



Micro-loans: a Community Loan Fund

A HICEEC DISCUSSION PAPER

The need

Interest has been expressed in finding a way to link local money with local residents who need micro loans to start or expand a business or to acquire marketable skills needed in the community.

The concept

Deposits made to a community loan fund would be held in a special account at the credit union. The money would be used to guarantee loans provided by a credit union to people with good proposals who would not otherwise qualify (eg as a result of not having established a credit history). This arrangement would enable a sharing of risk between the financial institution and the community.

Deposits

A minimum deposit (eg \$1,000) and a minimum term (eg 3 years) could be required. A rate of interest would be determined at the time of deposit. A portion of the fund would be held back from guaranteeing loans in order to repay depositors wishing to withdraw funds.

Loans

Potential borrowers would need to apply to both the credit union for the loan itself (up to \$5,000?) and to the Community Loan Fund for a loan guarantee. They would need to provide a business plan, information on repayment ability and local references. Community-based mentoring could be offered to help borrowers keep their business and repayments on track.

Financial institution partner - Union Bay Credit Union

HICEEC representatives have met with officials of the Union Bay Credit Union which has included such a program in its strategic plan and will research implementation issues.

Community partner - a Community Loan Fund Society

A registered non-profit Community Loans Fund Society could be formed:

- a) To establish and operate a community loan fund to guarantee loans made by a British Columbia financial institution to residents of Hornby Island,
- b) To provide residents of Hornby Island with loan guarantees from the community fund in order to assist them to initiate or expand a small business on the island, to engage in other productive enterprise on the island.
- c) To provide Hornby Island residents who receive loan guarantees from the community loan fund with information and advice regarding effective financial management.

The Society would solicit deposits to the Fund, help assess loan applications and provide support and mentoring to borrowers. The Society could serve both Hornby and Denman.

What do you think?

Please provide your initial thoughts, questions and comments in advance of a more detailed investigation of this concept in the fall.