education requirement. The figures given in Table 2 will give an idea of CCC's overall size.

9 See Table A2 in Section 1.0 of Appendix III for a complete list of CACCS and OACCS Member Agencies.

10 Canadian Association of Credit Counselling Services' website: www.caccs.ca

11 See Table A3 in Section 2.0 of Appendix III for a list of all CCC Member Agencies.

12 Accreditation offered through CCC is not grounded in any formal legislation, as in the case of the OACCS.

13 Email correspondence dated December 1, 2010 between author and Pat White, CEO Credit Counselling Canada.

14 See Section 1.2 in Appendix III for more information on counsellor certification.

These statistics are for the April 2009 to March 2010 fiscal year and represent the data for CCC's eight Member Agencies.

Table 2: CCCC Operational Data for the April 2009–March 2010 Fiscal Year

Total number of clients served This number includes the total number of new clients counselled, the total number of new debt repayment programs opened, and the total number of participants for the education/workshop sessions.	42,482
Number of new clients counselled Consumers who received a complete financial assessment, as well as education in money management.	28,697
Number of new debt repayment programs opened Consumers who chose to repay debts using the assistance of a CCC member agency.	4,681
Dollars under administration Total amount of debt being administered through all debt repayment programs managed by CCC agency members.	$149,718,386
Dollars disbursed to creditors Total funds disbursed through ongoing debt repayment programs.	$63,916,876
Number of education/workshop sessions Financial education workshops held in local communities, workplaces and schools.	582
Number of people reached Total number of participants for the education/workshop sessions.	9,104
First-time consumers Those who received information but did not become a case with a file number. These users were in addition to those who were counselled and received a full financial assessment; in general, they were people who had questions that required a short answer in person, over the phone, or by email. These questions ranged from "How do I get a copy of my credit report?" to "What are my rights in dealing with collection agencies?"	+ 65,000
Average client age	43
Average gross annual income	$33,366
Average unsecured debt per case	$27,105
Average number of debts per case	6.3

1.4 Credit Counselling Services in Quebec

CCSAs in Quebec operate in a manner different from that of their counterparts in the rest of the country. Known as Associations coopératives d'économie familial (ACEFs), or family economy co-operatives, these agencies originated as an initiative of co-operative grassroots movements consolidated during the 1960s (Uribe and Tait, 2007,11). Although ACEFs help consumers negotiate better repayment terms with their creditors, they differ from the rest of the CCSAs operating in the country in that they do not process debt management plans or take payments or deposits from their clients, and they do not become financial intermediaries between the client and her or his creditors (ibid., 11). Instead, they contact creditors directly in the name of consumer debtors with the objective of obtaining "softer" treatment from creditors (ibid.,11). ACEFs are similar to not-for-profit CCSAs operating throughout the rest of Canada in that they share the fundamental goal of helping their clients take control of their financial well-being, while assuming full responsibility for their debt and managing it in a financially stable manner.

Currently, there are 21 ACEFs operating throughout the province of Quebec providing financial consumer services ranging from budget counselling, debt management, and micro-credit, to information on efficient energy consumption, group consultations, and credit education sessions (Option consommateurs, n.d.). These agencies are primarily concerned with providing comprehensive preventive financial education, as well as budget planning and debt relief services (Uribe and Tait, 2007, 11). Because these agencies focus more on education than on than debt management plan (DMP) processing, the majority of their funding is derived from the Government of Quebec (Ministry of Employment and Social Solidarity), supplemented with membership fees and donations from charities such as the United Way (ibid., 12).

1.5 Withdrawal of Financial Support

During the early 1990s, Ontario experienced an economic downturn. In response to the increasing numbers of consumer insolvencies, the federal government made consumer bankruptcy counselling compulsory, increasing demand for the same form of financial counselling services offered by the Canadian credit counselling services industry. As demand for these services increased, the provincial government of the day made a series of cutbacks, including the elimination of funding for financial education programs (Macklem, 1994–95).

1.6 The Development of Insolvency Counselling

Since 1992, bankruptcy counselling has been mandatory in Canada for bankrupt consumers or debtors as a precondition for an unconditional discharge (Berry and McGregor, 1999, 371). That year, a counselling directive was added to the *Bankruptcy and Insolvency Act (BIA)* that obliges a bankruptcy trustee to provide, or make arrangements for, counselling for a bankrupt person and/or relative, or a consumer debtor (Canada, 1994). This applies to all consumers filing for consumer bankruptcy or a consumer proposal.[15] The purpose of the *Directive* was to provide trustees with directions on how to help debtors learn how to handle money, the causes of bankruptcy, how to keep financial affairs in order, and how to avoid bankruptcy in the future, i.e., reduce recidivism[16] (Berry and McGregor, 1999, 372). This process consisted of a mandatory financial assessment executed by a bankruptcy trustee, mandatory counselling, and optional consumer education (ibid., 373).

In addition, in 2009 new amendments to the *BIA* came into effect that extended mandatory counselling to those consumers filing a consumer proposal (Canada, 2009a). To successfully complete their proposal and receive a Certificate of Full Performance of Consumer Proposal, consumers must undergo two mandatory counselling sessions. Bankrupt individuals who refuse to attend mandatory counselling are not eligible for an automatic discharge (Canada, 2009b).

2. Financial Literacy and the Not-For-Profit Canadian Credit Counselling Sector

Together, the CACCS, the OACCS, and CCC represent the vast majority of not-for-profit CCSAs operating throughout the country. Given that these associations have certain

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15 A consumer proposal is the legal procedure whereby a licensed trustee negotiates on the debtor's behalf to repay only a portion of the outstanding unsecured consumer debt, the total sum of which cannot exceed $250,000, excluding secured debts such as a mortgage. See Appendix IV for more information on consumer insolvency options, including bankruptcy and consumer proposals.

16 In this case, recidivism refers to consumers who have filed for consumer bankruptcy more than once. For a full definition refer to Appendix I.

operational and regulatory requirements, this report focuses on the financial literacy efforts undertaken by not-for-profit CCSAs that are registered Accredited Members of the CACCS, OACCS, and/or CCC. Overall, the Canadian not-for-profit credit counselling sector provides the following financial literacy resources: (1) one-on-one counselling; (2) financial calculators; (3) money trackers; (4) educational seminars and workshops; (5) booklets, brochures and tip sheets; (6) budget planners; and (7) financial coaching.

2.1 One-on-one Counselling

Overwhelmingly, the most effective form of financial literacy is one-on-one counselling, whereby a client and a certified counsellor meet face to face to review the client's budget item by item and determine a budget that works with the his or her current debt load and future financial goals. One-on-one counselling is available to the public free of charge through charitable not-for-profit CCSAs.[17]

The use of one-on-one counselling distinguishes the credit counselling industry from most other general financial literacy sources available. Although this type of counselling can be done over the telephone, face-to-face meetings with a certified counsellor are more effective. For this reason, most not-for-profit CCSAs recommend that clients meet with counsellors in person when possible. The effectiveness of this type of counselling stems from the personalized assessment of a person's actual monthly expenditures and the specific budgetary solutions that the counsellor provides. For example, a credit counsellor can tell clients exactly how much of their disposable income they have available for food and groceries every month, while making payments toward their debts and saving for long-term financial goals such as a down payment for a home. Although other resources such as financial calculators are capable of imparting the same kinds of solutions, they lack the dimension of personal accountability that one-on-one counselling provides.

17 Not-for-profit CCSAs usually view those seeking one-on-one counselling as "first-time consumers." As such, they represent persons who are given financial assessment but do not or cannot sign onto a DMP.

Financial literacy resources such as financial calculators work well with proactive clients who use these resources to supplement their budgetary needs. However, for clients who require an entire financial assessment and need to make significant changes in the way they spend, financial resources that are used at the discretion of the client are not always effective because there is no one holding the client accountable for their spending habits. Because one-on-one counselling requires a client to sit face to face with a certified credit counsellor and discuss his or her expenses item by item, the counsellor helps the client face his or her financial profile (which can be very difficult), eliminates all of the emotional baggage that impedes a person's decision-making, and provides the client with real solutions. This process helps eliminate the fear the client might feel when talking about finances, and replaces it with a sense of security and independence through solutions the client can apply on a daily basis. In doing so, the counsellor helps the client divest the negative emotions many people feel when talking about and dealing with their finances.

One-on-one counselling is a "hands-on" approach that teaches effective personal financial management skills so that individuals and families can manage day-to-day financial choices. A clear understanding of the scope and magnitude of financial decisions over the long term, including credit and the undertaking of debt, is necessary for the sound management of everyday household financing; one-on-one financial counselling strives to help clients develop this level of financial understanding.

2.2 Financial Calculators

A number of financial calculators are available through not-for-profit CCSAs; some of these calculate how long it would take to pay off credit card debt or a mortgage, or to save for a long-term financial goal. These supplementary financial tools are meant to help users formulate realistic financial goals, spending plans, and budgets, as well as to identify what financial and budgetary changes need to be made to accomplish future financial goals. For example, in the case of a financial calculator for credit card debt, the user enters specific financial information, such as the amount of debt on a particular credit card, the interest rate on this debt, and the average monthly payments currently being made toward the elimination of the debt. Depending on the information provided, the calculator can tell the user how long it would take for the credit card debt to be paid in full or what monthly payments would enable the debt to be paid in full by a certain time.

Financial calculators are available in hard copy, as hand-held cards available free of charge through not-for-profit CCSAs, and as free online tools found on various financial management websites, including sites for not-for-profit CCSAs.

2.3 Money trackers

Money trackers are financial tools that help users monitor their spending by requiring them to record all of their daily expenses, including small purchases such as coffees, newspapers, and chewing gum. The purpose of money trackers is to help users become more conscious and aware of their spending in order to decrease unnecessary purchases. Not-for-profit CCSAs provide free money tracker booklets to the public at large.

Money tracker programs are also available from not-for-profit CCSAs through the Internet and can be downloaded onto a mobile phone. These money trackers can be programmed to calculate a user's total monthly expenses and then indicate how much the user should be spending daily in order to achieve specific financial goals by a desired time.[18] The benefit of a downloadable money tracker is that it allows users to control their spending while "on the go" and instantly alerts them to how their spending will affect their household budget at the end of the month and the timeline of their financial goals. There are applicable charges for the upload option to a mobile phone, but using the money tracker program online is free of charge for all users.

2.4 Educational Seminars and Workshops

Personal finance presentations tailored to particular money management problems are also available. These seminars are presented to a variety of professional and administrative

18 One example of a downloadable money tracker is Piggy Pal, available at piggypal.ca. This program allows users to enter their financial profile, budget, debt, and financial goals and indicates how specific purchases will affect their budget.

agencies, including private corporations, professional associates, and municipal/provincial agencies, as well as community groups, secondary schools, colleges and universities, rehabilitation facilities, shelters, and hospitals. These workshops and seminars are presented free of charge to not-for-profit organizations, and for a donation fee to private corporations.

Table 3 lists the various seminars and workshops a Canadian charitable not-for-profit agency currently provides, along with a brief description of each.

Table 3: Seminars and Workshops Offered by Credit Canada

Seminar	Content
Money management and budgeting seminar	• Strategies and the importance of saving for needs, wants, and emergencies • Strategy for establishing and reaching financial goals • Credit costs quiz • Ten rules of money management and budgeting • How to create a realistic budget • Credit bureaus, credit files, and credit ratings • What to compare when shopping for a credit card, proper use of credit, and warning signs of financial difficulty
Money 101 student seminar An in-class seminar targeted to high school students	• The meaning of money • Terms and the importance of credit • Types of credit • Warning signs of credit problems • Credit bureaus, credit files, and credit ratings • Ten basic rules of money management
It pays to manage your money	• Strategies and the importance of saving for needs, wants, and emergencies • Strategy for establishing and reaching financial goals • Ten rules of money management and budgeting • How to create a realistic budget • How to establish a credit rating: credit bureaus, credit files, and credit ratings • Using credit cards: rights and responsibility • What to compare when shopping for a credit card • Understanding your consumer rights

Seminar	Content
Surviving tough times	• Ten rules of money management and budgeting • Strategies and the importance of saving for needs, wants, and emergencies • Strategy for establishing and reaching financial goals • How to create a realistic budget • Credit bureaus, credit files, and credit ratings (what happens when I cannot pay?) • How to deal with creditors and collectors • Understanding your consumer rights
Establishing a strategy for reaching financial goals	• Strategies and the importance of saving for needs, wants, and emergencies • Helpful tips on creating and maintaining a successful budget • Basic rules of money management How the credit rating system works and what happens when payments are late
Surviving a layoff	Covers topics in the "Surviving tough times" seminar, in addition to: • Employment scam alerts • Tips on how to get back to work sooner • Tips on how to raise money
Kids & money This workshop focuses on parents with children aged 2–13	• Ten basic steps to teach children responsibility with money • What to teach your children about money • My spending plan: teaches children how to track their spending, the value of money, as well as how to budget
Couples & money	• Ten basic rules of money management; foundation of solid money management • Attitudes about money; an exercise that interprets couples' financial compatibility score and focuses on an individual view of money • Couples financial communication scale; interprets couples' financial compatibility score and focuses on communication between couples • Couples take the credit costs quiz

2.5 Booklets, Brochures and Tip Sheets

Information booklets, brochures, and tip sheets are available on a wide range of topics concerning the wise financial management of money and the resolution of debt. Some CCSAs have more specialized topics and booklets than others, but all offer some form of organized information on personal money management, which is usually available through their websites, or in some cases in hard copy.

2.6 Budget Planners

Budget planners are worksheets that list all relevant expenditures a household makes on a regular basis. They are meant to help individuals organize, balance, and understand their income and expenses, as well as to help make sound financial decisions as users work toward their goals. This involves listing all of a household's monthly expenses to help identify areas within the budget that can be adjusted in order to save for future financial goals. These are available free of charge, usually as a downloadable worksheet or in a free financial management booklet.

2.7 Financial Coaching

Like one-on-one counselling, financial coaching works directly with individuals and their entire financial profile, including their working budget and any outstanding debt. Most importantly, financial coaching addresses the attitudes and behaviours that drive peoples' financial decision-making. Although imparting theoretical knowledge of financial management is intrinsic to financial coaching, the most important feature of such programs is the attention they give to the emotional and visceral motives behind unwise money management. Financial coaching supplements the one-on-one counselling approach with specific workbooks and exercises that the client is required to complete in order to address the emotional drives and attitudes that affect spending. Unfortunately, no evaluative research has been done to measure the effectiveness of financial coaching versus one-on-one counselling.

What some financial literacy efforts lack is an understanding that people manage their finances emotionally as opposed to intellectually. What this means is that those behaviours and actions that cause individuals to take on more debt than they can handle do not arise from a lack of understanding that debt and overspending are bad. There are emotional and extremely visceral forces that drive individuals to make unwise financial decisions despite their theoretical understanding that supplementing income with credit is bad. Studies have shown that emotional factors are strongly associated with consumer debtor spending (Wiener et al., 2005, 361 and 365). Unfortunately, financial literacy training that does not address the emotional attitudes behind unwise financial decision-making has little impact on the spending habits and behaviours of consumer debtors.

Financial coaching is offered through some not-for-profit CCSAs, such as OACCS Member Agencies. One not-for-profit CCSA offers financial coaching as six personalized sessions that can be spread out over the course of a year. Each session cost $120, with the option to pay on a per-session basis or for the full series in advance. By paying in advance, users can take advantage of a reduced overall rate of $600, for a savings of $120.

3. Financial Literacy and the For-Profit Canadian Credit Counselling Sector

When the credit counselling services industry was first formed, the only players were charitable not-for-profit credit counselling service providers. However, approximately 10 years ago new for-profit CCSAs entered the market. The focus of for-profit CCSAs is to deliver debt consolidation and settlement services to customers (Uribe and Tait, 2007, 16), but because these agencies are not registered charities, creditors do not fund these enterprises through donations. As such, these agencies depend entirely on client fees as their source of revenue.[19] Table 4 summarizes the main differences between for-profit and not-for-profit CCSAs.

Table 4: Comparison of For-Profit Versus Not-For-Profit CCSAs

Characteristic	For-profit CCSAs	Not-for-profit CCSAs (charitable)
Funding	No funding provided	Donations, mainly through DMPs
Legislation	No formal federal or provincial legislation; *Collections Agency Act* for those administering trust accounts	No formal federal or provincial legislation; *Collections Agency Act* for those non-OACCS members administering trust accounts; OACCS legislation applicable to OACCS Member Agencies only
Accreditation	No program requirement	Mandatory
Counsellor certification	No program requirement	Mandatory for OACCS and CACCS; recently made mandatory for CCC[20]
Community partnerships	No data indicating consistency in this area	Significant component of programs and services rendered

19 For-profit agencies charge a set-up fee for a DMP, which is based on the debtor's total outstanding debt, the number of creditors involved, and the duration of the DMP. The initial fee charged for a DMP is approximately 5 to 15 per cent of the client's total debt to be consolidated. For-profit agencies also offer debt settlement plans, in which the total amount of debt owed is renegotiated to a lower amount in exchange for a single payment. The fee for a debt settlement plan is approximately $1,000.

20 Email correspondence dated December 1, 2010 between author and Pat White, CEO Credit Counselling Canada.

Although there is currently no formal federal or provincial government legislation governing the operations of for-profit CCSAs, most for-profit CCSAs operating in Canada are registered members of the Canadian Association of Independent Credit Counselling Agencies (CAICCA) (Uribe and Tait, 2007, 16). As such, the CAICCA provides a coherent list of registered for-profit CCSAs operating throughout the country. Given that the CAICCA has certain registration requirements as well as a code of ethics, this document focuses on the financial literacy efforts undertaken by for-profit CCSAs that are registered members of the CAICCA.[21] When these agencies were contacted by the author, many indicated they did not offer any financial literacy resources; however, those that did offered free financial advice and counselling, and useful links.

3.1 Free Financial Advice and Counselling

When contacted, representatives from a couple of CAICCA Member Agencies indicated that they offered free financial advice to anyone who contacts their respective agency. They also specified that they teach clients how to manage and track their money. The counselling provided by these agencies is for the most part geared toward debt plans,[22] meaning that addressing the financial issues related to setting up the debt plan is considered counselling. In addition, some for-profit CCSAs occasionally refer callers who are seeking guidance on specific personal financial inquiries to professional financial advisors, such as bank investment advisors.

3.2 Useful Links

Some for-profit agencies have websites that provide links directing users to information on government offices, information about bankruptcy, responsibilities as a co-signer, credit reports, payday loans, and links to groups that may be helpful to certain users, such as Habitat for Humanity Manitoba. One particular for-profit CCSA prompts users to a website called *Money Management 101,* which even offers a “crash course” in money management

21 The CAICCA accepts only government-licensed and -bonded agencies as members. Its Code of Ethics lists general stipulations regarding how the CAICCA manages its member agencies, including the level of service they are to provide, their obligations to clients, their treatment of clients, and their support for improving industry regulations.

22 This is based on information provided by representatives from CAICCA member agencies.

for young adults that is mailed to those who purchase it for $27. Although the information presented through this website seems legitimate and thorough, the organization itself is American. It states: "We started Money Management101.org to help American young people understand basic money skills." Most of the information from this website is applicable to Canadians simply because it addresses general money management skills and concerns. However, the fact that it is American can affect the overall quality of the information for a Canadian context.

4. Effectiveness of Financial Literacy Initiatives

4.1 Insolvency Counselling

According to the 1992 *Directive* amendment to the *BIA*, before a debtor can file for bankruptcy or a consumer proposal, a bankruptcy trustee must assess the debtor's financial situation and provide the debtor with various options available for dealing with debt load. If the debtor chooses to file for bankruptcy or a consumer proposal, he or she is required to attend two counselling[23] sessions during the first nine months that precede a discharge, which should be anywhere between 30 to 60 minutes in length each (Schwartz 2005, 1). If the debtor chooses not to attend these sessions, discharge cannot be granted.

The first counselling session that insolvents seeking to file for bankruptcy or a consumer proposal are required to attend is called "Consumer and Credit Education." The lessons learned from this first counselling session are meant to help clients better understand their strengths and weaknesses concerning money management. During this session a qualified counsellor presents information to the debtor on money management, spending and shopping habits, the warning signs of financial difficulties, and the operation and wise usage of credit (ibid.). Under *Directive No. 1R2* of the *BIA,* a qualified counsellor is defined as either an independent counsellor authorized by the trustee, a trustee, an administrator of consumer proposals, or an employee of a trustee who has obtained the qualifications and

23 Under the amendment, "counselling" refers to assisting and educating bankrupts (and/or relatives of bankrupts) or consumer debtors on good financial management. For the complete definition see Appendix I.

skills to provide financial counselling to a debtor, consumer debtor, bankrupt, or relative of a bankrupt (ibid.).

The second session is called “Identification of Road Blocks to Solvency and Rehabilitation.” It begins with a qualified counsellor following up on the first counselling session and assessing whether the client is applying the lessons learned there. During this second session the counsellor is responsible for helping debtors to understand, where appropriate, any non-budgetary causes for their insolvency and for making them aware of any resources that can help them achieve financial stability. Furthermore, the second counselling session is an opportunity for the counsellor to review clients’ financial management and consumption habits and to help debtors develop a financial plan of action that will lead to their financial rehabilitation (ibid., 2).

In principle, mandatory bankruptcy and consumer insolvency counselling is meant to provide a quick remedial course in financial planning and household finance, but this is not always the case (ibid.). In practice, these sessions are often used as a means to maintain contact with debtors, to provide general money management and budget advice, and to address any questions and/or concerns the debtor may have related to the bankruptcy or consumer proposal process (ibid.).

4.2 Recidivism

Determining the effectiveness of financial literacy resources is a somewhat difficult task, mainly because the available literature and studies dedicated to the field are not extensive, are liable to bias, and therefore tend to be inconsistent in their results. However, what is known is that the current recidivism/repeat filings rate for bankruptcy and for credit counselling services (DMPs) is 10 per cent and less than 1 per cent, respectively.[24]

24 CACCS May 2010 submission to the Task Force on Financial Literacy, available at www.financialliteracy.com

Clients on a DMP offered through an OACCS Member Agency receive intensive financial counselling along with the administration of their outstanding unsecured debt. As such, the counselling that clients receive with regard to personal financial management may, in part, have an effect on the low rate of recidivism of credit counselling services. However, DMP clients must have sufficient disposable income to initiate the DMP process and continue on the program; if not, they must seek other insolvency options. As such, DMP clients are in better economic standing than consumers filing for bankruptcy, which may account for the discrepancy between DMP and bankruptcy recidivism rates. Unfortunately, not many studies using experimental or quasi-experimental designs have directly tested the effects of financial literacy information in avoiding proposals, bankruptcies and repeat filings, and in fostering positive spending and saving habits.

4.3 Delivery of Financial Literacy Resources

Currently in Canada both for-profit and not-for-profit CCSAs provide resources in financial literacy, and most of these agencies are members of associations that govern their operations. A condition of not-for-profit incorporation is that net revenues must serve the public good rather than benefiting the administrators. *The Canada Corporations Act* (Part II, s. 154—*Corporations without Share Capital*) states that the purposes of any not-for-profit organization must fit under, or have goals similar to, one of the following categories: national, patriotic, religious, philanthropic, charitable, scientific, artistic, social, professional, or sporting. To ensure that corporations created under this *Act* are not-for-profit, corporations cannot provide financial benefits to their members.

Public-benefit not-for-profit corporations are obligated to carry on activities that are primarily for the good of the public. Their revenue sources may include public and corporate donations, government grants, contract funding, and fee-for-service programs or activities. It is the duty of not-for-profit credit counselling agencies to use their revenues and available funds for financial educative activities and endeavours that serve the public, whereas for-profit agencies have no such legislative obligations. Their respective associations, such as the CACCS, the OACCS, and CCC, regulate the not-for-profit CCSAs' efforts toward public benefit, and continued membership within these associations is based on this effort. If not-for-profit CCSAs did not partake in any financial literacy efforts benefiting the community they would run the risk of losing their membership in their respective associations, thus losing their reputation, legislative protection and representation, and possibly their charitable status.

For-profit CCSAs do not receive any form of compensation for imparting financial literacy resources and skills to clients, while not-for-profit CCSAs must use their revenues for the benefit of the community. More specifically, not-for-profit CCSAs need to provide financial literacy information to anyone seeking it in order to continue to be a member of their respective associations and maintain their not-for-profit status. As such, not-for-profit CCSAs are more involved in providing financial literacy information to individuals. In most cases, for-profit CCSAs are primarily interested in increasing DMPs (in order to increase revenue flows); therefore, they tend not to be extensively involved in delivering financial literacy resources.

4.4 Clients' Perception of Financial Literacy Resources

Given that not-for-profit CCSAs are involved in more activities that deliver financial literacy resources than their for-profit counterparts, they also tend to be involved in more research activities to determine how the financial literacy information they deliver is perceived by their clients. For example, Credit Canada is a charitable not-for-profit CCSA that delivers educational seminars and workshops through its Education Department. At the end of every educational workshop/seminar, the educator facilitating the workshop distributes a one-page questionnaire to all seminar participants for the purpose of assessing how the course was perceived and possible areas for improvement. The results of Credit Canada's participant evaluation forms collected between January and April 2010 have been recorded and catalogued. These completed client evaluation forms serve as an industry sample, indicating how financial literacy resources are perceived by clients.[25]

25 When assessing survey results, it is important to be aware of their inherent limitations and to take client biases into account. Sometimes clients will give positive responses on feedback questionnaires because of time constraints. At other times, clients will give positive reviews as a result of perceived social pressure,

4.4.1 Client Evaluation Results

From January to April 2010, Credit Canada collected a total of 795 completed client evaluation forms. These forms were distributed at the end of every financial seminar facilitated by Credit Canada's Education Department, and seminar participants were asked to complete them for the purpose of seminar improvement. Seminar participants were asked to assess the following criteria on a scale from 1 to 5 (1 = poor, 2 = average, 3 = above average, 4 = good, 5 = excellent):

- presentation content
- presentation quality
- question/discussion
- overall opinion of seminar
- impact on future financial decisions
- recommended to others
- materials presented.

For statistical purposes, a ranking of 4 or 5 is considered favourable, and a ranking of 1, 2, or 3 unfavourable.

Overall, the questionnaires appear to indicate that participants and clients of these financial literacy workshops perceive them to be quite positive and effective.[26] The following table displays the percentage results of all seven areas evaluated.[27]

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i.e., because the organization receiving the completed questionnaire is the one that facilitated the workshop.

26 Credit Canada provided the questionnaires/client reviews that it collected between January and April 2010.

27 These percentages were adjusted to represent total responses received per criteria. Not all 795 respondents evaluated all seven areas; some criteria were skipped.

Table 5: Credit Canada Seminar/Workshop Client Evaluation Results

	Favourable score, %	**Unfavourable score**, %
Presentation content	96.68	3.32
Presentation quality	95.42	4.58
Question/discussion	94.14	5.86
Overall opinion of seminar	93.04	6.96
Impact on future financial decisions	91.55	8.45
Recommended to others	92.36	7.64
Materials presented	93.22	6.78

*Score of 4 or 5
†Score of 1, 2, or 3

Over 90 per cent of all responses received were favourable for all areas evaluated. Although these data are limited in that they are based on a single component (financial seminars/workshops) of financial literacy efforts undertaken by a single charitable not-for-profit CCSA, they serve as a positive indication that financial literacy efforts are, for the most part, well received by clients.

Interestingly, the area that received the highest percentage of unfavourable scores concerned the perceived impact that the seminar would have on the respondents' future financial decisions. As mentioned earlier, one-on-one interaction with a counsellor is imperative in re-organizing one's finances. It is a somewhat stressful process, and for that reason people seek to avoid it altogether. Because no one is holding a person accountable, people are usually successful in maintaining their old habits, including spending and financing. Perhaps those respondents responsible for the increase of unfavourable scores were aware of this and, as such, knew that the lessons learned in financial literacy seminars would have little effect on their future financial decisions. The figure is not alarmingly high, but it does provide some indication that the overall impact of seminars on participants' future financial decisions could be improved.

4.5 Academic Evaluation of Financial Literacy Education by Credit Counselling Agencies

A report that reviewed the results of the Coalition for Consumer Bankruptcy Debtor Education's 18-month demonstration project, "Making Sense of Cents," suggested the positive value of financial literacy training (Wiener et al. 2005, 364). It concluded that—with regard to knowledge about wise and unwise spending, saving, and credit—debtors who completed a financial training course showed significant increases in their knowledge scores (ibid., 362). In addition, debtors' financial knowledge increased after training, and their attitudes toward unnecessary spending were more negative than those of untrained debtors and non-debtors (ibid.). Although the study was based on debtors residing in the United States, the results might be viewed as an indication of the potential effectiveness of financial literacy in general.

The goal of the demonstration project was to provide financial education to debtors that enabled them to emerge as more thoughtful and knowledgeable participants in the consumer marketplace (ibid., 351). This was in response to the speculation that those individuals who file for bankruptcy and do not receive any form of financial management intervention will emerge from the bankruptcy system in the same state as when they entered it, and thus remain in a cycle of insolvency and debt (ibid.).

The study consisted of delivering a financial management curriculum to more than 600 individual debtors residing in New York who had filed for Chapter 7 or Chapter 13 bankruptcy protection. The study compared the financial literacy test results of some of these individuals with those of two other test groups of untrained debtors and non-debtors, for a total of over 400 individuals comprising all three groups The untrained debtor group consisted of debtors who neither volunteered nor received debtor education, while the non-debtor group was comprised of representatives from the general public who had not filed for bankruptcy. All three groups were given a pre-test questionnaire to test their knowledge and skills on financial matters; the trained debtors were given the pre-test before beginning the financial management curriculum.

Three months after the trained debtors completed the curriculum, all three groups were given a post-test survey identical to the pre-test questionnaire; this again tested their knowledge and skills concerning financial matters.

The study findings demonstrated that the only group to show a significant difference between pre-test and post-test knowledge scores was the trained debtor group. However, it is important to note that the trained debtors scored significantly lower on the pre-test in comparison with the untrained debtors and non-debtors, whereas the three groups had equivalent knowledge scores at the post-test (ibid., 358). This means that, although the trained debtors began the study with less knowledge than the untrained debtors and non-debtors, they had the same level of financial knowledge as both groups after completing the financial literacy program (ibid.). The reason for the increase was not only that the course helped increase these individuals' knowledge of financial matters, but also that those who scored high on the pre-test (and received financial training afterward) did not lose knowledge from pre-test to post-test, as did high scorers from both the untrained and the non-debtor group. This suggests that financial literacy courses help individuals retain and reinforce the financial knowledge they already possess.

The study results also suggest that there is a positive correlation between having received the financial management curriculum and holding fewer unpaid bills, fewer credit cards, and lower credit card balances. Follow-up post-hoc tests revealed that, when compared with the untrained debtors and non-debtors, the percentage of trained debtors without unpaid bills in the last month and who put together household budgets increased from pre-test to post-test,(ibid., 364). The trained debtors not only had fewer credit cards than either the untrained debtors and the non-debtors, but those who reported using credit cards showed a lower monthly balance than did either of the other groups (ibid.,).

4.5.1 Attitudes and Consumer Behaviour

The study's facilitators measured participants' attitudes toward unnecessary spending by presenting respondents with four hypothetical scenarios regarding unnecessary purchases in both the pre-test and post-test questionnaires.[28] For each of the four scenarios, participants were asked to respond to three different pairs of questions using a nine-point scale (each question had its own scale flanked by two verbal anchors). The first pair asked respondents to indicate the feelings they would have about making the purchase (1 = displeased, 9 = pleased) and the importance of their feelings in the purchasing decision (1 = unimportant, 9 = important). The second set of questions asked respondents to indicate the feelings their friends and/or family would have about the purchase (1 = displeased, 9 = pleased) and how important their opinion was in the respondent's decision to make the purchase (1 = unimportant, 9 = important). The final set of questions asked respondents to indicate the amount of control they perceived to have over the purchase (1 = no control, 9 = complete control), and finally their likelihood of making the purchase (1 = unlikely and 9 = very likely).

With respect to attitudes, the study showed that those participants with high scores for perceived control showed less intention to make unnecessary purchases than those with low scores for perceived control (Wiener et al. 2005, 359). The study also showed that those with low perceived control seemed to be more affected by positive attitudes and social pressures toward buying, and that these factors were predictive of a greater intention to make unnecessary purchases (ibid., 364). In contrast, those individuals with high perceived control over their spending were not only unaffected by social norms, but the effect of their own attitudes toward making unnecessary purchases had less impact on purchasing decisions than it did among those who had low perceived control (ibid., 359). This indicates that a person's perceived control over spending and overall financial status has a significant impact on intentions to spend unnecessarily. As such, an important feature

28 The four scenarios were (1) buying a new car once the loan on the current car is paid; (2) going on a cruise with a friend when money is tight; (3) furnishing an entire apartment with new furniture for a monthly rental payment; and (4) purchasing a new washer/dryer when the current machine is still functional.

that may be included in financial literacy efforts is to increase perceived control over financial matters, in particular unnecessary spending, and to address not only clients'/participants' attitudes toward spending but also those of significant people in their lives (ibid., 364).

5. The Changing Credit Counselling Landscape: Implications for Financial Literacy

The Canadian credit counselling services industry has, for the most part, enjoyed a strong reputation as a community-oriented industry with a sincere dedication to improving the financial lives of struggling Canadians. This reputation was based on the traditional model of credit counselling, fashioned after the first credit counselling agency in Canada. However, with the entrance of new competitors into the Canadian credit counselling landscape, a new business model has emerged that strays from the Canadian industry's roots. This change has prompted scrutiny of the operations and quality of services provided by the industry as a whole. The increased vigilance over the industry has caused some consumer advocacy groups and financial critics to question the industry's overall ability to impart financial literacy information in a way that makes a meaningful change in the financial lives of struggling Canadians. Critics have also questioned creditor involvement in funding financial educative initiatives meant to decrease consumer debt.

5.1 Creditor Support of Financial Literacy

Creditors play an integral role within the charitable not-for-profit sector of the credit counselling industry as funding entities for financial literacy resources. They provide this funding either as a lump sum donated for a specific financial literacy project or through the processing of DMPs.[29]

Recently, the credit counselling industry has received some criticism for creditor involvement in funding charitable not-for-profit CCSAs and their financial educative

29 For a more detailed description of how creditors provide funding through DMPs, see Subsection 1.1 in Appendix IV.

initiatives, the assumption being that, because of the interest earned on overdue accounts, creditors are more profitable when debtors carry outstanding balances. As such, it seems discordant that creditors would voluntarily fund initiatives—essentially DMPs—meant to decrease the amount of interest earned and owed to them.

To pursue this question, the author contacted a representative from a major Canadian bank, who agreed to provide input off the record.[30] This representative explained that, although outstanding debt balances secure revenue in the interest earned, Canadian creditors are not interested in having clients that push the limits of their income to the point that they become delinquent in their payments. This is because managing these clients' accounts cost creditors more in time and resources than those for which regular payments are made on time. Furthermore, because in Canada there are no delinquency fees when clients do not make the required payments,[31] there is no financial incentive for Canadian creditors to have clients that are delinquent in their payments to creditors.[32]

The representative explained that creditors benefit from investing in financial literacy education because it costs more to manage a client experiencing financial difficulty. Informed consumers are better consumers in the long run because they are easier to work with and thus decrease the amount of time and the costs associated with managing their accounts. This future financial benefit motivates creditors to support the work and educative programs provided by charitable not-for-profit CCSAs. For this reason, some creditors feel that more emphasis should be placed on providing preventive education to

30 The conversation took place on May 21, 2010.

31 US creditors charge fees to clients who are delinquent in their payments.

32 Preventive financial literacy education can help consumers avoid future financial problems, such as becoming delinquent in their payments and, in turn, seeking insolvency options such as DMPs, consumer proposals, and/or bankruptcy. With these insolvency options, creditors risk losing some form of financial gain—either as interest earned on the outstanding debt (through DMPs) or as a portion of the total debt (through consumer proposals and bankruptcy). The bank representative, however, never stated that reducing the number of DMPs, consumer proposals, and/or bankruptcies was a motive for creditor funding.

avoid future financial problems, which will consequentially also increase the wise usage of debt.

5.2 Introduction of US Competitors into the Not-for-profit Sector

In 2006, two major competitors from the United States entered the Canadian credit counselling services industry. Both agencies applied for and received charitable status in this country, and as such now compete within the charitable not-for-profit sector of the industry.

Since these agencies have entered the sector a number of problems have been raised by both clients and creditors. The bank representative who provided the author with creditor input for the previous section of this report believes that the operations of US-based not-for-profit CCSAs appear to focus more on securing creditor funding through the administration of DMPs than on educating and counselling consumers to help avoid future payment difficulties. Instead of offering a grassroots, personalized approach to counselling, the US CCSAs offer broad-based telephone counselling.

Since the introduction of American agencies into the Canadian credit counselling landscape, there has been an increase of DMP proposals from these American agencies. More specifically, the bank representative interviewed by the author indicated that many people who should not go on a DMP are being advised to do so by these agencies, with consequent damage to their credit rating. DMPs are a good resource for people who have had many delinquencies, because under these circumstances going on a DMP program would improve their credit rating. However, for consumers who have not become delinquent in their payments, going on a DMP could in fact damage their credit rating.

The traditional credit counselling services business model is about budgeting and formulating feasible spending plans with clients; according to the bank representative, this level of service is simply not being provided by these US agencies. The quality of assessment is absent from their financial counselling, and in some cases they do not provide enough client information for the DMP to be approved by creditors. In response to these issues, creditors have become more reluctant to accept payment proposals made on behalf of all CCSAs. This is to help prevent CCSAs from utilizing DMPs as a means of increasing funds rather than as a tool to resolve consumer debt. According to the bank representative, if the typical DMP decline rate is 30 per cent for traditional CCSAs, the decline rate for non-traditional CCSAs is from 45 to 50 per cent.

Public perception of the operations of not-for-profit CCSAs has also been affected by the introduction of these US agencies. On March 19, 2010, CBC's *Marketplace* presented a segment entitled "The Debt Trap" that highlighted the operations of US-based charitable not-for-profit CCSAs currently operating in Canada. *Marketplace* is a Canadian investigative television program that highlights issues affecting Canadian consumers. The purpose of this particular segment was to evaluate the ability of these CCSAs to provide counselling in managing money, information on how to control spending, and recommendations on how to eliminate debt. The program concluded that the not-for-profit CCSA in question provided no information on how to create a budget, spend differently, or save any money.

An important feature of traditional Canadian charitable not-for-profit CCSAs is that their roots are in community service; accordingly, their mandate is to provide preventive and remedial financial literacy resources that address the issues underlying consumers' financial instability. Part of this includes drawing up detailed budgets and reviewing them in person with clients. In "The Debt Trap" segment, Rick Fifield, past president of the Credit Counselling Service of Newfoundland and Labrador, said the American model of credit counselling services is limited to telephone counselling, in which a client receives some basic ad hoc counselling and a bit of information on fees and what the agency can do for the client; this is the lowest grade of counselling service possible. Mr. Fifield went on to say that an integral component of good credit counselling is financial literacy efforts whereby clients are able to sit face to face with certified credit counsellors and review their budgets in detail. Proper financial counselling involves understanding the circumstances leading to the financial difficulties people face and understanding what needs to be done in the future to avoid these difficulties. This is best achieved through one-on-one, in-person counselling.

5.3 Overall Effectiveness of Financial Literacy Education

For the most part, creditors, clients, and advocates of the traditional Canadian credit counselling services business model agree that financial literacy education is beneficial, if not essential, to increasing Canadians' ability to effectively manage their finances and achieve financial well-being. However, in view of the changing landscape of the credit counselling industry, more focus needs to be placed on the quality of financial education provided and on the form of education that is most effective in achieving desired results. Some studies show that a consumer's financial knowledge can be increased with the use of financial literacy tools, but an increase in financial knowledge does not necessarily lead individuals to make wiser financial decisions. Nonetheless, findings demonstrate that, with the careful application of psychological and education theory, debtors can experience positive effects with regard to acquiring knowledge, altering attitudes, and changing consumer behaviour (Wiener et al., 2005, 365). Targeted financial education may also promote savings in low-income households, but unfortunately these types of educational programs are not always readily available to people living on lower incomes (Beverly and Sherraden, 1999, 466).

6. Conclusion

The not-for-profit sector of the credit counselling services industry is more extensively involved in delivering financial literacy resources than the for-profit sector. In total, agency members of the three associations governing charitable not-for-profit CCSAs (CACCS, OACCS, and CCC) have served close to 250,000 clients across the country since 2009. More specifically, throughout the 2009 fiscal year the OACCS was responsible for providing complete financial assessments, education in money management, and/or general assistance in financial matters to 209,251 consumers. The total personal debt for new cases seen by OACCS Member Agencies was $1.098 billion in 2009, and the total amount of debt administered through debt repayment programs managed by CCC agency members reached $148,718,386 from April 2009 to March 2010. Together, these figures begin to describe the extent to which the credit counselling services industry is involved in and contributes to the financial well-being of Canadian consumers.

Overall, the not-for-profit credit counselling sector reached nearly 45,000 individuals since 2009 through the financial seminars and workshops facilitated by agency members of both the OACCS and CCC. Evaluative data provided by one agency member of the OACCS indicated that, in general, the financial resources delivered through these financial seminars and workshops are received favourably by participants. Over 90 per cent of all received responses evaluating the seminars were favourable for all areas evaluated. Although this finding is limited in that it is based on the financial seminars and educative workshops undertaken by a single charitable not-for-profit CCSA, it serves as a positive indication that financial literacy efforts are, for the most part, well received by its clients.

Judging from a review of the various financial literacy resources delivered by CCSAs and an assessment of the opinions expressed by industry stakeholders and credit counselling providers, one-on-one counselling appears to be the most effective financial literacy service available in terms of changing the way people manage their everyday finances. Its overall effectiveness can be attributed to the personalized assessment of a person's actual monthly expenditures and the specific budgetary solutions the counsellor provides. Furthermore, the recidivism rate of DMPs compared to that of bankruptcies seems to suggest that one-on-one counselling imparted by CCSAs via the administration and management of DMPs is more effective in reducing recidivism than bankruptcy counselling.

Although other resources, such as financial calculators, are capable of imparting the same solutions delivered by one-on-one counselling, they lack the accountability that one-on-one counselling provides. Because one-on-one counselling requires clients to sit face to face with a credit counsellor and discuss their expenses item by item, the counsellor helps clients to face their financial profile while providing them with applicable solutions. This process helps the client ignore or eliminate emotions such as fear that can affect their decision-making, replacing these feelings with the sense of security and independence that can be gained through everyday financial solutions. One-on-one counselling helps clients divest themselves of the negative emotions they may feel when talking about and dealing with their finances, which allows them to change their attitudes toward money and borrowing. The hands-on approach teaches effective personal financial management skills so that individuals and families can manage day-to-day financial choices and acquire an understanding of the scope and magnitude of financial decisions over the long run, including credit and the undertaking of debt.

The delivery channels established by the not-for-profit sector of the Canadian credit counselling industry, as well as the integration of its various financial educative resources over the last 45 years, seem to provide a viable avenue through which financial literacy resources can be delivered to Canadian consumers.

Appendix I: Glossary of Terms

Please note that all terms are defined within the context of credit counselling and financial literacy. Definitions may differ within other contexts of discussion.

Accreditation: a detailed assessment of an agency's ability to meet mandatory standards in governance (Board of Directors), administration, general programming, and credit counselling. Currently, two accreditation programs are available in Canada; these are offered by the Ontario Association of Credit Counselling Services (OACCS) and Credit Counselling Canada (CCC). A credit counselling service provider does not need to have accreditation to operate in Canada, but a member of the agency must fulfill a collections course requirement. Essentially, this course enables credit counselling providers to execute their business and services, but their operations are not regulated in the same way as accreditation would otherwise ensure.

Bankruptcy: a legal process that can protect debtors from any unsecured creditor garnishing their wages or initiating any other collection action against them. However, bankruptcies do not affect the rights of secured creditors who have a valid security against a debtor's property, such as a car or a house.

Consumer debt: any kind of debt a consumer might have that is unrelated to business debt, such as debt related to automobile ownership, credit cards, lines of credit, or mortgages. Consumer debt does not necessarily refer only to unsecured debt: a consumer can have both secured and unsecured consumer debt. For example, a consumer can have secured consumer debt in the form of a mortgage or line of credit, but also unsecured consumer debt from credit cards or payday loans. Credit counselling agencies are concerned with eliminating a consumer's total unsecured debt.

Consumer proposal: a legal procedure whereby a licensed trustee renegotiates on the debtor's behalf to repay only a portion of the outstanding unsecured consumer debt; in such cases the total sum of the debt cannot exceed $250,000, excluding mortgages.

Counselling: under *Directive No. 1R2* of the *Bankruptcy and Insolvency Act,* assisting and educating bankrupts and/or relatives of bankrupts, or consumer debtors, on good financial management (Uribe and Tait, 2007, 18). This includes the prudent use of consumer credit and budgeting principles, developing successful strategies for achieving financial goals and overcoming financial setbacks and, where appropriate, making referrals to deal with the non-budgetary causes of insolvency (such as gambling, addiction, or marital and family problems) (ibid., 10).

Credit rating: a letter and numerical rating used by lenders and creditors to assess a consumer's ability to manage credit and to determine whether additional credit should be extended to the consumer. An "I" letter rating refers to credit given on an instalment basis, such as a car loan, where money is borrowed once and repaid in fixed amounts on a regular basis. An "O" letter rating refers to an open credit account, such as a line of credit, that enables a consumer to borrow money as needed up to a certain limit, the total balance being due at the end of each period. An "R" letter rating is the most common rating and refers to revolving credit, such as credit cards, for which regular payments are made in varying amounts, depending on the account balance. Table A1 summarizes the different "R" ratings; however, an "I" will appear in front of the numerical rating for

Table A1: Credit Rating Chart

R0	Too new to rate; approved but not used
R1	Pays (or paid) within 30 days of payment due date or not over one payment past due.
R2	Pays (or paid) in more than 30 days from payment due date, but not more than 60 days or two payments past due.
R3	Pays (or paid) in more than 60 days from payment due date, but not more than 90 days or three payments past due.
R4	Pays (or paid) in more than 90 days from payment due date, but not more than 120 days or four payments past due. Pays (or paid) in more than 90 days from payment due date, but not more than 120 days or four payments past due.
R5	Account is at least 120 days overdue, but is not yet rated "9."
R6	This rating does not exist.
R7	Makes regular payments through a special arrangement to settle debts.
R8	Repossession (voluntary or involuntary return of merchandise).
R9	Bad debt; placed for collection; moved without giving a new address; bankruptcy.

Source: Canada's Office of Consumer Affairs instalment credit accounts and an "O" will appear in front of the numerical rating for open credit accounts.

Debt management plan (DMP): a payment option targeted to financially struggling individuals who are unable to keep up with their monthly bills. Clients meet with a certified credit counsellor, discuss the possibility of consolidating all of their outstanding unsecured consumer debt, and formulate an affordable payment that the debtor sends to the credit counselling agency on a monthly basis for the entire duration of the DMP (Ben-Ishai, Schwartz and Barretto 2010, 559).

Orderly payment of debt (OPD): a payment program designed to help individuals pay off their full unsecured consumer debts at a reduced interest rate (usually five %) by consolidating their debt and determining an amount they can and must pay on a periodic basis to their respective creditors. This is essentially a DMP, with the exception that creditors are legally obligated to accept the terms of payment made by an OPD administrator on the clients' behalf because it is a provincial court of law that sanctions the payment terms as fair and just.

Pro-rated: repayment programs that take into consideration the proportion of a client's total unsecured consumer debt represented by each creditor. When the client makes payments toward eliminating this debt, the payments are disbursed to each creditor according to their portion of the client's debt. This is to ensure that all of the client's debts are paid in full at the same time. For example, a client may have a total of three creditors representing 50 per cent, 25 per cent, and 25 per cent of their total unsecured consumer debt load. A pro-rated work-out program would direct 50 per cent of every payment that the client makes toward eliminating this debt to the creditor representing 50 per cent of the client's total unsecured consumer debt, and 25 per cent of the monthly payment to each of the other two creditors.

Recidivism: the repetition of undesirable behaviour after a person has either experienced negative consequences of that behaviour, or has received an intervention (e.g., treatment or training) to help him or her refrain from the behaviour. With regard to bankruptcy, the recidivism rate refers to the percentage of consumers who have filed for consumer bankruptcy more than once.

Appendix II: Federal and Provincial Legislation Governing the Industry

There is no formal federal legislation that specifically governs the operations of the credit counselling services industry. For this reason, CCSAs are controlled on a provincial basis. Interestingly, there is also no standard provincial legislation that focuses solely on the operations of CCSAs. Instead, every province has its own set of consumer protection laws, as well as a consumer affairs bureau that ensures the enforcement of provincial consumer protection laws. However, because not all consumer protection laws extend to the operations undertaken by CCSAs, consumer affairs bureaus have no legislative mandate to assess the operations of CCSAs (Uribe and Tait, 2007, 19).

The debt collections industry is regulated provincially, and credit counselling service providers in Newfoundland, Prince Edward Island, Nova Scotia, Ontario, Manitoba, Saskatchewan, and Alberta fall under debt collection laws, although only to a certain extent. This is because in order to run a debt management plan (DMP)[33] program a CCSA must have a trust account, which allows the CCSA to disburse payments to creditors on behalf of their clients. Only those operations that are related to the management of a trust account are regulated, and they fall under the legislation of the *Collections Agency Act*.

The *Collections Agency Act* stipulates that a CCSA wishing to manage a trust account must obtain a registered license to do so. As such, the only regulated operations are those related to the trust account and DMPs; all other services and business operations in which CCSAs participate (including those related to financial education) are unregulated. However, in view of the different types of services that CCSAs offer, the licensing requirement may not be applicable in some provinces. For example, if a CCSA is an accredited member of the Ontario Association of Credit Counselling Services (OACCS) it is allowed an exemption from the license registration requirement.

33 See Section 1 in Appendix IV for more information on DMPs.

Appendix III: Regulatory Associations and Requirements Controlling the Industry

1. Member Agencies of the Canadian Association of Credit Counselling Services (CACCS) and the Ontario Association of Credit Counselling Services (OACCS)

Table A2 lists all of the not-for-profit credit counselling agencies that are current members of the CACCS and OACCS, along with the areas they serve.

Table A2: Current Membership of the CACCS and OACCS

CACCS and OACCS Member	Areas served
1000 Islands Credit Counselling Services	Brockville, including Leeds, Grenville and Prince Edward Counties
Catholic Family Services of Hamilton	Hamilton and Wentworth Region
Community Counselling & Resource Centre, Peterborough	Peterborough and Victoria Region
Community Counselling Centre of Nipissing	North Bay and North Eastern Ontario
Consolidated Credit Counseling Services of Canada, Inc.	All of Canada
Counselling and Support Services of Stormont, Dundas & Glengarry	Cornwall and Eastern Ontario
Credit Canada	Greater Toronto Area, including Markham, Weston, Bloor West, Danforth, Richmond Hill, Etobicoke, Scarborough, Mississauga, York and Peel Region
Credit Counselling of Regional Niagara	St. Catherines, Grimsby, Welland, and Niagara Region
Credit Counselling Service of Durham Region	Oshawa and Durham Region
Credit Counselling Service of Sault Ste. Marie and District	**Sault Ste. Marie and District**
Credit Counselling Service of Simcoe County	Barrie and Simcoe County
Credit Counselling Services of Cochrane District	**Cochrane District**, operating in Timmins
Credit Counselling Services of Southwestern Ontario	**Windsor, Sarnia-Lambton, and Essex Regions**
Family Counselling and Support Services for Guelph-Wellington	Guelph and Wellington County
Family Counselling Centre of Brant	Brantford and Brant Region
Family Service Kent	Chatham and Kent Region
Family Service Thames Valley	London, Middlesex, Elgin and Oxford Counties
Family Services Perth-Huron	Stratford, Owen Sound, Perth-Huron, Grey and Bruce Regions
Halton Family Services	Oakville and Halton Region
K3C Community Counselling Centres • Quinte Region Credit Counselling Service • Brockville Credit Counselling • Credit Counselling Services of Eastern Ontario	Eastern Ontario, including Belleville, Brockville, Oshawa, and Ottawa
Mosaic Counselling & Family Services	Kitchener and Waterloo Region
Sudbury Community Service Centre	Sudbury and Northern Ontario
Thunder Bay Counselling Centre	Thunder Bay and North Western Ontario

1.1 OACCS Accreditation Program

The Accreditation Program offered through the OACCS evaluates agencies' operations and services according to the standards set by Family Services Ontario (FSO) and the OACCS. It serves the needs of clients, creditors, the community in general, and funding bodies by identifying agencies that meet the established standards of operation and service and assisting agencies to meet and maintain these standards.

The OACCS Accreditation certificate is awarded to OACCS agency members after they complete a process of submitting documentation and undergo a field audit to prove that they adhere to OACCS guidelines and meet required specifications. To achieve accreditation, agencies must successfully demonstrate that the Board, staff and program structures meet specific standards.[34] Management, financial, administrative, and program records are examined. The entire process takes anywhere from 18 to 24 months (ibid.). This certification warrants that a credit counselling service provider is competent to address the sensitive and complicated issues faced by financially troubled Canadians. It is a method used to protect Canadians seeking debt management help through CCSAs by ensuring that they are assisted only by agencies whose primary interest is their clients' financial well-being.

Upon approval, OACCS Accreditation is granted for a period of five years, and Member Agencies are monitored for compliance on an annual basis. Prior to the expiry of their accreditation term, Member Agencies must re-qualify to maintain OACCS accreditation (ibid.).

1.2 Counsellor Certification

Counsellor Certification is a mandatory employment requirement for any credit counsellor working for a member agency of the OACCS, CACCS and CCC. Prior to June 2010, the CCC had no counsellor certification requirement; as such the new requirement will be implemented on a timeline where all new counsellors must acquire their certification

34 See OACCS website: www.oaccs.ca

within 30 months of being hired, and all current counsellors must acquire it by July 31st, 2012.

The AFCC℠ designation provides an opportunity for credit counsellors and those working in financial counselling to earn a professional designation in the field of Canadian credit counselling (ibid.). OACCS is the exclusive provider of Counsellor Certification in Canada with the OACCS Certified Credit Counsellor Designation and OACCS is also the exclusive licensee of the Accredited Financial Counsellor Canada (AFCC) program. The purpose of the AFCC℠ program is to warrant that all credit counsellors have, as a result of their qualification, specialized knowledge, unique skills and expertise, and have the ability to translate financial knowledge into personalized recommendations for clients seeking financial help.

2. Member Agencies of Credit Counselling Canada (CCC)

Table A3 lists all of the not-for-profit credit counselling agencies that are current members of CCC, as well as the provinces and/or territories that they serve.

Table A3: Current Members of Credit Counselling Canada

Member	Province/Territory
InCharge Canada	Ontario
SOS Dettes	Quebec
Credit Counselling Services of Atlantic Canada, Inc.	Newfoundland, New Brunswick, Prince Edward Island, Nova Scotia
Credit and Debt Solutions	Newfoundland
Community Financial Counselling Services	Manitoba
Credit Counselling Society	Manitoba, Saskatchewan, Alberta, British Columbia, Yukon, Northwest Territories, Nunavut
Provincial Mediation Board, Credit Counselling and Debt Management Services	Saskatchewan
Money Mentors	Alberta, Northwest Territories, Nunavut

3. Member Agencies of the Canadian Association of Independent Credit Counselling Agencies (CAICCA)

The Canadian Association of Independent Credit Counselling Agencies (CAICCA) was formed 10 years ago. Its purpose is to promote awareness and understanding of the industry through initiatives provided to creditors, business, government, and consumers (CAICCA, n.d.). The association represents its members' interests in both private and public sector forums and monitors member conduct and compliance through consumer and government reporting channels (ibid.). In an effort to maintain some form of standardization among all of its Member Agencies, the CAICCA developed a complete code of ethics for its members. As a further regulatory standard, the association accepts only government licensed and bonded agencies as potential members. Table A4 lists the CAICCA members and the areas they serve.

Table A4: CAICCA Member Agencies

CAICCA Member	Area served
AAA Credit Counsellors & Debt Consultants	Serves nationally, but operates out of Prince George, B.C.
CCC Consumer Credit Counselling (1993) Ltd.	Serves nationally, but operates out of Burnaby, B.C.
Creditaid	Serves nationally, but operates out of Winnipeg, Man.
Credit Counsellors of BC (1998) Ltd.	Serves nationally, but operates out of Burnaby, B.C.
Fraser Valley Credit Services Ltd.	Serves nationally, but operates out of Surrey, B.C.
Solutions Credit Counselling Service Inc. (Credit Solutions Canada)	Serves nationally, but operates out of Surrey, B.C.
Okanagan Credit Counsellors Ltd.	Serves nationally, but operates out of Red Deer, Alta.

Appendix IV: Options for Managing Insolvency

Table A5 summarizes the options available to insolvent Canadian for dealing with their unsecured consumer debt: debt management plans (DMP), orderly payment of debts (OPD), consumer proposals, and bankruptcy. Because only a licensed trustee can administer a consumer proposal and/or bankruptcy, once a client decides to proceed with either of these options he or she is beyond the realm of the credit counselling industry.[35] For this reason, this section will focus specifically on DMPs and OPDs, discussing consumer proposals and bankruptcy only in reference to these options.

Table A5: Insolvency Options Comparative Chart

	DMP	OPD	Consumer proposal	Bankruptcy
Administrator	Credit counsellors*	OPD administrators	Licensed trustees	Licensed trustees
Funding provided to administrating agency	Portion of monthly payments made to creditors, ranging from 0 to 22 per cent	Portion of monthly payments made to creditors	Portion of debtor's total unsecured consumer debt load is paid to the trustee	Trustee fee determined by the trustee for the duration of the bankruptcy
Impact on credit rating	R7 or R9, depending on the creditor; R7 for 2–3 years after completion	R7 or R9; remains on credit report for 3 years after completion	R7 or R9; remains on credit report for 3 years after completion	R9 for 6 years from the date discharge is granted
Duration	Maximum of 5 years	Maximum of 3 years	Maximum of 5 years	Depends on when discharge is granted, on whether this is consumer's first bankruptcy filing, and on required trustee payments
Amount of unsecured consumer debt	Full	Full	Portion	Discharged
Mandatory counselling	Yes, but at the discretion of the counsellor	Yes, but at the discretion of the OPD administrator	Yes, two sessions	Yes, two sessions
Legislative enforcement	No	Yes	Yes	Yes
Asset and wage garnishment protection	Yes	Yes	Yes	No

* For CACCS and OACCS Member Agencies, only certified counsellors can manage DMPs.

35 As such, there is no incentive for the credit counselling sector to advise clients to file a consumer proposal or file for bankruptcy.

1. Debt Management Plans (DMPs)

Among the key services provided by credit counselling agencies (both for-profit and not-for-profit) are debt management plans (DMPs) targeted to financially struggling individuals who are unable to keep up with their monthly bills.

In devising a DMP, clients meet with a certified credit counsellor, discuss the possibility of consolidating all of their outstanding unsecured consumer debt, and formulate an affordable payment that the debtor will send to the credit counselling agency on a monthly basis for the entire duration of the DMP (Ben-Ishai, Schwartz and Barretto 2010, 559). Once a person has indicated to their credit counsellor that he or she wishes to initiate the DMP process, the credit counsellor will notify the client's creditor(s) and forward a request to obtain relief, negotiate late fees, and possibly obtain interest rate reductions at the discretion of each creditor (ibid.). If the client's creditors accept the repayment terms and proposal, the agency can move forward with the DMP and the client can begin to make single payments that the agency then disburses on the client's behalf to each creditor on a pro-rated basis (Uribe and Tait, 2007, 5).

Individuals who sign onto a DMP must pay back the outstanding debt in full, including the interest earned on the debt up until the moment of signing. DMPs provide an option to struggling individuals to pay back their outstanding loan at an interest rate and payment schedule that is not financially crippling.

Some creditors will change the credit rating of a client who is on a DMP to an R7 and others to an R9, while others make no changes at all. A client's credit rating will be affected until the final payment is made on the DMP and will remain on a client's credit record as an R7 for two to three years (two years in Ontario and three years in most other provinces) after the client has completed the DMP.

The main requirement for a DMP to be approved is that the client must have a stable and regular source of income (Ben-Ishai, Schwartz and Barretto, 2010, 560. Therefore, debtors who are unemployed, employed temporarily, or do not have a reliable source of income are not usually eligible for a DMP, simply because they do not have a guaranteed source of income. As such, these consumers are forced to look for other ways to deal with their unsecured debts; these alternatives, such as filing a consumer proposal or claiming bankruptcy, can be detrimental to their overall financial well-being.

1.1 Funding Provided by DMPs

Ever since the government revoked funding for the services provided by charitable not-for-profit CCSAs, a large portion of their funding (excluding in Quebec) has come directly from creditor donations through DMPs. Once clients sign onto a DMP, they agree to make a single consolidated payment through a CCSA to all of their creditors. A percentage of each payment that a client makes through the CCSA is donated by the creditor to the CCSA administering the DMP. The percentage rate donated varies from creditor to creditor, ranging anywhere between 0 to 22 per cent.

The credit counselling industry has developed an interdependent relationship with creditors and other lending institutions, dating back to the industry's origin. Within the charter of the first credit counselling service provider, CCST, it is stated that the agency would seek the co-operation of merchants, lending institutions, banks, and others, for support in providing debt consolidation counselling, advice on budgeting matters, and general assistance for persons and families with financial problems (Uribe and Tait, 2007, 5). However, recently many issues have been raised by consumer advocacy groups concerning creditor's involvement in and support of not-for-profit CCSAs.[36] It is important to understand that creditors donate a percentage of the funds collected through a DMP program to not-for-profit CCSAs because these agencies are providing creditors with the benefit of lowering the risk of consumers filing for bankruptcy or a consumer proposal,

36 For-profit CCSAs do not receive any form of financial support from creditors when they manage DMPs. Their only source of income is client fees, which are usually a percentage of a client's total debt load. Therefore, creditor donations are not an issue for private CCSAs. Nevertheless, because the income of private CCSAs is derived directly and only from client fees (based on a client's total debt load), the motivation behind signing clients onto a DMP is an underlying concern. More specifically, one might question whether private CCSAs are motivated by the financial well-being of their clients or by the prospect of increasing revenue flows.

which could possibly lead to the creditor losing the full outstanding balance on the debt. In turn, the debtors are able to maintain their financial well-being while making payments in a consolidated form to the credit counselling service provider, rather than having obligations to multiple creditors.

With regard to the relation between CCSAs, their clients, and these clients' respective creditors, the role of the credit counsellor is to act as a mediator between clients and their creditors. The main priority of the creditor is to recover as much of the consumer's outstanding debt as possible, and as quickly as possible. The main priority of the financially struggling consumer is to eliminate the outstanding debt as efficiently and painlessly as possible. The goal of the credit counsellor is to attend to the concerns of financially struggling consumers and help eliminate their debts as quickly as possible while incurring the least amount of damage to their credit history and overall financial stability.

2. Orderly Payment of Debts (OPD)

Since at least 1920, the bankruptcy option had been available to consumers, and during the rapid postwar expansion it became an increasingly popular resource. During the 1960s, attempts were made to amend the federal *Bankruptcy and Insolvency Act* (*BIA*), which was essentially a commercial program, so that it became more usable for consumers or individual debtors. Part X of the *BIA* constitutes one of these amendments; it outlines an orderly payment of debt (OPD) system that came into effect as of 1966 (Ziegel, 1999, 250).

An OPD is essentially a DMP, but with the added feature that creditors are legally obligated to accept the terms of payment made by an OPD administrator on the clients' behalf. Like a DMP, an OPD is a payment program designed to help individuals pay off their full unsecured consumer debts at a reduced interest rate (usually five per cent) by consolidating all of a borrower's debt and determining an amount her or she can and must pay on a periodic basis to creditors.

Unlike in bankruptcy, in an OPD the borrower does not have to renounce his or her assets. Furthermore, OPDs protect borrowers from having their property seized and/or wages garnisheed. Section 226 of the *BIA* states that the payment of the debt must be made in full within a period of three years unless all creditors consent to a longer term and a court of law approves it.

Constitutionally, banking and bankruptcy legislation are exclusive to the federal authority; however, the federal government amended the *BIA* to include the OPD option in order to grant provinces the authority to establish programs locally. As such, each province can take the provisions already stipulated by the *BIA* and implement them on a provincial basis by appointing a provincial judicial court to supervise the consolidation order (Canada, 1985a). Section 240 of the *BIA* describes the procedure for implementing the OPD option in greater detail.

2.1 Application of OPDs throughout Canada

Some provinces continue to provide OPD programs either in preference to or in parallel with the consumer proposal program. For example, Quebec adopted a court-centred consumer protection program, Le service de dépôt volontaire, many years ago and has retained this service in preference to supporting a credit counselling system that includes DMPs.

Currently, the only provinces that offer the OPD program are Alberta, Saskatchewan, and Nova Scotia (Canada, n.d.a). OPDs were available in both British Columbia and Manitoba but have since been cancelled.

2.2 The Difference between OPDs and DMPs

Only officially appointed OPD administrators can administer OPDs, and a provincial court must accept and oversee the payment terms. On the other hand, credit counsellors are the administrators of DMPs, and their respective CCSA is responsible for overseeing the administration of the consolidation agreement. As in the case of DMPs, there is also a counselling requirement as part of the OPD program; however, how much counselling is given and the financial skills, information, and resources provided are entirely at the discretion of the OPD administrator.[37] Conversely, not-for-profit CCSAs that are Member Agencies of the OACCS are required to complete annual review counselling sessions with DMP clients in order to maintain accreditation certification.

The main difference between the services provided by OPD administrators and those provided by credit counsellors is the rate of creditor acceptance of OPD proposals versus DMP proposals. Because the OPD program is considered to be based in federal legislation that is enforced on a provincial basis, when OPD administrators propose capping the interest rate at five per cent, creditors usually accept. If creditors object to the terms of payment they must officially present their objection in court within a period of 30 days after the OPD proposal has been sent Canada 1985b); however, because it is a judge that sanctions the terms of payment (presented by an OPD administrator) as fair and acceptable, rarely do creditors officially object. The OPD option still allows creditors to earn interest on the outstanding debt, but at a rate that does not push the limits of the client's financial stability.

3. Consumer Proposals

Consumer proposals are an alternative to a DMP. When a client meets with a credit counsellor, the credit counsellor will review the client's full financial profile and assess his or her ability to pay back the outstanding debt. In the event that the clients' budget cannot meet the monthly DMP payment, or the clients' respective creditors do not accept the payment terms proposed by the credit counsellor, the credit counsellor might suggest submitting a consumer proposal.

A consumer proposal is a legal procedure available to people living in Canada who are experiencing financial difficulties but can still afford to repay a portion of their debts. The purpose of a consumer proposal is to negotiate to repay only a portion of the outstanding

37 Two organizations currently administrating OPDs were contacted by the author. When asked whether counselling was a mandatory requirement for an OPD, both indicated that all counselling is completed at the discretion of the OPD administrator and his or her financial assessment of the client.

unsecured consumer debt, where the total sum of the debt cannot exceed $250,000, excluding mortgages (ibid.). The portion of the debt that is to be repaid can be remitted through a lump sum or through periodic payments to the trustee administrating the proposal. Although the individual is expected to pay only a portion of the total outstanding unsecured debt, this does not mean that he or she has the option of picking and choosing the debts to be included in the proposal; all unsecured consumer debt is included in a consumer proposal (ibid.).

The maximum payment period is five years, and all collection activities by creditors (except for support, alimony, and student loan obligations) are immediately stopped, including wage garnishment. The benefits of filing a consumer proposal are that a person's assets are protected and the effect on a person's credit rating is less severe than in bankruptcy. However, as soon as a person decides to file a consumer proposal, his or her credit rating will be revised to either an R7 or an R9 and will most likely remain at this rating until three years after the proposal is completed. In addition, debtors who decide to file a consumer proposal must also undergo two mandatory counselling sessions in order to receive a certificate of full performance. Bankrupts who refuse to attend mandatory counselling are not eligible for an automatic discharge (Canada, 2009b).

Once all proposal payments have been completed, a note will appear on the individual's credit record indicating that he or she has filed a consumer proposal. This note will typically remain on the person's credit record for three years after all payments to the proposal have been made. This means that a consumer proposal will affect a person's credit record for a maximum of eight years from the date the proposal was filed to creditors, depending of course on the total payment period of the consumer proposal. For example, if a person files a proposal in which she or he makes monthly payments for three years, the proposal remains on the person's credit report for a total of six years.

3.1 The Difference between OPDs and Consumer Proposals

The purpose of a consumer proposal is to renegotiate a debtor's total outstanding unsecured consumer debt, with the result that the debtor is responsible for paying back only a portion of his or her total debt (Canada, n.d.b). By contrast, an OPD is a payment program designed to help individuals pay off their full unsecured consumer debt load at a reduced interest rate. This is done by consolidating all of a borrower's debt and determining an amount that can and must be paid on a periodic basis to respective creditors through an appointed court of law. Only licensed trustees can administer consumer proposals, whereas OPDs are managed by official OPD administrators. In both cases, legislation supports the repayment terms proposed by the administrators of consumer proposals and OPDs.

The main differences between these two options are the effects they each have on a debtor's credit rating and overall financial stability. Although the debtor has the immediate short-term benefit of paying only a portion of total unsecured consumer debt, the long-term effects of a consumer proposal on credit rating may be more severe than if an OPD were filed. In addition, trustees administering the proposal are required to provide only two financial counselling sessions, the content of which is not always consistent with the guidelines stipulated by the Office of the Superintendent of Bankruptcy. Although the counselling provided by OPD administrators is done at their complete discretion (not guided by any specific outline), it is worth noting that because clients are responsible for their entire debt load they are required to develop and use a working budget that addresses all of the financial issues affecting their everyday spending.

4. Bankruptcy

Only a licensed trustee has the legislative right to manage bankruptcies. Once a debtor has decided to file for bankruptcy, the trustee will then sell his or her assets, except those exempted by provincial and federal laws, and hold the proceeds in trust for distribution to creditors (Canada, n.d.c). This includes all existing assets as well as those acquired prior to the discharge of the bankruptcy (ibid.).

For the duration of the bankruptcy, debtors are required to make payments to their trustee for administering the proposal and making payments to creditors on their behalf (ibid.). This payment is determined by the trustee, who takes into account the debtor's total income, income standards issued by the Office of the Superintendent of Bankruptcy Canada, and the debtor's personal and family situation (ibid.).

As soon as a debtor has been declared bankrupt, he or she stops making payments to unsecured creditors, all wage garnishments are stopped, and any lawsuits that creditors have filed against the debtor are stopped (ibid.). The debtor must attend two mandatory counselling sessions as a preventive measure to regain financial stability and avoid filing for bankruptcy again in the future.

If the bankruptcy proposal is approved the debtor is discharged (released) from his or her obligations to repay debts to unsecured creditors. This release is granted nine months from the date the bankruptcy proposal was filed and is applicable only to first-time bankruptcy filers. If the debtor has filed for bankruptcy in the past, he or she may be required to make payments from surplus income (ibid.). A credit rating of R9 remains on the debtor's credit report for six years from the date the discharge was granted.

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