

Consumer Protection

*BALANCING RIGHTS AND
RESPONSIBILITIES*



Trainer's Guide



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CONSUMER PROTECTION: Balancing Rights and Responsibilities

Trainer's Guide

By Andrea Del Granado and Maria E. Perdomo,
with technical assistance from Candace Nelson

Global Financial Education Program

Washington, D.C.

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MICROFINANCE OPPORTUNITIES

Microfinance Opportunities was established in 2002 as a microenterprise resource center that promotes client-led microfinance. It seeks to help poor people increase their access to well-designed and delivered financial services. Microfinance Opportunities provides action-research, training and technical assistance in three areas focused on the clients of microfinance services: Financial Education, Microinsurance and Client Assessment.



FREEDOM FROM HUNGER

Founded in 1946, Freedom from Hunger is a nonprofit, international development organization bringing innovative and sustainable self-help solutions to the fight against chronic hunger and poverty. Freedom from Hunger specializes in ensuring that the poor have access to microfinance and health protection services, and life skills training to achieve food security for their families.

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The Citi Foundation is committed to enhancing economic opportunities for underserved individuals and families in the communities where it works throughout the world. Globally, the Citi Foundation is focusing its giving on Microfinance and Microentrepreneurship, which helps individuals become economically self-sufficient; Small and Growing Businesses, leading to economic expansion and job creation; Education, which prepares young people for personal and professional success; Financial Education, which helps individuals make informed financial decisions; and the Environment with a focus on sustainable enterprises that generate jobs and stimulate economic growth while preserving the environment. Additional information can be found at www.citigroupfoundation.com.

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INTRODUCTION

WELCOME to *Consumer Protection: Balancing Rights and Responsibilities*, one of nine modules in a financial education curriculum designed to promote financial literacy among low income people in developing countries. One of the first of its kind targeted to the developing world, this curriculum can guide you to build basic financial literacy for those who want to improve how they manage their money.

Before you start, however, let us ask and answer two key questions:

What is financial education? Why is it important?

People who are poor share the same goals as everyone — economic security for themselves, their families, and future generations. With limited resources, skillful management of what little money they do have is especially critical to meet day-to-day needs, to cope with unexpected emergencies, and to take advantage of opportunities.

Financial education teaches people concepts of money and how to manage it wisely. It offers the opportunity to learn basic skills related to earning, spending, budgeting, saving, and borrowing. When people do become more informed financial decision-makers, they can plan for and realize their goals. Moreover, once people have acquired financial literacy skills, they cannot be taken away. A one-time course in financial education can have lifelong rewards.

The Global Financial Education Program, led by Microfinance Opportunities and Freedom from Hunger, started in 2003 by developing a core financial education curriculum with a focus on microentrepreneurs and clients of microfinance programs. For this group, financial education is still very relevant because those who seek credit and savings services have more choices of financial institutions and products than ever before. To weigh alternatives and select the products most appropriate for their needs, clients need to understand how the features differ, how to calculate and compare the costs, and how to determine which financial products and services they can afford.

However, in targeting consumer protection, this module is a resource for a broader range of existing and potential customers of all financial institutions, from MFIs to formal banks. Both clients and their institutions are stakeholders in the emerging global movement for consumer protection. In today's climate of economic uncertainty, concerns about predatory lending and profiting from the poor lend some urgency to the need to embrace ethical treatment of clients. Efforts are well underway to guide and encourage financial institutions to

commit to transparent pricing, appropriate collections practices, ethical staff behavior, client privacy and mechanisms for redress of grievances (See the SMART Campaign and the Center for Financial Inclusion, ACCION International; <http://www.centerforfinancialinclusion.org/>). Yet, the principles that financial institutions are adopting do not specify clients' right to ask questions, to understand products without fear or to shield themselves against aggressive marketing. As the other half of the consumer protection equation, clients' greatest priority is respect. They want to preserve their dignity in the process of conducting business with a financial institution and they want to borrow without fear or humiliation. This module tries to represent these interests, empowering consumers to ask questions and seek the information they need to fully understand the products they choose and the contracts they sign. It targets information and skills that will enable consumers to participate in relationships with financial service providers on the basis of knowledge and choice, as opposed to fear. By responding to the concerns of consumers, this module is a valuable resource to all stakeholders in the consumer protection movement.

Looking forward, all stakeholders face the challenge of making consumer protection a reality — translating it from pledges and principles to ethical, accepted behavior that is shaped by the rights and responsibilities of both sides. Financial education is a key element in making progress towards this goal. Consumers need to both know their rights and have the skills and confidence to exercise them. However, an unanswered challenge in the nascent movement for consumer protection is identifying the appropriate entities to lead this educational effort, an issue meriting attention from all stakeholders.

This module can contribute to the answer. It guides consumers to embrace both their rights as clients of financial institutions, and their responsibilities. It opens the door to discussion about ethical behavior, respect and privacy. Moreover, it guides consumers through some basic technical information that will help them to evaluate and compare products and their costs. The issues it raises, the skills it helps to develop and the voice it gives to clients can improve communication about consumer protection in a myriad of forms.

The Global Financial Education Program strengthens those behaviors that lead to confident and responsible choices as consumers of financial services, and result in increased saving, more prudent spending and borrowing for sound reasons. To achieve sustained behavior change, the curriculum is based on a learner-centered approach, capturing how adults learn best. It builds on what adult learners already know, makes the new content relevant to their lives, and provides the opportunity to practice the new skills.

This module builds on the core curriculum developed by the Global Financial Education Program between 2003 and 2005. The core modules are:

- Budgeting: Use Money Wisely
- Savings: You Can Do It!
- Debt Management: Handle With Care
- Bank Services: Know Your Options
- Financial Negotiations: Communicate With Confidence

Starting in 2006, the Global Financial Education Program developed four new modules. Each module targets a specific population or a specific product. The modules are:

- Young People: Your Future, Your Money
- Remittances: Make The Most Of Them
- Risk Management and Insurance: Protect Your Family's Future
- Consumer Protection: Balancing Rights and Responsibilities

For each module, the curriculum offers:

- a content note that provides basic discussion of the topic
- a trainer's guide with detailed instructions for the conduct of each learning session in the module

Because each module starts with basic information and progresses to more complex aspects of the topic, you can choose only those learning sessions within each module that address your specific needs. The next section, "How to Use This Guide," provides more guidance on these options.

Turn the page. Read on. The Content Note and the Learning Sessions at a Glance section will give you a good idea of the content, while the step-by-step instructions for the trainer capture the participatory, learner-centered activities that make this training in financial education both fun and effective.

HOW TO USE THIS GUIDE

Consumer Protection: Balancing Rights and Responsibilities is a complete reference manual to help low-income populations exercise their rights and responsibilities when using formal and informal financial services. This reference manual contains background information to orient the reader to the topic. It can be used by many people interested in ensuring that the client's voice is integrated into the policies and programs related to consumer protection. Step-by-step descriptions of learning activities can be used by trainers in delivering formal trainings. Key messages, stories and activities can also be applied to a variety of alternative delivery channels such as radio, street theater, educational campaigns, and many others.

The Learning Sessions

This module contains nine learning sessions. Each session takes between 35 and 60 minutes to complete. The “Learning Sessions at a Glance” on page one provides an overview to these nine sessions, listing the title and purpose of each one. With this and all the financial education modules, you should use your own judgment to decide which learning sessions are most relevant and useful for your clients. You can use one, two, or all of them, depending on the experience participants have with the topic, or the time they are able to commit to training.

Each session contains two to four learning activities that are described in step-by-step detail. These learning activities are based on the principles of adult learning. They include stories, exercises, small group discussions and role-plays, which actively engage the participants in the learning process. They also promote teamwork and learning from peers. As you read the step-by-step instructions, give yourself permission to imagine a training session that is active, sometimes noisy, and fun. As the trainer, you will not be doing all of the talking. Instead, you will be part of a dynamic learning process.

A Word about Adaptation

Because the learning sessions are spelled out in detail, you do not have to create anything from the very beginning. However, you must spend time preparing before the training begins, and its success depends on your work at this stage. When you have selected the learning sessions you want to facilitate, you will need to adapt each one to your specific situation. Read the sessions carefully and take note of those details that must be changed in order to make the materials familiar to your participants. In the stories, you may need to change the names of the people and places to reflect your culture and geographic location. Take note of the types of businesses presented as examples. Are they familiar, common businesses in your area? Should you change them? Do you need to change the currency used in the exercises?

In addition to these types of adjustments, you may find opportunities to add activities to the module that are not in the guide. Field trips to relevant sites are a great way to expose participants to new experiences. A visit to the local bank will help demystify an institution that the poor often perceive as closed to them. At the bank, participants can gain practice asking questions about loan products in order to make decisions about where and how much they will borrow. Also, think about inviting professionals from the community who have expertise related to the topic at hand to speak to your group.

In the event that the module needs significant re-working to fit your context, do not take on this job alone. See the “Adaptation Guidance” in the Global Financial Education Program’s *Implementation Guidance* for direction on what needs to be a team effort. **Do Not Leave the Learning Materials to the Last Minute!**

Each learning session starts with a “trainer’s information box” that summarizes the session objectives, materials and activities. Review the list of materials well ahead of the actual training session. Most sessions require flip-chart paper, markers, and tape. You will use these materials to record important points of participants’ discussions. As you fill each sheet of paper with their responses, you should tape it to a wall for display and reference.

However, many items on the materials list will require that you prepare charts or checklists. All of these are provided for you in the guide, but you will need to re-create them in a large format that everyone can see. Most often this involves re-drawing the chart, table or form on a large piece of paper such as a flip chart or even on inexpensive brown wrapping paper. Some sessions call for cards that you can cut from heavier card-stock paper (if it is not available, regular paper will do).

Handouts and pictures mentioned in the step-by-step instructions are located at the end of each session. They are identified by number for easy reference. They should be photocopied and distributed to participants at the appropriate time.

Do not underestimate the time you will need to prepare. You do not want to be caught unprepared in the middle of a session! If you are ready ahead of time, you can spend your time during the session facilitating and enjoying the process.

CONSUMER PROTECTION: BALANCING RIGHTS AND RESPONSIBILITIES

Learning Sessions at a Glance

The goal of this module is to help microfinance clients and self-help group members to exercise their rights and responsibilities as users of formal and informal financial services. The following table presents the learning sessions for the Consumer Protection Module and their purposes.

SESSION TITLE

PURPOSE OF THE SESSION

By the end of the session, participants will have:

1. Your Rights and Responsibilities	<ul style="list-style-type: none"> ■ Identified the mutual rights and responsibilities of financial institutions and their clients ■ Identified real examples and experiences that illustrate clients' rights and responsibilities
2. The Right to Respect, to Privacy and to be Heard	<ul style="list-style-type: none"> ■ Identified how the rights to respect, to privacy and to be heard are observed or violated ■ Creatively demonstrated one of these rights
3. How Much Debt Can I Afford?	<ul style="list-style-type: none"> ■ Recognized the consequences of not evaluating a product before accepting it ■ Calculated repayment capacity
4. Choose the Best Financial Product for You	<ul style="list-style-type: none"> ■ Understood the need for complete information in order to exercise their right to choose a product from among financial options ■ Calculated the cost of a loan
5. Compare Two Loans	<ul style="list-style-type: none"> ■ Compared the total costs of two different credit products ■ Identified the information needed to assess the costs of a loan

6. Two Ways to Calculate Interest Rates	<ul style="list-style-type: none"> ■ Understood the difference between the flat method and the declining balance method of calculating interest due ■ Compared the interest charged in 2 different loan products that use 2 different methods of calculating interest rates
7. What to Ask Before Signing a Contract	<ul style="list-style-type: none"> ■ Defined a contract ■ Identified key questions to ask to exercise their right to receive transparent information
8. Debt-Collection Practices	<ul style="list-style-type: none"> ■ Differentiated between appropriate and inappropriate debt-collection practices ■ Recognized both the right to respect from the financial institution (and its loan officers) and the responsibility to show them respect
9. A Justified Complaint Benefits Everyone!	<ul style="list-style-type: none"> ■ Recognized how making a complaint can benefit both the organization and themselves ■ Distinguished justified complaints from unjustified complaints

FEATURES OF THE LEARNING SESSIONS

Trainer's Information Box

The box at the start of each learning session contains four elements.

Objectives—list of actions that the steps in the learning session are constructed to accomplish.

Time—the estimated time needed to implement all of the steps designed for the learning session.

Preparations/Materials—list of materials that the trainer must prepare before the activity can be presented.

Flip charts are listed and incorporated into the step in which they occur. Their shaded borders easily identify the flip charts.

Handouts and pictures needed for each activity are found at the end of the session. They are identified by number for easy reference.

Steps—a list of activities needed to complete the learning session. The titles capture the process to be used and the content to be covered.

Steps

The steps needed to complete the learning session are listed in the order in which they should be implemented. Special features for the trainer to note include the following:

Italics font (*italic*) = instructions for the trainer (not to be read to the participants)

Regular font (regular) = specific information, instructions or questions for the trainer to read or closely paraphrase to the participants

Arrow (➤) = symbol that highlights specific open questions to ask

Box = special technical or summary information to share with the participants

Box with Shaded Borders = recommended flip-chart design to consider using with the participants

[Square Brackets] = the “correct” answer to expect from a technical question

(Parenthesis) = additional instructions or information

Each learning session guide in this module begins with a summary box that contains the following:

- Learning objectives for the session.
- The estimated time you will need to conduct the session.
- A list of materials you will need to prepare **before** each session. Being prepared for the learning session will make your job much easier. ***Review this information carefully.***
- A list of the steps for each activity. The guide provides detailed instructions for the learning activities that will help participants learn and work with the concepts of the session. Please follow the steps as outlined. However, you should use your own words to explain each point.

The box below is a reminder of some important principles and practices of adult learning to keep in mind as you lead each session. Remember that you, the trainer, do not have all the answers. The participants come to the learning sessions with a great deal of experience and have many things to add. It is important that all participants (including you) teach *and* learn.

IMPORTANT PRINCIPLES TO REMEMBER

- Create a ***safe*** learning environment.
- Give feedback to the participants and ***praise*** them for their efforts.
- Think about ways of making the topic ***useful*** to all participants present.
- Let the participants know that you are a ***learner*** with them
- Use ***small groups*** (as suggested in the session guide). Small groups help involve all participants, build a sense of teamwork and create safety.
- Show ***respect*** by valuing the participants' knowledge and experience with the subject.
- Be sure that throughout the session there is an opportunity for ***thinking, acting*** and ***feeling***.

SESSION 1

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Identified the mutual rights and responsibilities of financial institutions and their clients
1. Identified real examples and experiences that illustrate clients' rights and responsibilities

PREPARATIONS/MATERIALS

- FLIP CHARTS TO USE IN THE FOLLOWING STEP:

Step 1:

- Right
- Responsibility

- PICTURES:

Step 2:

- Pictures 1–10 (at least two copies of each picture)

- OTHER:

Step 3:

- Prior to the session, ask a volunteer to help you with the role-play. The volunteer will play the Loan Officer.

TIME

60 MINUTES

STEPS

1. Introduce the Concept of Clients' Rights and Financial Service Providers' Responsibilities
10 MINUTES
2. Exploring Clients' Rights
25 MINUTES
3. Exploring Clients' Responsibilities
25 MINUTES

Your Rights and Responsibilities

STEP 1

Introduce the Concept of Clients' Rights and Financial Service Providers' Responsibilities

10 MINUTES

Say:

Let us pretend that you go to the market to buy one pound of potatoes.

Ask:

- **How can you avoid being taken advantage of when you buy a pound of potatoes in the market?** *[Verify its weight, touch the potatoes to verify their quality, compare prices, ask the vendor questions.]*

Say:

Well, you do all that, because you have the **right** to get exactly one pound of good-quality potatoes at a fair price.

Ask:

- **What are your responsibilities when you buy that pound of potatoes?** *[To pay the agreed price for what you buy from the seller.]*

- **What is your potato seller's responsibility to you?** *[To honor his part of the bargain and give you the quantity and quality of potatoes you have agreed to purchase.]*

Say:

When buying potatoes, you are a client, and as a client, you have rights and responsibilities. Let us see what the definitions of right and responsibility are:

Brainstorm what a "right" is. Ask for examples. List their answers on a flip chart. Do the same with "responsibility". Post the flip charts "Right" and "Responsibility" and review them with participants. Highlight how the definitions reflect their contributions during the brainstorm:

<i>Right</i>	<i>Responsibility</i>
Something to which one has a just claim because it is good, proper or ethical.	An obligation or duty one must honor; something that must be done as a result of a contract or agreement.

Ask:

- **What questions do you have about these definitions?**

Say:

You have rights and responsibilities as a customer when you buy a pound of potatoes. Similarly, when you take out a loan or open a savings account with an institution like _____ *(insert the name of a financial institution in the community)* you become a client of that institution with rights and responsibilities. For example, you have the right to choose the best product for your situation, and the bank has the responsibility to give you the information you need to do that. Once you have agreed on a loan or other product, you are responsible for meeting the terms of the agreement; the bank has the right to enforce those terms.

Financial institutions are obligated to respect your rights. The government makes sure that banks follow a code of ethics that protect consumers' rights. Knowing what these rights are will help you to interact with banks and other financial institutions. When both the client and financial institution respect

each other's rights and carry out their respective responsibilities, there should not be any cause for fear or anxiety.

During this workshop, we are going to learn about those rights and responsibilities as clients of financial institutions. We will also learn how we can ensure these rights and fulfill our responsibilities.

We will cover the following topics:

1. Your Rights and Responsibilities
2. The Right to Respect, to Privacy and to be Heard
3. How Much Debt Can I Afford?
4. Choose the Best Financial Products for You
5. Compare Two Loans
6. Understanding Flat and Declining Balance Methods of Calculating Interest
7. What To Ask Before Signing a Contract
8. Debt-Collection Practices
9. A Justified Complaint Benefits Everyone

Ask:

- **What questions do you have about the topics that we will cover during this training?**

Answer participants' questions.

STEP 2

Exploring Clients' Rights



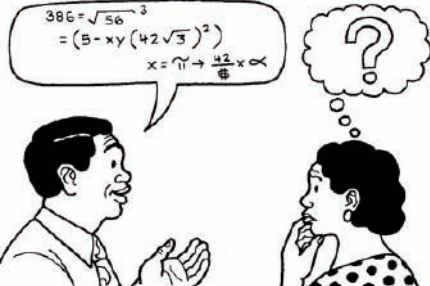
25 MINUTES

As you point to the definitions of "Right" and "Responsibility" on the flip charts, say:



Let's start by reviewing the rights that you have as clients of financial institutions.

Show each picture as you explain each right. Make sure all participants can see the picture. Then, post the picture on the wall or put them on the floor so that everybody can see it.

RIGHTS OF FINANCIAL INSTITUTION CLIENTS

<i>Show</i>	<i>Say</i>
<p><i>Picture 1: Right to be treated with respect</i></p> 	<p>You have the right to be treated with respect.</p> <p>In this picture, you see the loan officer demonstrating respect to a client by welcoming her warmly.</p>
<p><i>Picture 2: Right to decide which services to use</i></p> 	<p>You have the right to decide which products or services you want to use.</p> <p>In this picture, you see a loan officer offering a client a house improvement loan, a loan for a motorcycle and a savings account.</p> <p>However, the client is only interested in opening a savings account. It is your right to decide which products or services to take.</p>
<p><i>Picture 3: Right to receive clear, truthful and timely information</i></p> 	<p>You have the right to receive clear, truthful, and timely information. In this picture we see the loan officer using complex terms. The client is confused about that information. It is your right to receive truthful information in terms that you understand.</p>

RIGHTS OF FINANCIAL INSTITUTION CLIENTS

<i>Show</i>	<i>Say</i>
<p><i>Picture 4: Right to be heard</i></p> 	<p>You have the right to be heard. In this picture, we see how the client is explaining something to the loan officer and we see how the loan officer is listening carefully to what she says, and even taking notes.</p>
<p><i>Picture 5: Right to privacy</i></p> 	<p>You have the right to privacy. Your personal information should be kept confidential between you, the loan officer and your group members. In this picture you see that the loan officer is thinking about sharing the client's information with someone else, but this thought is crossed out. A loan officer cannot disclose personal information without the client's consent.</p>

Ask:

➤ **What are your questions about these rights?**

Divide participants into groups of 3. Give each group one picture (you will likely have to give the same picture to more than one group). Ask each group to discuss the following:

➤ **Why is this right important? What can happen when this right is not respected?**

What experiences have they had with this right? Have they experienced this right either positively or negatively? Have they experienced a financial officer respecting it or violating it? If they personally have no direct experience with the situation (or right) shown in the picture, what about other people they know?

After a few minutes, ask some volunteers to share their discussion. Make sure that each right is reported on.

STEP 3

Exploring Clients' Responsibilities



25 MINUTES

Say:




While you have rights as clients of financial institutions, you also have responsibilities. Let's see what these are.

Show each picture and ask participants to tell you what responsibility the picture shows. Give them a hint: many of these pictures showing clients' responsibilities are linked to the earlier ones showing clients' rights. Do the first one about "respect" together. Make sure all participants can see the picture. Then, post the picture on the wall or put it on the floor so that everybody can see it.

RESPONSIBILITIES OF CLIENTS OF FINANCIAL INSTITUTIONS

<i>Show</i>	<i>Say</i>
<p><i>Picture 6: Responsibility to treat individuals with respect</i></p> 	<p>You have the responsibility to treat others with respect. In this picture, we see how the client is warmly greeting the loan officer when she arrives at the group meeting.</p>
<p><i>Picture 7: Responsibility to evaluate the costs of a product</i></p> 	<p>You have the responsibility to evaluate the costs of the financial products you might be interested in. In this picture, we see the client is analyzing whether or not she can repay a loan and how it will benefit her and her family. It is your responsibility to analyze the product's costs and benefits.</p>

RESPONSIBILITIES OF CLIENTS OF FINANCIAL INSTITUTIONS

<i>Show</i>	<i>Say</i>
<p><i>Picture 8: Responsibility to comply with terms and conditions of the chosen product</i></p> 	<p>You have the responsibility to comply with the terms and conditions of the product you choose. In this picture, we see the client is paying her loan on time. It is your responsibility to meet your commitments.</p>
<p><i>Picture 9: Responsibility to provide truthful and timely information</i></p> 	<p>You have the responsibility to provide truthful and timely information. In this picture, we see the loan officer asking the client whether she has a big house. The client is answering honestly saying that her house is a small one. It is your responsibility to be honest with the financial institution and your group.</p>
<p><i>Picture 10: Responsibility to protect other people's personal information</i></p> 	<p>You have the responsibility to keep any financial information you have about your family, friends or neighbors confidential. This is especially important for those in group savings and lending programs. In this picture, the members share their information within the group, but they keep this information to themselves and do not share it outside the group.</p>

Ask:

- **What are your questions about these responsibilities?**
- **Are any of these responsibilities related to the rights we have discussed?** *[Several responsibilities are simply the corollary of the right. For example, you have the **right** to privacy and the **responsibility** of respecting the privacy of others. A client has the **right** to clear product information and the **responsibility** to use that information to decide whether the product is right for her.]*

Divide participants into teams of 2-3 people. Give each team one of the pictures and say:

In your groups, discuss what this responsibility means for you. Give examples of what one must do to carry out this responsibility. What would happen if a client did not accept the responsibility shown in the picture? Share any relevant experiences you have had or know about.

After five minutes, ask a volunteer representing each “responsibility” to share his group’s discussion. Ask the others for their comments.

Ask:

- **Which of these rights and responsibilities do you practice?**
- **Which ones are challenging to practice? Why?**

Explain:

This module is about consumer protection. As clients of financial institutions, you have rights that the institution should respect. Respecting your rights is their responsibility under the law. But clients also have responsibilities to the financial institution that they must carry out. This training will help you to do both — exercise your rights and carry out your responsibilities. We will help you identify the kinds of information you should ask for when trying to learn about financial products, and how to use that information to choose the products that are right for you. You will learn about evaluating contracts before you sign them. We will discuss your right to be treated with respect, even in difficult situations like that of debt collection. We will explore your right to voice complaints and how to do that effectively.

Just as clients have rights and responsibilities, financial service providers also have responsibilities to their clients. They must be transparent and forthcoming with you about their products and the terms and conditions of those products. The key to success for both financial service providers and clients is to speak openly to one another at all stages of your transactions.

PICTURE 1

Right to be treated with respect



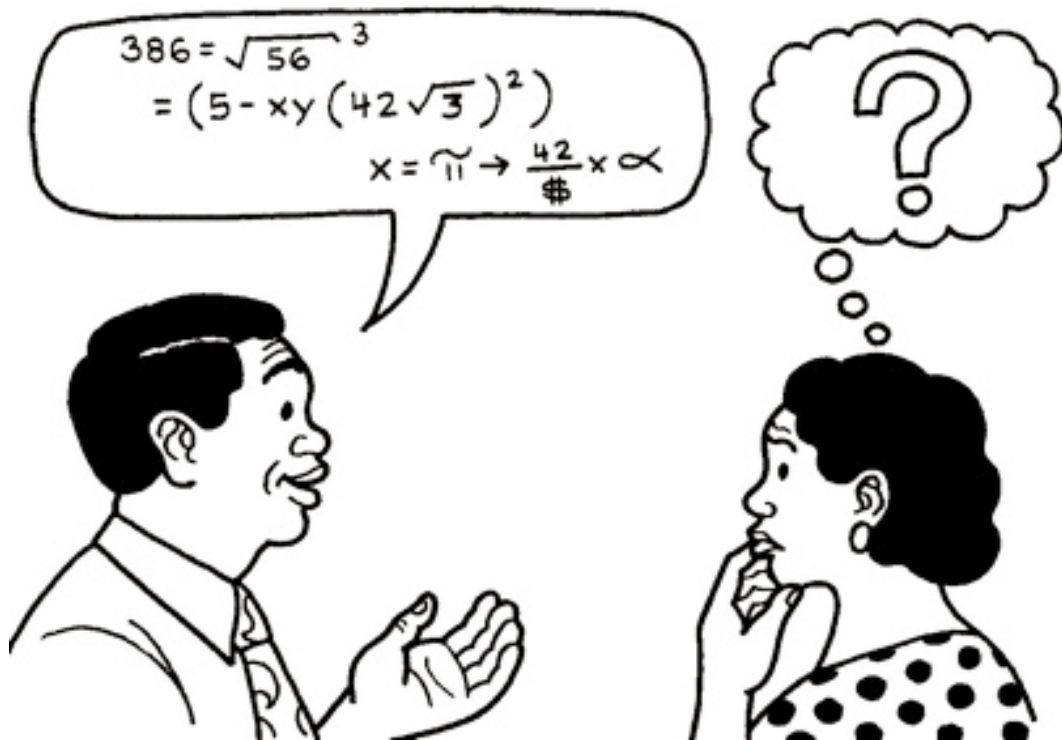
PICTURE 2

Right to decide which services to use



PICTURE 3

Right to receive clear, truthful
and timely information



PICTURE 4

Right to be heard



PICTURE 5

Right to privacy



PICTURE 6

(for individual-lending methodology)
Responsibility to treat individuals with respect



PICTURE 6

(for group-lending methodology)
Responsibility to treat individuals with respect



PICTURE 7

(for group-lending methodology)
Responsibility to evaluate the costs of a product



PICTURE 8

Responsibility to comply with the terms
and conditions of the chosen product



PICTURE 9

Responsibility to provide truthful
and timely information



PICTURE 10

Responsibility to protect other
people's personal information



SESSION 2

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Identified how the rights to respect, to privacy and to be heard are observed or violated
2. Creatively demonstrated one of these rights

PREPARATIONS/MATERIALS

■ PICTURES:

Step 1:

- Pictures 1, 4 and 5

■ CARDS (PHOTOCOPY HANDOUT 2.1 AND CUT, OR HAND WRITE ON INDEX CARDS)

■ FLIP-CHART PAPER

■ MARKERS

■ COLORED PAPER

TIME

60 MINUTES

STEPS

1. Identify How Your Rights Are Observed or Violated
15 MINUTES
2. Creative Presentations
45 MINUTES

The Right to Respect, to Privacy and to be Heard

STEP 1

Identify How Your Rights Are
Observed or Violated 15 MINUTES

Post the following 3 signs and their corresponding pictures in 3 different places in the room: "Right to Respect", "Right to Privacy", "Right to be Heard". Distribute one "behavior" card to everyone. One by one, ask them to read what is written on their card and decide which right is either supported or violated by what the card says. Each participant should move to the sign for that right.

Note: *Revise these cards as needed to make them appropriate in your context.*

“RIGHTS” CARDS**RIGHT TO RESPECT**

Financial officer fails to show up for a scheduled meeting with the client and there is no explanation.	During a meeting with the client, the loan officer receives a phone call. He tells the caller that he is in a meeting and will return the call later.
During meeting with client, loan officer receives a call on his cell and talks for 15 minutes.	Officer eats his morning snack during a meeting with a client.
Officer accuses a delinquent client of laziness, saying she just has not worked hard enough to make her loan payment on time.	Loan officer greets client and invites her to sit at his desk. He offers her a glass of water.

RIGHT TO BE HEARD

Loan officer listens to client as she describes her confusion about the difference between 2 products. He tries to explain it in a different way.	Loan officer ignores client's request for more information about the terms and conditions of the loan she wants.
Officer interrupts client's explanation of her problem to offer a solution.	Client comes to office to explain why she is late with her payment; after hearing her story, loan officer proposes to re-schedule the loan.
Loan officer tells client that he does not have time to hear her personal story; he only needs to know what kind of guarantee she can offer for the loan she wants.	Officer turns down loan request before the client is finished explaining her business plan.

“RIGHTS” CARDS

RIGHT TO PRIVACY	
Financial officer contacts client's husband to see if he agrees with the wife's loan request.	Officer visits client's neighbors to ask them why the client has fallen behind in her loan payments.
Financial officer tells his friend about his client's good luck when she received an inheritance that will make it possible for her to expand her business without more loans.	While at church, client hears why her loan application was denied and realizes that the loan officer has talked about her situation with a fellow parishioner.

STEP 2**Creative Presentations**

45 MINUTES

Participants are now grouped by “right”. You may need to sub-divide each of these groups into smaller groups of 3 or 4 people. Explain:

Each group now has some examples of the types of behavior that observe or violate your right — to privacy, to be treated with respect, or to be heard. Your task is to design a creative presentation that demonstrates this right. You can create a short drama or role play, hold a radio interview, make up a song, or create a poster. Your presentation can show how the right is either supported or violated. You have 15 minutes to create your short presentation.

After 15 minutes, ask each group to present its “creation”. Ask for participants’ reactions. Does the situation reflect real life?

Conclude by saying:

These 3 rights that we have identified for clients of financial institutions are not unique to this type of person and this type of institution. They speak to basic human dignity. In fact, everyone has these rights. By embracing them and believing in them, you are simply asking for the treatment that every person deserves.

HANDOUT 2.1: RIGHTS CARDS

(cut along dotted lines)

Right to Respect

Financial officer fails to show up for a scheduled meeting with the client and there is no explanation.	During a meeting with the client, the loan officer receives a phone call. He tells the caller that he is in a meeting and will return the call later.
During meeting with client, loan officer receives a call on his cell and talks for 15 minutes.	Officer eats his morning snack during a meeting with a client.
Officer accuses a delinquent client of laziness, saying she just has not worked hard enough to make her loan payment on time.	Loan officer greets client and invites her to sit at his desk. He offers her a glass of water.

Right to be Heard

Loan officer listens to client as she describes her confusion about the difference between 2 products. He tries to explain it in a different way.	Loan officer ignores client's request for more information about the terms and conditions of the loan she wants.
Officer interrupts client's explanation of her problem to offer a solution.	Client comes to office to explain why she is late with her payment; after hearing her story, loan officer proposes to re-schedule the loan.
Loan officer tells client that he does not have time to hear her personal story; he only needs to know what kind of guarantee she can offer for the loan she wants.	Officer turns down loan request before the client is finished explaining her business plan.

HANDOUT 2.1: RIGHTS CARDS (continued)

(cut along dotted lines)

Right to Privacy

Financial officer contacts client's husband to see if he agrees with the wife's loan request.	Officer visits client's neighbors to ask them why the client has fallen behind in her loan payments.
Financial officer tells his friend about his client's good luck when she received an inheritance that will make it possible for her to expand her business without more loans.	While at church, client hears why her loan application was denied and realizes that the loan officer has talked about her situation with a fellow parishioner.

SESSION 3

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Recognized the consequences of not evaluating a product before accepting it
2. Calculated repayment capacity

PREPARATIONS/MATERIALS

■ FLIP CHARTS TO USE IN THE
FOLLOWING STEPS:

Step 2:

- Payment Capacity
- Maria's Household Income and Expense Worksheet

■ PICTURES:

Steps 1 and 3:

- Picture 7

■ HANDOUT TO USE IN THE
FOLLOWING STEP:

Step 3:

- 3.1: How Much Debt Can I Afford?

TIME

55 MINUTES

STEPS

1. Read and Discuss Maria's Story
10 MINUTES
2. How Much Debt Can Maria Afford?
20 MINUTES
3. How Much Debt Can You Afford?
25 MINUTES

How Much Debt Can I Afford?

STEP 1

Read and Discuss Maria's Story

10 MINUTES

Use your own words to tell the story of Maria:

Maria's Story

Last year, Maria borrowed money from her MFI. She applied for the loan in December, a month when her business traditionally does very well. When the lender was evaluating Maria's application, he asked questions about her income and expenses over the last month. Maria answered these questions based on her most recent sales figures for December. She was granted the loan, but by June, a low-income month for her business, she could not keep up with her loan payments. Maria borrowed from her brother to repay this loan and then spent the rest of the year doing extra work to repay her brother.

Ask:

- **What was Maria's problem?** *[She overestimated her income and could not pay back her loan.]*

- **We have said that every client and financial institution has both rights and responsibilities. Was Maria fulfilling her responsibility? If not, how was she not? Did her lender fulfill its responsibilities? If not, how was he not?** *[Although Maria answered questions about her income honestly, perhaps she did not realize the danger of basing her reported income on her strongest month. In analyzing the amount she could afford to borrow, the lender should have guided her to think about how her income varies from month to month.]*
- **What could Maria have done differently to avoid this situation?** *[Be conservative in estimating her income, basing her estimate on the low months vs. the high months. A more realistic assessment of her income would lead to a smaller loan that she could afford.]*
- **What similar experiences with paying off debts have you had or heard about?**

Show picture 7 (from Session 1) to the group and say:

As a client of a financial institution, one of your responsibilities is to evaluate how much you can afford to borrow. To avoid problems for you and your lender, it is your responsibility to borrow only what you can afford. Today, we are going to see how to fulfill that responsibility.

STEP 2

How Much Debt Can Maria Afford?

20 MINUTES

Post the flip chart "Payment Capacity" and say:

PAYMENT CAPACITY

The amount of cash available to make a loan payment over good and bad months.

To avoid borrowing too much, you must figure out your payment capacity. What is the maximum monthly payment that you can afford to make without putting yourselves or your families at risk? Let us calculate Maria's payment capacity. Listen carefully as I describe Maria and the members of her family.

Post the chart "Maria's Household Income and Expense Worksheet" drawn on flip-chart paper, but don't fill in the amounts yet. Read the description below of each person's income and expenses one at a time. Right after you read the description of each family member, fill in the chart of his or her income and expenses. Ask the participants to help you determine how to fill in the chart.

Maria lives with her husband Pedro and their three children. Maria's sister, Cecilia, also lives with them and she raises pigs. They want to purchase a refrigerator that the two sisters can use for a juice business, but they don't know if they can afford it and Maria wants to avoid her earlier experience with delinquency. This is their financial situation:

- Maria sells used clothes and earns \$100 per month on average. After expenses of \$80 per month (including food, clothes, utility bills and business expenses), she usually has \$20 left over for emergencies or something special for the kids.
- Pedro is a driver who earns \$150 per month in a steady salary. He pays the rent and school fees which add up to \$100. In addition, he has a loan payment of \$20 per month that he has to pay for 6 more months. That leaves him with \$30 for unexpected expenses like food when he is on the road.
- Cecilia sells her piglets and earns a total of \$240 per year. She gives her sister \$10 each month for household expenses and keeps \$10 for herself. She tries to save as much of that as she can to start another business.

MARIA'S HOUSEHOLD INCOME AND EXPENSE WORKSHEET

	<i>Maria</i>	<i>Pedro</i>	<i>Cecilia</i>	<i>Total</i>
Monthly income	\$100	\$150	\$20	\$270
– Monthly expenses	\$80	\$120	\$10	\$210
= Monthly cash available	\$20	\$30	\$10	\$60

Review what the chart tells us about this family's finances.

1. *Figures represent averages per month over the year taking into account variations in monthly cash flow*
2. *Income and expenses represent monthly averages over the course of the year, allowing for ups and downs of cash flow*
3. *You can assume that the family earns enough to pay for their regular household and business expenses*

Remind participants that once Pedro finishes paying off his loan, the family will have more cash available.

Ask:

- **To purchase the refrigerator, Maria and her family are considering a loan of \$300 at 3% interest per month for 6 months. Adding in loan fees, their payment will be \$60 per month. How would you advise them?** *[They have just enough surplus cash to make a loan payment. However, both Maria and Cecilia could suffer a business or personal emergency. If they take this loan, they will have no money for unexpected emergencies.]*
- **What are the options for Maria and her family?** *[Wait until Pedro's loan is paid in full; then they will have more cash available to make the new loan payment; OR Set up a savings plan for the refrigerator and wait until the family has saved enough for a good cash down payment that will allow them to borrow less.]*

Explain:

Each family has to decide how much debt it can afford based on all sources of income and expenses. One guideline you can use is to keep your monthly debt payments at or below 20% of your monthly income. So, if your monthly income is \$100, the total of all your loan payments should not be more than \$20 each month.

Note: *The debt-to-income ratio will vary between 20% and 40% depending on your local context. Investigate what banks or financial institutions in your area use as their guideline. If you use a different guideline, you must adjust the figures in the exercise above.*

Ask:

- **What questions do you have about how to calculate the maximum amount of debt that someone can afford?**

STEP 3

How Much Debt Can You Afford?

25 MINUTES

Distribute Handout 3.1: “How Much Debt Can I Afford?” Explain:

Now let us see whether you can figure out how much debt your family can afford. Follow these steps as shown on the handout. *Review the steps on the handout with everyone.*

Explain:

On your own, estimate your income and expenses, and fill in the handout. Don’t worry if you don’t know the exact figures. Rough estimates will be fine for this exercise.

Once you have estimated how much available cash you have per month, you need to decide how much of this surplus you would be comfortable using to repay a loan. Then apply the 20% rule — to keep your debt payments at or below 20% of your income — and compare the two numbers.

Do the initial calculations on your own, based on your household income and expenses. You have 15 minutes for this activity.

Circulate around the room to make sure everyone understands the activity and answer any questions.

Ask:

- **Were any of you surprised by your results?**
- **How did the amount your of cash available compare to the amount that is 20% of your income?**
- **What is missing from these estimates of income and expenses?** *[The unexpected events that cost money such as accidents or travel to a funeral.]*
- **What advice would you give to your friends to make sure they can evaluate the amount of loan they can afford?**

Thank participants for their answers and as you show picture 7 (from Session 1) say:

Do not forget to calculate the amount of debt you can afford prior to taking out a loan. It is your responsibility to evaluate the costs of a loan before you agree to take one.

HANDOUT 3.1

How much debt can I afford?

<i>Steps</i>		<i>Monthly Total</i>
1. Add up your monthly (or weekly) income from all sources	Monthly income (all sources)	
	• Wages	
	• Business Income	
	• Remittances	
	• Other	
	Sub-total Income	
2. Add up your business and household expenses for the month.	Expenses	
	• Business expenses	
	• Food	
	• Transportation	
	• Utilities	
	• Health care	
	• Rent	
	• School	
	• Other	
	Sub-total Expenses	
3. Subtract your total expenses from your total income.	Total income — Total expenses	
4. Subtract the amount you save (with a ROSCA, in the bank, at home, etc.). The result is the amount of cash you have available each month.	Subtract Savings	
5. Estimate how much 20% of your income is and compare that amount with your monthly available cash.	Monthly Available Cash	
6. Decide how much you can pay each month towards a loan	The Size of Monthly Repayment I Can Afford	

SESSION 4

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Understood the need for complete information in order to exercise their right to choose a product from among financial options
2. Calculated the cost of a loan

PREPARATIONS/MATERIALS

■ PICTURES:

Steps 1 and 3:

- Pictures 2, 3 and 7

■ CONVERSATION SCRIPT

■ FLIP CHARTS (OR POWERPOINT SLIDES) TO USE IN THE FOLLOWING STEPS:

Step 2:

- Terms and Conditions of the CredIncredible

Step 3:

- Steps to Calculate the Total Cost of a Loan (leave "Calculations" column blank)

■ HANDOUTS TO USE IN THE FOLLOWING STEP:

Step 3:

- 4.1: Worksheet to Calculate the Total Cost of a Credit Product

■ MARKERS

■ TAPE

TIME

45 MINUTES

STEPS

1. The Right to Clear Information
15 MINUTES
2. Find Out About All of a Product's Terms and Features
10 MINUTES
3. Calculate the Total Cost of the CredIncredible
20 MINUTES

Choose the Best Financial Product for You

STEP 1

The Right to Clear Information

15 MINUTES

Ask:

- **Let's say that you want to take a loan but you aren't sure which kind. What should you do?** *[Visit some financial institutions to see what they offer and gather information about different loan products and their terms.]*

- **What questions would you ask?**

Explain:

Before you choose a financial product you should be fully informed of its terms and conditions. The right to choose begins with the right to receive all information you feel you need to make an informed decision. Financial service providers have the responsibility to provide this information when you ask for it.

We will learn how the right to clear and complete information about any financial product is key to choosing one.

However, this right comes with a responsibility: to use the information you receive to compare the product options and choose the one that is best for you. Hold up Picture #7.

Ask for a volunteer to help you present the skit described below. Ask the volunteer to read the part of the Client. You read the part of the friendly, but aggressive, Loan Officer.

After you have presented the skit, thank the volunteer and ask:

- **What was the loan officer trying to do?** *[Convince the client to take a housing loan — not the loan she initially came to ask about.]*
- **Did the client have the right to choose? Did she exercise her right to choose?** *[Yes, in the end, she resisted the offer, but she was tempted.]*

A CONVERSATION BETWEEN A CLIENT AND LOAN OFFICER

- Client:** Good morning, I came to apply for a loan for my business.
- Loan Officer:** Good morning, come in, come in. Of course this bank offers several business loans. But you would be smart to apply for a housing loan, especially today. Do you have children?
- Client:** Yes.
- Loan Officer:** Ah! Then you know how important having enough space in your home is. The kids get bigger every day; they need a place to do their school work. And you, the parents, you need privacy!
- Client:** Yes...that is true.
- Loan Officer:** This bank has a special offer today only on its housing loan. Anyone who applies for our "Happy Home" loan by the end of the day will participate in a monthly raffle. Yes, each month we will give away \$200 US to three of our Happy Home clients and LED lamps to two others. Just think, you can expand your home and get an extra \$200! But you have to act today!
- Client:** Hmm, thank you for offering me this option. I have been hoping to find a way to add on to my house. But, I just don't know. I believe that I need the loan for my business more. Can I think about it?

- **Why was it difficult for the client to just say NO to the housing loan offered?** *[Because the loan officer is convincing and uses the special offer available “today only” to interest the client.]*
- **Did the loan officer give much information about the loans?** *[No, he said nothing about the terms and conditions of the housing loan he was “selling”.]*
- **Has anyone ever had a similar experience with a loan officer? Or salesperson?**

Explain:

In this case, the loan officer’s aggressive marketing is undermining the client’s right to get the information she needs and to choose a product. As a client, you can resist such efforts. You have the right to say “no” to anyone trying to sell you something that you don’t want or cannot afford. But the right to information also means using that information to *actively* choose products that you *do* want — deciding which ones are best for you.

Ask:

- **What do you need to choose the products that are right for you?** *[Complete information about the product, its terms and costs.]*
- **How is choosing a product linked to the right to truthful information?** *[It is difficult to make good choices about financial products without complete information about each product.]*
- **What types of information do you need in order to choose the right loan product?** *[Collateral requirements, term, interest rate, payment period, fees.]*
- **How does one find such information about financial products?** *[The financial institution has a responsibility to make such information readily available to clients.]*

Explain:

Today we will learn about what information to ask for and how to determine the cost of a loan. Remember, it is your right to get complete information about the products you are considering. That information is important to helping you exercise your right to choose the product that best fits your needs. A good financial services provider should be willing to provide that information.

STEP 2

Find Out About All of a Product's Terms and Features

10 MINUTES

Say:

Before we start today, we have a visitor who would like to say a few words to you.

(Turn your back to the group and put on an article of clothing — a hat, or scarf — that distinguishes you as someone different from the facilitator. Change your voice a little if you feel comfortable doing so.)

Say:

Greetings everyone! Today I have an offer for you that you will not be able to resist!

I work for "Best Bank" a new bank in this area to serve people just like you. We are launching our new loan: "CredIncredible"!! Your "CredIncredible" can be ready as soon as next week. You only need to sign for it! Now your facilitator will give you more details about this great loan.

*Turn your back to the participants again to remove the "special" article of clothing and return once again to be the facilitator. Post the flip chart "Terms and Conditions of the CredIncredible" on the wall. Fold the bottom of the flip chart up and tape it to cover the bottom three points. **Show only the top four points.***

Say:

This loan, called the "CredIncredible" looks very interesting. The application is easy and the approval is fast. And, best of all, no collateral is required! Here are its terms.

Ask:

► **Can someone help me figure out how much the monthly payment would be?** [$\$1000$ divided by 10 monthly payments = $\$100$ plus $\$20$ /month interest, for a total monthly payment of $\$120$.]

Say:

It seems pretty clear and simple. Please stand up if you are interested in applying for this loan.

Great! Our loan officer will be pleased to learn of your interest. But, let me see here, it seems that there are more features of this loan that I did not see before. Remain standing though while we look at these additional terms.

Lower the flip chart to reveal the bottom three loan terms.

TERMS AND CONDITIONS OF THE CREDINCREDIBLE

- Loan amount: US\$1,000
- Monthly payments
- Monthly interest rate: 2% (= \$20/month)
- Term of loan = 10 months
- Loan application fee \$50 (one-time only fee)
- Obligatory Insurance: US\$10/month
- Obligatory Savings: US\$10/month

Ask:

- **What questions do you have about these additional loan terms?** *[The \$10 monthly insurance payment is added to the borrower's monthly loan payment and is paid to the bank. The borrower must deposit the \$10 savings payment every month into a personal savings account. While these savings deposits are mandatory, the amount deposited belongs to the borrower.]*
- **Who is still interested in applying for this loan? Sit down if you are no longer interested.**

Observe the participants' reactions once they acknowledge the new terms and conditions. Then ask participants who are seated:

- **Why has your interest in the "CredIncredible" changed?**
- **What would have happened if you had accepted this product?**

Say:

As you can see, it is very important to know all the terms and conditions of a product before choosing a product. To exercise your right to choose, you must also exercise your right to full and accurate information.

STEP 3

Calculate the Total Cost of the CredIncredible

20 MINUTES

Say:

Let us calculate together the total cost of the CredIncredible. To do this, we have to consider *all* the terms and conditions, such as the interest rate, payment frequency, obligatory insurance or savings, etc.

*Post the chart titled “Steps to Calculate the Total Costs of a Loan” and explain that we are going to follow these steps to calculate the total cost of this “CredIncredible” loan. Read each question in the “Steps” column and the action needed to answer it. Work with participants to do the math described in the “Action” column and fill in the 3rd column labeled “Calculation”. Refer to the posted “**Terms and Conditions of the CredIncredible**” as needed to carry out the calculations.*

Note: *The flip chart or PowerPoint slide you post should leave the “Calculation” column blank. You will fill this column in together with participants.*

STEPS TO CALCULATE THE TOTAL COST OF A LOAN

<i>Steps</i>	<i>Action</i>	<i>Calculation</i>
Amount of loan = \$1000		
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.	No. of months in loan term=10 No. of payments per month=1 No. of payments over term of the loan $(1 \times 10)=10$
2. What is the amount of principal and interest due at each payment?	Add the amount of principal due at each payment and the amount of interest due each at each payment.	Amount of principal/month=\$100 Amount of interest/month=\$20 Total amount due each month $(\$100 + \$20)=\$120$
3. What is the total amount owed in principal plus interest?	Multiply the number of payments (10) by the amount of principal plus interest owed at each payment	No. of payments=10 Amount due each month=120 Total amount due over term of loan $(10 \times \$120)=\$1,200$
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay.	No. of payments=10 Insurance due each month=10 Total insurance paid over term of loan $(10 \times \$10)=\100
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit.	No. of payments=10 Savings due each month=10 Total savings deposited over term of loan $(10 \times \$10)=\100

STEPS TO CALCULATE THE TOTAL COST OF A LOAN (CONTINUED)

<i>Steps</i>	<i>Action</i>	<i>Calculation</i>
Amount of loan = \$1000		
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.	Application fee=\$50
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in <div style="text-align: right;"> Step 3 \$1,200 Step 4 100 Step 5 100 + Step 6 + 50 <hr/> Total Amount Paid \$1,450 </div>	
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.	<div style="text-align: right;"> \$1,450 - 1,000 <hr/> \$450 </div>
9. How much is the total cost of the loan — obligatory savings?	Subtract the amount you obtained in Step 5 from the total you obtained in Step 8.	<div style="text-align: right;"> \$450 - 100 <hr/> \$350 </div>

Ask:

- What questions do you have about the steps to calculate the cost of a loan product?
- What other expenses or fees attached to a loan have you seen?
- Who has figured out the total cost of a loan before?
- What will you do differently the next time you are looking for a loan?

HANDOUT 4.1

Steps to Calculate the Total Cost of a Loan

<i>Steps</i>	<i>Action</i>	<i>Calculation</i>
Amount of loan = \$1000		
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.	
2. What is the amount of principal and interest due at each payment?	Add the amount of principal due at each payment and the amount of interest due each at each payment.	
3. What is the total amount owed in principal plus interest?	Multiply the number of payments (10) by the amount of principal plus interest owed at each payment	
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay.	
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit.	
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.	
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in Step 3 Step 4 Step 5 + Step 6 <hr/> Total Amount Paid	
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.	
9. How much is the total cost of the loan — obligatory savings?	Subtract the amount you obtained in Step 5 from the total you obtained in Step 8.	

SESSION 5

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Compared the total costs of two different credit products
2. Identified the information needed to assess the costs of a loan

PREPARATIONS/MATERIALS

■ FLIP CHARTS

Step 1:

- Compare Two Loan Products

Step 2:

- Cost Comparison of Loan #1 and Loan #2 (*leave columns labeled "Loan 1" and "Loan 2" blank*)

■ HANDOUTS TO USE IN THE FOLLOWING STEP:

Step 2:

- 5.1: Cost Comparison of Loan #1 and Loan #2 (*leave columns labeled "Loan 1" and "Loan 2" blank*)

Step 3:

- 5.2: Questions to Ask the Loan Officer

■ MARKERS

■ TAPE

TIME

40 MINUTES

STEPS

1. Compare Two Different Loan Products
5 MINUTES
2. Calculate the Cost of Two Different Loans and Compare
25 MINUTES
3. Identify the Questions to Ask a Financial Officer About Loan Products
10 MINUTES

Compare Two Loans

STEP 1

Compare Two Different Loan Products

5 MINUTES

Explain:

We now know how important it is to get all the information about a loan before making a decision. We practiced calculating the cost of a loan. Today we will learn how to use the information we collect to *compare* loan products.

Ask:

- **When looking for a loan, how can you know you have found the right one for you?**
[Compare different loan products.]
- **How can you get information about more than one loan product?**
[Visit several lenders and get product information about the same type of loan (e.g. working capital, housing, consumer) offered by different lenders.]

Say:

Let's look at the terms and conditions of two different loans. I will give you a minute to look over these terms. Then you will choose which loan you would prefer.

COMPARE TWO LOAN PRODUCTS

Loan Product 1

- Loan amount: US \$1,000
- Monthly interest rate: 3% or \$30/month
- Loan period = 10 months
- Payment frequency = monthly
- Required Savings: US \$20/month
- Total cost of the loan:

Loan Product 2:

- Loan amount: US\$ 1,000
- Monthly interest rate: 2% or \$20/month
- Loan period = 20 months
- Payment frequency = monthly
- Required monthly meeting/training
- Total cost of the loan:

Ask:

- **How are these two loans different?** *[Interest rate, term, required savings, required meetings.]*
- **Which one do you like better? Why?**

Say:

It can be difficult to choose a product at first glance. It is important to actually figure out what each one costs. Once you do this, there may be good reasons for you to choose the loan that costs more. So, let's compare these two products.

STEP 2

Calculate the Cost of Two Different Loans and Compare

25 MINUTES

Divide participants into groups of 2-3 people and distribute Handout 5.1: "Comparing the Cost of Two Loans".

Explain:

Half of the groups will calculate the total cost of Loan Product 1. The other half of the groups will calculate the total cost of the Loan Product 2. Once you have calculated the total cost of your assigned product, we will compare the two products. You can record your answers in Handout 5.1. You have 10 minutes for this activity.

Ask:

► **What questions do you have about this activity?**

Circulate among the groups to make sure participants understand. After 10 minutes, ask volunteers from several groups to share their answers. Record participants' answers on the flip chart below.

Note: *The flip chart you post should have blank columns for Loan 1 and Loan 2. You will fill in the calculations you see here together with the participants.*

COST COMPARISON OF LOAN #1 AND LOAN #2

<i>Steps</i>	<i>Action</i>	<i>Loan 1</i>	<i>Loan 2</i>
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.	10	20
2. What is the amount of principal and interest due at each payment?	Add the amount of principal due at each payment and the amount of interest due each at each payment.	\$100 +30 <hr/> =\$130	\$50 +\$20 <hr/> =\$70
3. What is the total amount owed in principal plus interest?	Multiply the number of payments by the amount in Step 2.	10 ×\$130 <hr/> =\$1,300	20 ×\$70 <hr/> =\$1,400
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay.	0	0
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit.	\$20 savings ×10 payments =\$200	0
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.	0	0
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in Step 3 Step 4 Step 5 + Step 6 <hr/> Total Amount Paid	\$1,300 0 200 + 0 <hr/> \$1,500	\$1,400 0 0 + 0 <hr/> \$1,400

COST COMPARISON OF LOAN #1 AND LOAN #2 (CONTINUED)

<i>Steps</i>	<i>Action</i>	<i>Loan 1</i>	<i>Loan 2</i>
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.	$\begin{array}{r} \$1,500 \\ -1,000 \\ \hline \$500 \end{array}$	$\begin{array}{r} \$1,400 \\ -1,000 \\ \hline \$400 \end{array}$
9. How much is the total cost of the loan minus obligatory savings?	Subtract the amount you obtained in Step 5 from the total you obtained in Step 8.	$\begin{array}{r} \$500 \\ -200 \\ \hline \$300 \end{array}$	$\begin{array}{r} \$400 \\ -0 \\ \hline \$400 \end{array}$

Ask:

- **What are the advantages of Loan #1?** *[Less expensive, repaid more quickly, no required meetings.]*
- **What are the advantages of Loan #2?** *[Lower payments, no additional savings requirements.]*
- **We now know that Loan #1 is less expensive than Loan #2. Is the cost of the loan the only factor that influences your decision? Why might someone prefer Loan #2 even though, in the end, it is more expensive?**
- **Now that you can clearly see the features and costs of these two loans, which one would you choose?**

Explain:

You have the right to choose which products you want. To exercise your right to choose, you also need information. If the institution does not provide all the product information you need, you should ask for it. This is also your right. But, once you have the information, what should you do with it? It is your responsibility to evaluate the products available to you and choose the one that is best for you.

STEP 3

Identify the Questions to Ask a Financial Officer About Loan Products

10 MINUTES

Ask participants to find a partner and say:

Now you know how to calculate the cost of a loan and compare different types of loans. However, in this session, you were provided with the information you needed to figure out what each loan costs. Discuss with your partner what questions you will need to answer to do these calculations on your own. There are 6 basic questions. Try to identify as many of these as you can in the next 5 minutes.

After 5 minutes, ask participants to propose questions. List their answers on a flip chart. Distribute Handout 5.2 and compare their answers with the six basic questions on this checklist.

- ☐ What is the interest rate?
- ☐ How often must the loan principal and interest be paid? How many payments will I have to make?
- ☐ What is the amount of each payment?
- ☐ Is there a savings requirement for this loan? What is the amount of savings required and how often must deposits be made?
- ☐ Does the loan require insurance? How much is the insurance payment and how often must it be made?
- ☐ What fees does the institution charge the borrower to obtain a loan?

Say:

Handout 5.2 is a checklist of all the information you need to calculate the total cost of a loan product. You just have to remember to ask these six basic questions. Remember, it is your right to receive all the information you need to calculate the total cost of the product. At home, figure out total cost of the product to help you decide if this is the loan you want to apply for. This is your responsibility.

Ask:

- **What will you do differently the next time you look for a loan?**

HANDOUT 5.1

Comparing the cost of two loans

<i>Steps</i>	<i>Action</i>	<i>Loan 1</i>	<i>Loan 2</i>
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.		
2. What is the amount of principal and interest due at each payment?	Add the amount of principal due at each payment and the amount of interest due each at each payment.		
3. What is the total amount owed in principal plus interest?	Multiply the number of payments by the amount in Step 2.		
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay.		
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit.		
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.		
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in <div style="text-align: center;"> Step 3 Step 4 Step 5 + Step 6 <hr/> Total Amount Paid </div>		

HANDOUT 5.1 (continued)

Comparing the cost of two loans

<i>Steps</i>	<i>Action</i>	<i>Loan 1</i>	<i>Loan 2</i>
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.		
9. How much is the total cost of the loan minus obligatory savings?	Subtract the amount you obtained in Step 5 from the total you obtained in Step 8.		

HANDOUT 5.2

Questions to ask the loan officer

BORROWER'S CHECKLIST		
<i>Check</i>	<i>Questions to Ask the Loan Officer</i>	<i>Answers</i>
	What is the interest rate?	
	How often must the loan principal and interest be paid? How many payments will I have to make?	
	What is the amount of each payment?	
	Is there a savings requirement for this loan? What is the amount of savings required and how often must deposits be made?	
	Does the loan require insurance? How much is the insurance payment and how often must it be made?	
	What fees does the institution charge the borrower to obtain a loan?	

SESSION 6

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Understood the difference between the flat method and the declining balance method of calculating interest due.
2. Compared the interest charged in two different loan products that use two different methods of calculating interest rates.

PREPARATIONS/MATERIALS

- PICTURES:
Steps 2 and 3:
 - Pictures 3 and 7
- FLIP CHARTS TO USE IN THE FOLLOWING STEPS:
Step 2:
 - Flat Method of Calculating Interest Owed
 Step 3:
 - Interest Owed Using the Declining Balance Method
- 5 SHEETS OF PAPER LABELED WITH \$100
- 25 INDEX CARDS (OR SHEETS OF PAPER) LABELED \$2
- MARKERS
- TAPE

TIME

40 MINUTES

STEPS

1. Explore the Meaning of Flat and Declining
10 MINUTES
2. The Flat Method of Calculating Interest Owed on a Loan
15 MINUTES
3. The Declining Balance Method of Calculating Interest Owed on a Loan
15 MINUTES

Two Ways to Calculate Interest Rates

STEP 1

Explore the Meaning of Flat and Declining

10 MINUTES

Ask:

- **When I say the word “flat,” what is the first thing that comes into your mind?**
[A table, a wooden board; a floor.]

Say:

Exactly, something flat is something that is always at the same level.

Stretch your arms straight out to the sides (U) to represent something flat. Ask:

- **When I say the word “declining”, what is the first thing that comes into your mind?**
[Something that goes down, walking down the stairs, for example.]

Bend your knees slowly, lowering your body to represent “declining”. Say:

Everybody, stand up. Each of you will “invent” two movements or positions — one to illustrate “flat” and the other to illustrate “declining”. When I call out the word “flat”, you will strike a pose that demonstrates “flat”. Be creative!
You can each take whatever position you think shows “flat”. Think of another movement to show “declining”.

Call out “flat” and watch as participants move into their chosen “flat” position. You can pick the most interesting or unusual pose and ask that person to hold his position and invite the others to look at it. Repeat for “declining”. Show pictures 3 and 7 (from Session 1) and say:

Today we will find out what these words mean when applied to how interest on loans is calculated and how they affect the cost of a loan. There are two ways to calculate the interest owed on a loan — the flat method and the declining balance method. Knowing the difference between these two methods will help you to exercise your right to receive clear, truthful and timely information and your right to choose. Understanding these two methods will also help you fulfill your responsibility to evaluate the costs of a product before accepting it.

STEP 2

The Flat Method of Calculating Interest Owed on a Loan

15 MINUTES

Ask:

- **Talk about loans often includes discussion of “interest”. What is “interest” and why do borrowers so often have to pay it?** *[Interest is the price, calculated as a percentage of the loan value, that we pay to use someone’s money. If I lend you my surplus cash, I don’t have that money to invest myself. But, if I charge you interest, I can still make a little profit from your use of my money.]*
- **What interest rates have you heard about? What rates are the banks charging now? What about MFIs?**

Explain:

I am hearing several different rates. So, lenders — banks, MFIs, cooperatives — charge different prices, or interest rates, on their loans. When we look for a loan, one thing to do is compare the interest rates and look for the best one. However, to compare, you need to know both the interest rate **and** the way it is applied to your loan. Two different methods are used to calculate the interest you pay on your loan:

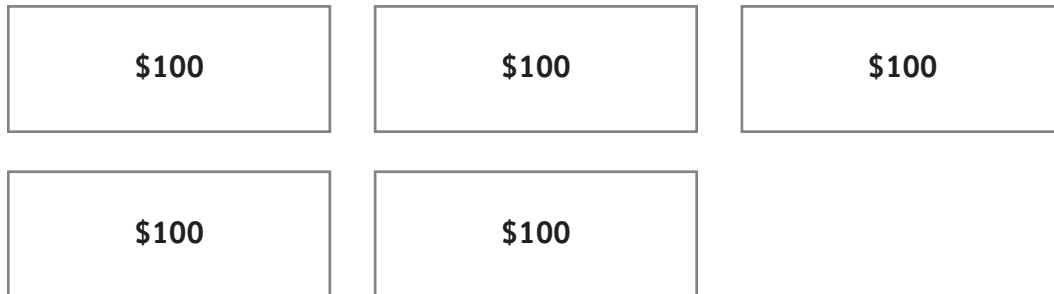
The first one is called the “flat” method. *Stretch your arms to represent the flat method (†).*

The other one is called “declining balance” method. *Bend your knees again, lowering your body, to represent a declining interest rate. Say:*

Let us start by looking at the **flat** method.

In this method, you always pay interest on the total amount you borrowed. That means if you borrow \$500 for five months, you will pay interest on \$500 every month of the loan term. Let's look at an example of how the flat method works:

Ask for five volunteers to stand in front of the group. Attach a sheet of paper to their chest with the label \$100. Use your local currency.



Say:

We have here a loan of \$500. The loan term is five months.

➤ **How much does the borrower have to pay each month to cover the full value of the loan?** [*\$100*]

A monthly interest rate of 2% equals 2 dollars for every \$100 of loan value. Let's figure out the monthly interest owed by answering the following questions:

➤ **How many \$100's are there in a \$500 loan?** [*5*]

➤ **If the 2% interest rate equals \$2 for every \$100 of loan value, how many \$2's is owed in interest?** [*5*]

➤ **What is the total monthly interest owed on this \$500 loan?**
[*$5 \times \$2 = \10*]

Place a pile of cards each labeled with \$2 near the volunteers.

Explain:

You see that each volunteer wears a card that says \$100? What do you think this \$100 represents? Each volunteer represents one monthly payment of principal on our \$500 loan. That amount is the principal the borrower must pay each month. However, in addition to the principal, remember that the borrower must also pay 2% interest on the \$500 loan each month.

Now, I want each of you, one by one, to come forward and draw the number of \$2 cards from the pile that you think you need to pay the interest owed on your loan which is in addition to the \$100 of principal. Place your \$100 principal card on the table, and place your \$2 interest cards in a pile next it.

After all five volunteers have come forward, ask:

➤ **Now do we all agree that the \$500 has been repaid?**

To the volunteers:

➤ **How much interest did you think you owed along with your principal payment? How many \$2 cards did you put down on the table?**

Ask a participant to come forward and count the total number of interest cards.

Ask:

➤ **How much total interest did the borrower have to pay on this loan?**
[\$50]

Ask the volunteers to take back their \$100 principal cards, stick them on their chest and return to the front. Say:

Ok, let's look at something interesting here. In this sample loan of \$500, we paid 2% or \$10 interest on \$500 each month, right? But now, after the first payment, the loan balance is no longer \$500.

Ask the first volunteer to step to the side of the room, indicating payment.

Ask:

➤ **How much do we owe now?** [\$400]

➤ **But, we calculated the interest owed every month on the basis of a loan of \$500. Does this raise any questions for you?** *[We owe less with each payment, but interest is charged on the full value of the original loan.]*

Explain:

With the flat method of calculating interest, the interest we owe each month is always charged on the full amount of the loan. The amount of interest we pay stays the same, even though the balance we owe on our loan goes down with each payment. Using the flat method, the borrower pays interest each month on the full amount of the loan.

Post the flip chart “Flat Method for Calculating Interest Owed” and say:

FLAT METHOD OF CALCULATING INTEREST OWED

<i>Number of payments</i>	<i>Amt. of loan with borrower</i>	<i>Principal repaid</i>	<i>Amt. of principal used to calculate interest</i>	<i>Interest paid</i>	<i>Monthly payment</i>
1	\$500	\$100	\$500	+ \$10	= \$110
2	\$400	\$100	\$500	+ \$10	= \$110
3	\$300	\$100	\$500	+ \$10	= \$110
4	\$200	\$100	\$500	+ \$10	= \$110
5	\$100	\$100	\$500	+ \$10	= \$110
Totals:		\$500		\$50	\$550

As you see, using the flat method, interest you owe is always calculated on the total amount borrowed, which is \$500 in this example.

Ask:

- **What questions do you have about the flat method of calculating interest due?**

STEP 3

The Declining Balance Method of Calculating Interest Owed on a Loan

15 MINUTES

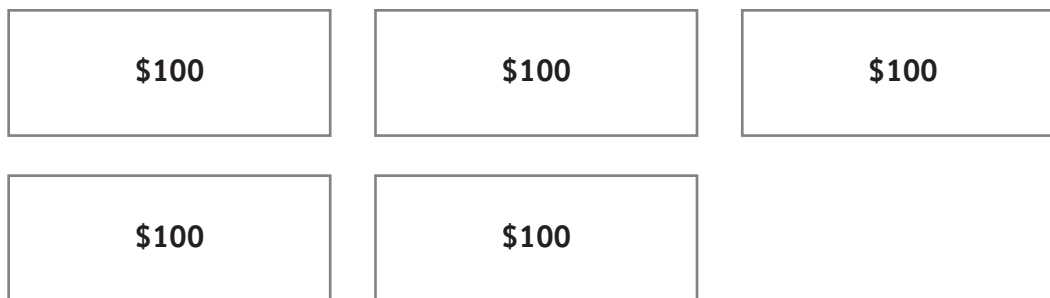
Say:

Now let's see how the declining balance method is different from the flat method.

Ask:

- **Can anyone guess how this method might work, just based on its name?**

Ask all 5 volunteers to come to the front again. Each should still show a label of \$100 on his or her shirt. Again, place the \$2 interest cards in a pile in front of the volunteers.



Explain to the participants:

Let us work with the same \$500 loan. Just as before, the term of the loan is 5 months and the monthly interest rate is 2%. A monthly interest rate of 2% works out to \$2 for each \$100 of the loan.

This time, however, we will figure out the interest using the declining balance method. This means that you pay interest **only** on the amount of money you still owe the lender after each payment. So, if you borrow \$500, the first month you will pay interest on \$500, but the second month, you will pay interest only on \$400. Let us see how this method works and how it affects your monthly payments.

Ask:

- **How much interest do you owe on the \$500 loan for the 1st month?**
[\$10]

Just like the last activity, the first volunteer, making the first payment, will pick up enough \$2 cards to pay the interest owed. But with the declining balance method, the second volunteer pays interest on the new balance of \$400. He has to take the number of \$2 cards from the pile that equals the amount of interest he owes. And so on...

Say:

Okay, now 1 month has gone by, and it is time for the second payment of \$100 in principal. But this month, the amount owed is no longer \$500.

Ask:

- **What is the balance of the loan?** [\$400]
- **And how much in interest does a 2% rate work out to?** [\$2 for every \$100 in loan value.]

Instruct the second volunteer to draw the number of \$2 interest cards he needs for the interest payment. He can ask other volunteers for advice if he is not sure. Move through each month in a similar way, asking each volunteer to pick the number of interest cards he needs based on the current loan balance. Once all volunteers have made their payment, ask them to come to the front once more and show the number of \$2 interest cards they are holding. Ask someone to count the total number of interest cards the volunteers are holding up. Together, the volunteers should be holding a total of 15 cards.

Post the flip chart "Example of Interest Owed Using the Declining Balance Method"

EXAMPLE OF INTEREST OWED USING THE DECLINING BALANCE METHOD

<i>Number of payments</i>	<i>Amt. of loan with borrower</i>	<i>Principal being repaid</i>	<i>Amt. of principal used to calculate interest</i>	<i>Interest being paid</i>	<i>Monthly payment</i>
1	\$500	\$100	\$500	+ \$10	= \$110
2	\$400	\$100	\$400	+ \$8	= \$108
3	\$300	\$100	\$300	+ \$6	= \$106
4	\$200	\$100	\$200	+ \$4	= \$104
5	\$100	\$100	\$100	+ \$2	= \$102
	Totals:	\$500		\$30	\$530

Ask:

- **How do the two methods of figuring interest owed compare? Which method results in more interest?** *[The flat method.]*

You can see that using the declining balance method to figure interest due, this \$500 loan at 2% interest per month is less expensive than the same \$500 loan we worked with earlier, even though the interest rate is the same. The flat method charges interest on the same loan value every month while the declining balance method charges the same rate of interest but on a loan value that is less with each payment you make.

Using a declining balance method, interest is charged on the loan balance — the amount of money still owed to the lender — which is lower each time you make a payment. The balance is declining. Although the interest rate is always 2%, as you pay back your loan, the actual amount you pay in interest is less.

Explain:

When you apply for a loan, the lender will tell you the amount of the loan payment you will pay every month or every 15 days, depending on the terms of the loan. Even if the lender uses a declining balance method to figure how much you owe in interest, the amount of the payments you have to make will most likely to be the same for each payment period because that is less confusing. For example, *(point to the flip chart)* the total amount of interest you pay for this loan is \$30. The institution may evenly divide this \$30 over five months so that you are charged \$6 in interest each month for a total monthly payment of \$106, even though you have a declining interest rate.

This is important to know. Loan payments that are the same amount do not always mean that the lender is using a flat interest rate. But you can ask the lender which method he uses to calculate interest. Remember, the interest rate on two different loans might be the same, but you will pay more for the loan that uses a flat rate to calculate how that interest rate is applied to your loan.

You have the right to verify the total cost of the loan with your loan officer!

Thank volunteers for their participation and ask them to return to their seats.

Ask:

➤ **What questions do you have about the Declining Balance method of calculating interest due?**

Answer participants' questions.

SESSION 7

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Defined a contract
2. Identified key questions to ask to exercise their right to receive transparent information

PREPARATIONS/MATERIALS

■ PICTURES:

Steps 1 and 3:

- Pictures 3 and 8

■ FLIP CHART TO USE IN THE FOLLOWING STEP:

Step 1:

- A Contract Is...
- Blank flip chart with title:
Types of Contracts

■ Handouts to use in the following steps:

Step 1:

- 7.1: A Loan Contract from a local lender that participants are likely to know

Step 3:

- 7.2: The Story of Margarita

■ BLANK SHEETS OF PAPER

TIME

55 MINUTES

STEPS

1. Define a Contract
20 MINUTES
2. Remember These Four Questions!
10 MINUTES
3. Expand the Four Key Questions to Ask Before Signing a Contract
25 MINUTES

What to Ask Before Signing a Contract

STEP 1

Define a Contract

20 MINUTES

Ask all the participants to close their eyes and ask:

- **Without opening your eyes, tell me, how many windows are there are in this room?**

Note: *If there are no windows in the training venue, select something else to ask about, that participants can “see” in or near the meeting place. For example, the number of trees in front of the meeting place, or the number of bicycles parked in front, or the type of plants or bushes growing in front of the meeting place.*

After some volunteers to make a guess, then ask them to open their eyes and compare their response to the correct answer. Say:

Sometimes when you enter into a room, there are things that you do not notice even though they are in front of you. The same can happen when you sign a contract. Sometimes the contract contains information that we do not notice.

Show pictures 3 and 8 (from Session 1) as you say the following:

Today, we are going to talk about the specific information we need to look for in a contract that will help us:

- 1) exercise our right to receive clear, truthful and timely information from a financial institution, and
- 2) fulfill our responsibility to comply with the terms and conditions of the contract.

Post the flip chart "A Contract Is..."

A CONTRACT IS...

A contract is a document explaining specific obligations, responsibilities, terms or conditions that those signing the contract agree to. By signing the contract, the person(s) and institutions commit themselves to obey its terms and fulfill its obligations.

Ask:

- **Who has ever signed a contract? What type of contract?**
- **What were your obligations or responsibilities as a signer of the contract?**
- **Who else signed the contract, in addition to you?** *[The other party such as the bank, landlord or employer.]*
- **What situations typically include a contract?** *[Loans, jobs, rental agreements, etc.]*

Ask participants to find a partner. Give each pair a type of contract to discuss (house rental, job, loan or any other type of contract that is common in your area). Explain that they should identify the obligations that each side takes on when signing a contract. Give them five minutes to discuss, then ask for a volunteer to report for each type of loan. Write their answers on a blank version of the chart below.

TYPES OF CONTRACTS

Their answers might include:

TYPES OF CONTRACTS

<i>Employment</i>	Employer	Employee
	To pay a stated wage or salary To respect specific conditions of termination	To perform the tasks of the job described in the contract To respect the requirements of the workplace... hours, breaks, dress, etc.
<i>Loan</i>	Financial Institution	Borrower
	To disburse the loan on time and as approved To provide clear and transparent information about the loan and its terms To use only practices stated in the contract to collect loan payments	To repay the loan on time as specified in the contract To respect the terms and conditions of loan use and repayment

TYPES OF CONTRACTS (CONTINUED)

<i>Housing</i>	Landlord	Renter
	To maintain the property and provide other services as stated in the lease	To pay the full amount of rent due on time
	To respect the privacy of the tenants	To respect the lease for its duration

Ask:

- **How is this type of formal contract different from an agreement you make with a friend or relative to borrow money or temporarily use one of their assets, such as a house or land?** *[A written formal contract is legally binding. That means if one party fails to meet his obligations as described in the contract, there may be legal consequences; authorities may get involved. In the case of a loan, failure to fulfill the contract usually brings on fines or even confiscation of your collateral.]*

Distribute Handout 7.1: A Loan Contract and say:

Note: *We provide a contract as an illustrative example in this module. You should use an actual contract from a local lender.*

Let us look at a sample loan contract. This is a contract that you would sign to take out a loan with _____ (*insert the name of the institution*). Please take 10 minutes to read the contract with the person sitting next to you.

After 10 minutes, ask:

- **Who needs to sign the contract?** *[The client taking the loan, her guarantors and a representative from the institution.]*
- **What commitments is the client making when signing the contract?** *[To repay as scheduled.]*
- **What commitments are the guarantors making?** *[To pay in case the client cannot pay.]*

- **What commitments is the institution making?** *[To respect the rights of the client, to charge only the interest and fees stated in the contract and to disburse the loan on the date stipulated in the contract.]*
- **What happens if the client does not fulfill her responsibilities in the contract?** *[It depends on how she has failed; the institution can charge penalties for late payments; if the client fails to pay altogether, her guarantor will have to cover her loan, or she will lose whatever she gave as collateral.]*
- **What can you do if your lender does not fulfill its obligations to you?** *[You have the right to question the lender without negative consequences.]*

STEP 2

Remember These Four Questions!

10 MINUTES

Ask:

- **What do you want to know before you sign a contract?**

Write down participants' answers on a flip chart. After you have a good list of questions, use different color markers to mark which questions relate to the borrower's obligations and which ones relate to the lender's obligations.

Explain:

Your suggested questions and the information you need can be summarized in four key questions that you should ask before signing a contract:

- What are my obligations in this contract?
- What are the obligations of the institution?
- What happens if I do not meet my obligations?
- What happens if the institution does not meet its obligations?

STEP 3

Expand the Four Key Questions to Ask Before Signing a Contract

25 MINUTES

Say:

When you are talking to a loan officer, you will need to remember these four questions and break them down into more detail. One key question is about your obligations. What does that mean? What do you need to know? We will listen to a conversation between a borrower and her loan officer to find out.

Divide participants into 4 groups. Distribute blank sheets of paper and say:

I am going to read the story of Margarita to you. Margarita is about to sign a loan contract. Groups 1 and 2 are going to listen carefully and write down all the questions that Margarita asks the loan officer. Groups 3 and 4 are going to listen carefully and write down all the answers that the loan officer gives Margarita.

► **What questions do you have about this activity?**

This skit has two parts: Margarita (the borrower) and a loan officer. Ask your co-trainer or a participant to read the part of Margarita. If no one is available to help, you can read both parts, switching positions for each character. Make sure you read slowly so that people have the time to write down Margarita's questions or the loan officer's answers.

Note: *If your participants are involved with group-based lending, adapt the story accordingly. For example, replace the loan officer with the president of the group, and have all the group members sign the contract and serve as guarantors in the case of default.*

The Story of Margarita

Loan Officer: Good morning, Margarita. It is very nice to see you again.

Margarita: Good morning. It is very nice to see you too. I am here to sign the loan contract. I have all the requirements you asked for: my identification card; a utility bill; my guarantor; and the title papers to my house to leave as a guarantee.

Loan Officer: That's great. Here is the contract. The general manager signed it already, so you only need to sign. I have the check right here with me! Are you excited?

Margarita: Of course I am! But before I sign the contract, I need to fully understand what it says. So let me ask you some questions.

Loan Officer: Of course, go ahead.

Margarita: First, I would like to know what the bank's obligations are.

Loan Officer: Well, the contract says that the bank will give you a check for \$500 today. The interest rate is 2% flat per month. The loan period is six months which means that you have six months to pay us back. There are 26 weeks in this time period and loan payments are due every two weeks; that makes a total of 13 payments.

Margarita: That is OK. But tell me again, what do I have to pay?

Loan Officer: Well, you have to pay \$45 every two weeks. That covers principal and interest. Plus, with each loan payment, you have to deposit \$5 into your savings account. And you have to pay a one-time administrative fee of \$5.

Stop reading and ask:

- **What are the questions Margarita asked so far in the story?**
- **What are the answers the loan officer gave her?**

Post a blank table (like the one below without the answers) drawn on flip chart. As participants provide their answers, fill in the table. Make sure participants mention the following:

THE STORY OF MARGARITA

<i>Margarita's questions</i>	<i>Loan officer's answers</i>
What are the obligations of the institution?	<ul style="list-style-type: none"> ■ Check for \$500 today ■ Interest rate of 2% flat per month ■ Loan period: 6 months
What do I have to pay?	<ul style="list-style-type: none"> ■ Payment of \$45 in principal and interest every 2 weeks ■ Required deposit of \$5 into savings account with each loan payment ■ One time \$5 administrative fee before getting the loan

Then continue reading the story:

Margarita: Yes, now I remember. But don't I also get some other benefit with this loan?

Loan Officer: Oh, yes, I forgot. You will get insurance with the loan. So in case you die, your family will not have to pay the balance of your loan. The price of the loan insurance is \$4 per month and it is already included in the bi-monthly payment of \$45.

Margarita: Oh, it seems expensive, but the protection is good. Now, tell me, what happens if I am late with my payment?

Loan Officer: The bank charges a penalty of \$3 for each day that you are late with your payment, no matter what the reason. As long as you pay on time, penalty fees will not be charged.

Margarita: And what happens if I cannot pay at all?

Loan Officer: If you get into trouble, first consult your loan officer. We might be able to help you by re-scheduling your payments. But if you don't do that, you should know that the financial institution has the right to report you to the credit bureau and seize your property.

Margarita: What can I do if this institution does not meet its obligations to me?

Loan Officer: Oh my! I don't think that will happen. Our staff is bound by principles of consumer protection that I can show to you. If you ever have a problem with me or anyone here, you should tell the manager.

Margarita: Well, I don't really think that will ever be necessary, but it is important for me to understand what I can do. Now, I am ready to sign the contract! I am taking out this loan because it will benefit me and my family and I know that I can pay you back!

Return to the table and review the questions that Margarita asked and the answers that the loan officer gave her. Fill in the table as participants answer. Make sure groups mention the following:

THE STORY OF MARGARITA

<i>Margarita's questions</i>	<i>Loan officer's answers</i>
What are the obligations of the institution?	<ul style="list-style-type: none"> ■ Check for \$500 today. ■ Interest rate of 2% flat per month. ■ Loan period: 6 months.
What do I have to pay?	<ul style="list-style-type: none"> ■ Payment of \$45 in principal and interest every 2 weeks. ■ Required deposit of US \$5 into savings account with loan payment. ■ Required payment of a one-time \$5 administrative fee before getting the loan.
What other benefit do I pay for with my loan?	<ul style="list-style-type: none"> ■ Insurance for \$4 per month (\$2 added to each bi-monthly loan payment)
What happens if I am late with my loan payments?	<ul style="list-style-type: none"> ■ Penalty of \$3 for each day payment is late.
What happens if I cannot pay at all?	<ul style="list-style-type: none"> ■ Margarita should ask the lender about re-scheduling her payments. Otherwise, the guarantor will be responsible for the loan. If neither can repay the loan, Margarita and the guarantor will be reported to the Credit Bureau and Margarita's house will be seized.

Ask:

- **By asking these questions, what right is Margarita exercising?** *[The right to clear and truthful information.]*
- **What responsibility can Margarita fulfill with this information?** *[She must read the documents carefully and be sure that she can fulfill her obligations in the contract.]*

- **What is the obligation of the financial institution?** *[To provide clear and truthful information which she can understand and give her the time to review the contract.]*

Ask:

- **When you sign your next contract, what are you going to do differently?**

Listen to responses from two or three volunteers.

Thank participants and show pictures #3 and #8 (from Session 1) as you say:

You have the right to receive clear, truthful and timely information. Exercise your right by asking these four key questions before signing your next contract and by asking for a copy of your contract after you sign. By doing this, you will also be able to fulfill your responsibility to comply with the terms and conditions of that contract.

HANDOUT 7.1

A Loan Contract

LOAN APPLICATION	
Name of Borrower	
Postal Address	
Ministry/Department	Town:
Employee Number	Payroll No.
Date of Employment	Year of Birth ¹
Gross Pay	Net Pay
Postal Address	
Telephone Number: Office:	Mobile:
I.D. No.	
Next of Kin	Relationship
Loan Amount applied for: K.Shs.	Repayment period: weeks/months
My current/previous loan: K.Shs.	
Purpose of applying for loan:	
1.	K.Shs.
2.	K.Shs.
3.	K.Shs.

LETTER OF OFFER

The Microfinance Institution[MFI], a limited liability company, registered under the Companies Act and of Post Office Box Number _____ which expression includes its successors and assigns is pleased to confirm its willingness to make available to the Borrower a credit facility (the "Loan") outlined below on the terms and conditions set out in this letter and subject to the satisfactory completion of any security documentation and in consideration of the loan extended to the Borrower and formalized in this Agreement the Borrower willingly enters into this Agreement.

1.0 Covenant to Pay

The Borrower hereby pledges to repay the loan approved herein together with the interest, penalties (if any) together with other charges including but not limited to the registration fees and insurance in accordance with the terms and conditions.

¹ Applicants should be no more than 50 years

HANDOUT 7.1 (CONTINUED)

A Loan Contract

2.0 Loan Terms²

2.1 Loan Amount: K.Shs.

2.4 Total number of loan repayments:

2.2 Loan Term (Weeks/Months):

2.5 Frequency of payment:

2.3 Interest Rate:

_____ %

2.6 Set up Fees:

2.7 Penalty Rate: _____ % above Interest Rate. The loan shall be repaid without arrears. A penalty which will be an additional amount on the interest shall be payable upon default.

3.0 Event of Default

The following shall comprise of an Event of Default:

3.1 Not paying a scheduled loan payment, interest or any part of such payment; and

3.2 Leaving the employment of the Government or specified Government Ministry where currently employed;

4.0 Other Covenants

4.1 The MFI reserves the right to attach any benefits due to the Borrower in the event of their leaving employment without prejudice to any other remedies available in law until payment in full of any outstanding loan.

4.2 Any forbearance, indulgence or relaxation by The MFI shown or granted to the Borrower in enforcing any terms and conditions of this Agreement shall not in any way affect, diminish, restrict, waive or prejudice the rights or powers of The MFI under this Agreement.

4.3 That for the duration of this loan the Borrower shall not offer the assets offered as collateral security for any other loan pledge or any other facilities of a commercial nature or sell or dispose of the assets or otherwise transfer title to the assets to a third party. Any deviation from this provision shall be treated as a breach of contract and shall entitle The MFI to seize the assets without any notice.

HANDOUT 7.1 (CONTINUED)

A Loan Contract

4.4 In the Event of Default the Borrower agrees to immediately pay the outstanding loan balance plus any interest and/or penalties due together with all costs incurred by The MFI in enforcing this Agreement.

4.5 Interest shall accrue daily on the outstanding loan balance and shall be subject to change at the discretion of the MFI.

4.6 The Borrower agrees to abide by all policies, rules and regulations of the MFI.

Guarantors³ for Loans Above Kshs 100,000

1. Name _____ Ministry _____
 ID Number _____ Date of employment _____ Net pay _____
 Tel Office _____ Mobile _____
 Signature _____

2. Name _____ Ministry _____
 ID Number _____ Date of employment _____ Net pay _____
 Tel Office _____ Mobile _____
 Signature _____

(Attach copy of ID of guarantors)

I, _____ the Borrower, certify that I have read and understood the terms and conditions of this Letter of Offer which has been explained to me and I do hereby confirm that I shall abide by all such terms and conditions. I also authorize my employer to deduct monthly installments as per the agreements herein from my salary until the loan has been fully repaid and to recover any outstanding installments and/or interest against my terminal dues or any other benefits due to me in the event of termination of employment before the loan is fully repaid.

Signature: _____ Date: _____

Signed in the presence of the MFI Officer:

Name: _____ Signature: _____

Date: _____

HANDOUT 7.1 (CONTINUED)

A Loan Contract

Signed on behalf of the Employer by:

_____ (Name)

_____ (Position) Stamp: _____

NB: Please attach copy of your National Identity Card, a passport photograph and original payslips together with the certified copies for 3 months. The photograph and payslips to be certified by the Personnel Department.

This form shall be completed in duplicate.

HANDOUT 7.2

The Story of Margarita

- Loan Officer:** Good morning, Margarita. It is very nice to see you again.
- Margarita:** Good morning. It is very nice to see you too. I am here to sign the loan contract. I have all the requirements you asked for: my identification card; a utility bill; my guarantor; and the title papers to my house to leave as a guarantee.
- Loan Officer:** That's great. Here is the contract. The general manager signed it already, so you only need to sign. I have the check right here with me! Are you excited?
- Margarita:** Of course I am! But before I sign the contract, I need to fully understand what it says. So let me ask you some questions.
- Loan Officer:** Of course, go ahead.
- Margarita:** First, I would like to know what the bank's obligations are.
- Loan Officer:** Well, the contract says that the bank will give you a check for \$500 today. The interest rate is 2% flat per month. The loan period is 6 months which means that you have six months to pay us back. There are 26 weeks in this time period and loan payments are due every 2 weeks; that makes a total of 13 payments.
- Margarita:** That is OK. But tell me again, what do I have to pay?
- Loan Officer:** Well, you have to pay \$45 every two weeks. That covers principal and interest. Plus, with each loan payment, you have to deposit \$5 into your savings account. And you have to pay a one-time administrative fee of \$5.
- Margarita:** Yes, now I remember. But don't I also get some other benefit with this loan?
- Loan Officer:** Oh, yes, I forgot. You will get insurance with the loan. So in case you die, your family will not have to pay the balance of your loan. The price of the loan insurance is \$4 per month and it is already included in the bi-monthly payment of \$45.
- Margarita:** Oh, it seems expensive, but the protection is good. Now, tell me, what happens if I am late with my payment?

HANDOUT 7.2 (CONTINUED)

The Story of Margarita

Loan Officer: The bank charges a penalty of \$3 for each day that you are late with your payment, no matter what the reason. As long as you pay on time, penalty fees will not be charged.

Margarita: And what happens if I cannot pay at all?

Loan Officer: If you get into trouble, first consult your loan officer. We might be able to help you by re-scheduling your payments. But if you don't do that, you should know that the financial institution has the right to report you to the credit bureau and seize your property.

Margarita: What can I do if this institution does not meet its obligations to me?

Loan Officer: Oh my! I don't think that will happen. Our staff is bound by principles of consumer protection that I can show to you. If you ever have a problem with me or anyone here, you should tell the manager.

Margarita: Well, I don't really think that will ever be necessary, but it is important for me to understand what I can do. Now, I am ready to sign the contract! I am taking out this loan because it will benefit me and my family and I know that I can pay you back!

SESSION 8

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Differentiated between appropriate and inappropriate debt-collection practices.
2. Recognized both the right to respect from the financial institution (and its loan officers) and the responsibility to show them respect

PREPARATIONS/MATERIALS

■ FLIP CHARTS TO USE IN THE
FOLLOWING STEP:

Step 3:

- Appropriate Debt-Collection Practices
- Inappropriate Debt-Collection Practices

■ CARDS

Step 2

- 5 Debt-Collection Practices, one per card

■ PICTURES:

Step 3:

- Pictures 1 and 4

■ TAPE

TIME

45 MINUTES

STEPS

1. Understanding Mutual Respect
20 MINUTES
2. Define Appropriate Debt-Collection Practices
15 MINUTES
3. Tell Ana's Story
10 MINUTES

Debt-Collection Practices

STEP 1

Understanding Mutual Respect

20 MINUTES

Say:

We have already discussed your right to be treated with respect. It is also your responsibility to treat others with respect. This idea of mutual respect is easy to understand.

But in some situations it can be challenging to actually *show* mutual respect. One such situation is the collection of loan payments, especially when the borrower is behind on payments and the loan officer is using his or her authority to collect the money due from the borrower.

Ask:

- **Has anyone been in this situation or known someone else in this situation before? What happened? How did you feel?**

Ask participants to find a partner (or use a fun technique to organize participants in pairs).

Explain:

In each pair, you will role play discussions between a borrower and a loan officer two times. You will each get to play the borrower once and the loan officer once. But one of you will be a nasty loan officer and the other will be a respectful loan officer. Your conversation is guided by the situation described below.

The borrower has missed two loan payments and the next due date is approaching. The loan officer visits the borrower at her home to find out what is wrong and find a solution to the problem. The borrower has several reasons why she has missed her loan payments...and you can make these up...fire, theft, illness, an accident, bad business, a death in the family.

For the first conversation, the person playing the loan officer should be nasty. The person playing the borrower should feel free to respond as anyone might when treated badly or aggressively. The second time you have this conversation, switch roles. The new loan officer should be polite.

Ask:

➤ **What questions do you have about this activity?**

Ask participants to hold the first conversation between borrower and loan officer. Give them 3-4 minutes to do this. Discuss the experience. Ask a few pairs to share a summary of their conversation. To prompt them you can ask:

➤ **What reasons did the borrower give for missing her loan payments?**

➤ **How did the loan officer respond?**

➤ **What kind of solution did he offer?**

➤ **How did the borrower respond?**

Now ask participants to switch roles and have another conversation. Remind them that this time, the loan officer is respectful. After 3-4 minutes, report back on the experience using the same process explained above.

Ask:

➤ **What challenges does the loan officer face?** *[To collect payment from someone facing financial hardship and show respect while doing so.]*

➤ **Do you think the loan officer should be stern or sympathetic with the borrower?**

Explain:

Collecting on debts can be a sensitive situation where the clients' right to respect and his responsibility to treat others with respect can be easily forgotten when emotions are stirred up. On the institutional side many financial institutions are supposed to follow principles of client protection which state that their debt-collection practices will not be abusive or threatening. Today, we will see the different ways to exercise both this right and fulfill its corresponding responsibility.

STEP 2

Define Appropriate Debt-Collection Practices

15 MINUTES

Ask:

- **What are some things loan officers do when trying to collect payments that are overdue?**
- **Which of these practices do you object to? Why?**
- **Has anyone ever experienced or seen any of these practices? How did you feel in that situation?**

Say:

There are different ways to collect a delinquent payment. However, not all of them are appropriate.

Present the flip chart and review it with participants:

APPROPRIATE DEBT-COLLECTION PRACTICES

Appropriate debt-collection practices respect the dignity and the privacy of the borrower. They are usually described in the contract and accepted as part of the loan agreement.

Ask:

- **What questions do you have about the definition of appropriate debt-collection practices?**

Answer participants' questions. Then post and review the Inappropriate Debt-Collection Practices flip chart.

INAPPROPRIATE DEBT-COLLECTION PRACTICES

Inappropriate debt-collection practices can be abusive and typically do not respect the dignity and the privacy of the borrower. They are **NOT** included in the loan contract and are not part of the agreement.

Ask:

- **What questions do you have about the definition of inappropriate debt-collection practices?**

Ask for five participants to draw one card each (you can include more cards for additional loan collection practices known to participants). Ask each participant to decide if her card is an appropriate or inappropriate debt-collection practice and place it on the "correct" definition flip chart.

5 DEBT-COLLECTION PRACTICES

Taking the debtor's personal objects from her house	Writing graffiti such as "delinquent" on the debtor's house	Sending the debtor a confidential letter	Discussing the situation with the debtor and negotiating a solution	Visiting the neighbors to tell them that the debtor is in trouble and find out what is going on with him
---	---	--	---	--

Answer participants' questions.

Explain:

Ok, so we know we don't like disrespectful treatment and should not have to be exposed to abusive debt-collection practices like painting your house or telling your neighbors about your financial problems. You do have the right to be treated with respect. But along with this right, you have a corresponding responsibility — to treat others with respect.

Ask:

- **How do borrowers generally feel about loan officers?** *[They are often afraid of the loan officer or ashamed that they have fallen behind on their loan payments.]*
- **What are some of the things borrowers do when they expect a visit from a loan officer?** *[Hide, lock the door, leave the community.]*
- **Why do borrowers sometimes fail to treat their loan officers with respect?** *[They react to fears of abusive treatment.]*

Say:

So, if loan officers are abusive in trying to collect overdue payments, their clients may in turn be afraid and fail to fulfill their obligations. Bad behavior encourages more bad behavior.

STEP 3

Tell Ana's Story

10 MINUTES

Say:

I am going to tell you Ana's story, and we'll see how a problem between the borrower and her loan officer gets solved. Listen carefully:

Tell the story of Ana:

Ana's Story

My name is Ana; during the past 3 months, I started having problems with my loan. My business did not do very well and I did not have enough money to make the last two payments. My cousin was in the same situation last year and her loan officer came to her house and painted "Delinquent Borrower" on her wall. I was so afraid that the same thing would happen to me! Fear of having my house painted like that

made me lock the door when I saw the man approach. He banged loudly on the door and yelled for me to come out. I couldn't! Before he left, he threatened to send the police after me! I was so scared, but I knew I had to face my situation and talk to the loan officer. So, the next day, after I had calmed down, I went to the bank branch. I was very nervous. The loan officer scolded me for not opening my door to him, but in the end, we agreed that I would make the payments I missed in amounts I could afford with a new time schedule. Now, I have almost paid off my debt.

Ask:

- **What was Ana's problem?** *[She had problems paying her loan.]*
- **What did she fear?** *[Graffiti on the house, facing the loan officer.]*
- **What did Ana decide to do?** *[At first she hid, then she went to explain her problem to the loan officer.]*
- **What happened when she talked to the loan officer?** *[He negotiated with her.]*
- **What do you think of Ana's solution?**
- **What are other things people do when they cannot pay their debts?** *[They hide, run away, take a loan from another institution.]*
- **And what happens to those people?** *[Others do not trust them anymore.]*
- **So, what will you try to do next time you face the danger of defaulting on your loan?**

Thank participants and as you show pictures 1 and 4 from Session 1, say:

If you are facing a problem with your loan, go to your loan officer (or group) to find a solution that benefits everyone. The loan officer should listen to what you have to say. It is your right to be treated with respect and your responsibility to treat others with respect.

5 Debt-collection practices

Taking the debtor’s personal objects from her house	Writing graffiti such as “delinquent” on the debtor’s house
Discussing the situation with the debtor and negotiating a solution	Sending the debtor a confidential letter
Visiting the neighbors to tell them that the debtor is in trouble and find out what is going on with him	

SESSION 9

OBJECTIVES

BY THE END OF THE ACTIVITY,
PARTICIPANTS WILL HAVE:

1. Recognized how making a complaint can benefit both the organization and themselves
2. Distinguished justified complaints from unjustified complaints

PREPARATIONS/MATERIALS

- FLIP CHARTS TO USE IN THE FOLLOWING STEP:

Step 2:

- Justified Complaints Are Those Founded On...
- Unjustified Complaints Are Those Founded On...

- PICTURES:

Steps 1 and 3:

- Pictures 4 and 9

- NOTE CARDS

- MARKERS

- TAPE

- PRIOR TO THIS SESSION, ASK TWO VOLUNTEERS TO PREPARE THE ROLE-PLAY OF THE STORY OF JUANA AND MARTIN

TIME

35 MINUTES

STEPS

1. The Story of Juana and Martin
10 MINUTES
2. What is a Justified Complaint?
5 MINUTES
3. Differentiate between Justified and Unjustified Complaints
20 MINUTES

A Justified Complaint Benefits Everyone!

STEP 1

The Story of Juana and Martin

10 MINUTES

Ask for two volunteers to read the roles of Juana and Martin. Say:

I am going ask _____ (name of volunteer #1) and _____ (name of volunteer #2) to act out the story of Juana and Martin, and then I will ask you some questions. Martin is a carpenter and Juana asked him to build her a standalone closet (or armoire). Martin promised her to have the closet finished by Friday afternoon and gave Juana an invoice quoting the final price as \$40. Let us see what happens when Juana goes to pick up her closet:

Ask the two volunteers to come forward to read and act out the story of Juana and Martin:

ROLE-PLAY OF JUANA AND MARTIN

Juana: Hi, Martin, How are you today? I came to pick up the closet.

Martin: Hi Juana. Sure, your closet is ready. You owe me US\$50.

Juana: US\$50? I thought you had said US\$40! In fact, I remember you wrote an invoice confirming the cost of the closet as US\$40 and not US\$50.

Martin: Hmm..., let me see if I can find a copy of that invoice. If what you tell me is true, it must be somewhere around here.

Martin looks for the copy of the invoice, but because his workplace is so disorganized, he has to search through a lot of papers and tools. Eventually he does find it and says:

Martin: Oh, here it is! Juana, you were right. I apologize for this misunderstanding. I wish I could keep my workshop more organized. That would help me to improve how I serve my clients!

Juana: No problem Martin. But it is true, if you clean up your workshop, you would not have this type of problem and your clients would be happier. If you want, I can help you!

Ask:

- **Why did Juana question Martin?** *[She wanted to clarify the price because earlier, he quoted her a lower price.]*
- **How did both Martin and Juana benefit from Juana's complaint?** *[He recognized the importance of being organized to improve his customer service and she got the lower price she expected; both were satisfied with the outcome; their relationship remained good.]*
- **What kind of similar experiences have you had? When has stating a complaint to a businessperson, the authorities, or even a friend, ended up helping you and/or the person you complained to?**

Say:

As we saw, Juana's complaint benefited both Martin and herself. The same can be true when you make a complaint about the services of your financial institution. Sometimes your complaint can benefit both you and the financial institution you work with.

As you show pictures 4 and 9 from Session 1, say:

Today, we will see how making a complaint is part of our right to be heard and our responsibility to provide truthful information. We will see the type of complaints that can benefit your financial institution and yourselves.

STEP 2

What is a Justified Complaint?

5 MINUTES

Post the flip chart and say:

There are 2 types of complaints: justified and unjustified. Justified complaints are those based on facts, on our rights, on an agreement or a written contract. Many situations in our daily lives can cause justified complaints.

A JUSTIFIED COMPLAINT IS BASED ON...

- An agreement and/or a written contract
- Our rights
- Facts

Brainstorm commonplace situations that bring about justified complaints. Ask:

- **What experience have you had with a justified complaint? What examples can you share of a justified complaint?** *[Lack of respect among friends and neighbors, loaned items that are not returned, bullying among children, lying, breaking a promise, etc.]*
- **Based on the definition of a “justified” complaint, what do you think the definition is of an “unjustified” complaint?**

Write participants’ answers on the flip chart:

AN “UNJUSTIFIED” COMPLAINT IS BASED ON...

Make sure that participants mention that an unjustified complaint is neither supported by our rights nor by an agreement or written contract. It is often based on lies, misunderstanding, or something the complainer wants but has no basis to ask for.

Ask:

- **What examples of an unjustified complaint can you share with us?**
- **What questions do you have about justified complaints and unjustified complaints?**

Answer participants' questions.

STEP 3

Differentiate between Justified and Unjustified Complaints

20 MINUTES

Say:

To see if we can all tell the difference between a justified and unjustified complaint, we will play a game. First, we do a little warm up to demonstrate how the game works. Everyone, stand up in a line, one behind the other. I will read a statement twice. When I say go, step to your right if you think the complaint is “justified”; Step to your left if you think the complaint is “unjustified”.

Read the statement twice, then say “One, Two, Three, Go!”

- Maria complained to her neighbor who had not returned a pot she had borrowed. (*justified*)
- Once a week, Maria gives her son money to buy sweets at the market, but the boy complains that this is often not enough. (*unjustified*)

- Maria's husband complains when she does not have dinner ready at exactly the same time each night. (*unjustified*)
- When Maria's husband bragged to his friends about Maria's profits from her goat herd. Maria complained to her husband about sharing this private information. (*justified*)

Say:

Okay, now let us play for real. This time, the statements I will read describe one person's complaint about a situation she faces with her financial institution. If you think that the person has a justified complaint, then take one step to the right. However, if you think the person's complaint is "unjustified", take one step to the left.

When participants' responses reflect different opinions, stop and explore their answers; ask someone who answered correctly to explain. Clarify any questions.

After each discussion about each statement, ask the following question:

➤ **Which right or responsibility is this complaint related to?**

Give them time to re-position themselves before reading the next statement.

COMPLAINT GAME

Read:	Correct answer	Why is this complaint justified or unjustified? Which right or responsibility is it based on?
One month after taking her loan, Martha went to make her first payment and was told she would have to pay a fine for being 2 weeks late. Thinking she had to make payments once a month, Martha misunderstood the terms of the loan contract. Martha got angry and now she wants to make a complaint even though the loan officer insisted that he had explained everything when she signed the loan contract.	Unjustified!	<i>She wants to complain because she thought she had to pay monthly instead of every two weeks. Hers was an innocent mistake but now she has to pay a late penalty. This information is both written in the contract and was explained to Martha by her loan officer. It is her responsibility to comply with the terms of the loan and pay on time.</i>

COMPLAINT GAME (CONTINUED)

Read:	Correct answer	<i>Why is this complaint justified or unjustified? Which right or responsibility is it based on?</i>
Two days ago, Josefa went to the bank to deposit some money. The bank teller gave her a deposit slip which showed both the sum she had deposited and the total amount she had in her account. Yesterday, Josefa went back to the bank to make another deposit, but this time, the deposit slip did not show the previous day's deposit. She wants to complain to the teller about this mistake.	Justified!	<p><i>She has the right to complain about errors the bank makes.</i></p> <p><i>Because Josefa did make a deposit two days earlier, the teller likely made a mistake. She also has the prior deposit slip to demonstrate she is right!</i></p>
Rosa is two payments behind on her loan because her daughter has been sick. Members from her saving and credit group went to her house and painted "delinquent borrower" on her house. She wants to complain to the credit officer and to her group about the painting on her house.	Justified!	<p><i>Rosa has the right to be treated with respect.</i></p> <p><i>The group members, when collecting a debt, have the responsibility to treat others with respect.</i></p>
Clara got a loan which she told the loan officer she needed for her business. Instead, she used the loan money for her daughter's 15th birthday celebration. Now she cannot pay back her loan, and the bank is going to take her goats which she had put up as collateral in the contract. She wants to complain in an effort to save her animals.	Unjustified!	<i>Clara has the responsibility to provide truthful and complete information. She also has the responsibility to comply with the terms of her contract. She failed to meet both of these obligations.</i>

At the end of the game, review the justified complaints (Josefa's and Rosa's) and ask:

- **How can these complaints help the institution to improve its services?**
- **How would Josefa and Rosa benefit from making these complaints?**

Say:

Today, we have seen how justified complaints can benefit both you and the institution.

Ask:

- **When you want to make a complaint to your lender, what do you need to consider before doing so?**

Thank all participants and as you show pictures 4 and 9 from Session 1, say:

If you have complaints to make, first think about whether they are justified or unjustified. Make a justified complaint when needed. Remember, you have the right to be heard and the responsibility to provide truthful information. Remember also that most financial institutions welcome justified client complaints. It provides them with necessary information to improve the quality of their service and their products.

Consumer Protection: Balancing Rights and Responsibilities

In targeting consumer protection, this module is a resource for a broader range of existing and potential customers of all financial institutions, from MFIs to formal banks. Both clients and their institutions are stakeholders in the emerging global movement for consumer protection. In today's climate of economic uncertainty, concerns about predatory lending and profiting from the poor lend some urgency to the need to embrace ethical treatment of clients. Efforts are well underway to guide and encourage financial institutions to commit to transparent pricing, appropriate collections practices, ethical staff behavior, client privacy and mechanisms for redress of grievances (See the SMART Campaign and the Center for Financial Inclusion, ACCION International; <http://www.centerforfinancialinclusion.org/>). Yet, the principles that financial institutions are adopting do not specify clients' right to ask questions, to understand products without fear or to shield themselves against aggressive marketing.

At the other half of the consumer protection equation, clients' greatest priority is respect. They want to preserve their dignity in the process of conducting business with a financial institution and they want to borrow without fear or humiliation. This module tries to represent these interests, empowering consumers to ask questions and seek the information they need to fully understand the products they choose and the contracts they sign. It targets information and skills that will enable consumers to participate in relationships with financial service providers on the basis of knowledge and choice, as opposed to fear. By responding to the concerns of consumers, this module is a valuable resource to all stakeholders in the consumer protection movement.

Looking forward, all stakeholders face the challenge of making consumer protection a reality — translating pledges and principles to ethical, accepted behavior that is shaped by the rights and responsibilities of both financial service providers and consumers. Financial education is a key element in making progress towards this goal. Consumers need to both know their rights and have the skills and confidence to exercise them. However, an unanswered challenge in the nascent movement for consumer protection is identifying the appropriate entities to lead this educational effort, an issue meriting attention from all stakeholders.

FINANCIAL INSTITUTION CLIENTS: RIGHTS AND RESPONSIBILITIES

As a client of a financial institution, you have five basic rights described below. Because some microfinance institutions serve low income clients through groups, and members of such groups are often expected to guarantee each other's loans, some of these rights and responsibilities are linked to a group context, such as a village bank or solidarity group.

1. **You have the right to be treated with respect and dignity.** Every employee and/or representative of the institution or member of your group should be committed to affirming your dignity, be respectful of cultural and gender differences, and reject abusive collection practices.
2. **You have the right to decide which products or services you want to use.** You need to compare different products before choosing the one that is right for you and your family. You have the right to choose among different products without pressure from any institutional representative.
3. **You have the right to receive clear, truthful, complete and timely information.** To fully understand the terms and conditions of the services you are choosing, you have the right to complete information and answers to all of your questions. The staff serving you should dedicate the time you need to grasp the relevant information about the product. This information includes, but may not be limited to, the total cost of borrowing, transaction services and return on savings.
4. **You have the right to be heard.** When the services you are receiving do not meet your needs, or if any of the above rights have been violated, you should have an opportunity to notify the financial institution immediately. Your financial institution will benefit from your feedback and will suffer the consequences of your silence.
5. **You have the right to privacy.** You have the right to expect your personal information will be kept confidential between you, the loan officer and your group members. No one can disclose your personal information to the community without your authorization.

These five basic rights go hand-in-hand with five basic responsibilities:

1. **You have the responsibility to treat others with respect and dignity.** It is your responsibility to be respectful of others, including every employee, financial institution representative or group member. This responsibility extends to denouncing and/or preventing abusive collection practices.

2. **You have the responsibility to evaluate the benefits of the financial product you use.** Not everything that glitters is gold. Even if a product sounds very attractive, it is your responsibility to analyze its costs, terms and conditions before accepting it. Ask questions about the product and make sure you get all the information you need to make the right choice.
3. **You have the responsibility to comply with the terms and conditions of the product you are receiving.** When you sign a contract, you are making a commitment to fulfill the terms and conditions specified in that contract. To fulfill this responsibility, make sure you understand the contract before you sign it. If you are not sure about any part of the contract, ask questions and get the clarification you need.
4. **You have the responsibility to provide truthful and timely information.** Only honest and timely feedback can help your financial institution improve the services it provides. It is your responsibility to answer its questions truthfully.
5. **You have the responsibility to maintain confidentiality.** If you belong to a group of borrowers, you have the responsibility to keep your group members' personal information **inside** the group. The same holds true if you agree to guarantee someone else's loan. The information about that person's finances that you may have as guarantor is private. Keep it to yourself.

EXERCISING EACH RIGHT AND FULFILLING EACH RESPONSIBILITY

There are three stages to your relationship with a financial institution:

1. **Before the sale of a product, institutional representatives offer you financial products and services.** They are engaged in marketing or product promotion.
2. **At the moment of the sale, you commit to buying or using a product or service of the institution.** For example, after you apply for a loan, the moment of the sale is when you sign the loan agreement or contract.
3. **After the sale, you begin to honor your commitment to the institution as specified in the contract you signed.** For example, if you have a loan, this is the stage during which you start making payments on that loan on time and in the amount specified in the loan contract.

At each of these stages there are clear opportunities to exercise our rights and fulfill our responsibilities. For example, if, before the sale, you experience aggressive or misleading marketing techniques, you can complain to the institution or try another lender. After the sale, you might discover a breach of confidentiality by group members, or by the lender. The table below describes the risks of abuse you might encounter at every stage of your relationship with a financial institution and how you can exercise your rights and fulfill your responsibilities to protect yourself:

	<i>Risk of Abuse</i>	<i>Your Right</i>	<i>Your Responsibility</i>
Before the Sale	Incorrect, aggressive or misleading marketing techniques	Do not let anyone pressure you to make a choice about a certain service. You have the right to decide which products or services you want to use. You also have the right to be treated with respect.	Before accepting a product, analyze it. Calculate its total cost and decide if and how you will be able to pay it back. Make sure it benefits you and your family. It is your responsibility to evaluate the costs of that product before you accept it!
At the Time of Sale	Inappropriate contract wording	It is your right to receive clear, truthful, complete and timely information. The institution has the responsibility to provide the information you need. If it does not, find another lender. Otherwise you will not be able to comply with all the terms and conditions in the contract.	Before signing a contract, make sure you understand ALL the information in it. Ask the bank officer or MFI staff as many questions as you need to until you understand every single word in that contract.

	<i>Risk of Abuse</i>	<i>Your Right</i>	<i>Your Responsibility</i>
After Sale	Abusive behavior in collection practices	<p>You have the right to be treated with respect in all phases of your interaction with a financial institution, even when you are late in making loan payments.</p> <p>You also have the right of privacy such that no one else in your community should hear about your financial affairs from a lender or your group members.</p> <p>There are many ways to collect a debt in default. Some are appropriate while others are inappropriate. Appropriate debt collection practices are those that are specified in the contract and that respect the dignity and the privacy of the borrower.</p>	<p>You have a responsibility to treat others with respect.</p> <p>You have a responsibility to keep other people's private information confidential.</p>
<p>If any of the rights mentioned above is not respected, remember your fourth right and your fourth responsibility: You have the right to be heard and the responsibility to provide truthful and timely information. Communicate effectively and make complaints when necessary. You and your financial institution will benefit from your feedback.</p>			

HOW TO EXERCISE YOUR RIGHTS AND FULFILL YOUR RESPONSIBILITIES

Ask as many questions as you need answered by the loan officer.

When a lender offers you a loan, you have the right to receive all the necessary information that will enable you to make an informed financial decision. To make a good decision, you should know how to answer the following questions before agreeing to the loan. In each question below, the word in *italics* is defined in the parentheses after the question.

- **What is the *size of my loan*?** (The amount you borrow.)
- **What is the *loan term*?** (Period of time you have to use the loan money and repay it.)
- **What is the *interest rate on this loan*?** (Percentage of the total loan amount charged to the borrower as a fee for using the loan capital temporarily. Interest is usually charged to the borrower on a monthly basis. It can be calculated on a flat or declining basis.)
- **What *fees* do I have to pay with this loan?** (Administrative charges, such as a loan processing fee, are an additional cost of borrowing and are usually paid only once at the time the borrower takes the loan.)
- **Do I have to purchase *insurance* with this loan? If so, what is the cost?** (Loan insurance will pay back your loan if something bad happens to you. It will protect your family from this obligation and ensure that the lender gets its money back.)
- **How much is my *loan payment*?** (Amount of money you have to pay at regular intervals to re-pay your loan.)
- **What is my *repayment schedule*?** (The frequency of loan payments (e.g., weekly, bi-weekly, monthly.)
- **Does this loan require *compulsory savings*? How much do I have to deposit?** (Amount of savings that the lender requires you to deposit in your savings account every time you make a loan payment. You can only take this money out of your savings account once you have repaid your loan.)
- **Do I need a *guarantor*?** (A person or group that ensures that you will pay the loan. If you default, this person is obligated to pay your loan.)

- **Do I need to put up collateral?** (Assets of value, such as land or a house, that you pledge as protection for your loan. If you fail to pay, the lender can take these assets to cover the value of your loan.)
- **What are the consequences of late payment?** (When you fail to make the repayment by the due date, you may be charged a penalty. Sometimes penalties, in the form of a fee or increased interest charges, are added to your payment for each day of delay.)
- **What are the consequences of default?** (If you stop re-paying the loan completely, the institution will take the assets pledged as collateral, and may also register you with the Credit Bureau as a borrower in default.)

Calculate the total cost of a loan before accepting it.

Once you have obtained all the information above from the lender, you can use it to calculate the total cost of the product and decide if you are comfortable with its terms and conditions. It is your responsibility to analyze the product before accepting it.

The main cost associated with a loan is usually the interest charged for the use of the money. This is calculated as a percentage of the total loan amount, and you typically pay it in monthly installments as part of your loan payment. There are two different methods to calculate the interest that you will pay on a loan. The method that your financial institution uses to calculate the interest will affect the total amount of money you pay for the loan.

- **Flat method.** Using this method, interest is calculated on the full amount of the loan for its full term. That means that if you borrow \$500 for six months, the interest charged to you will be calculated on \$500 every month until you finish repaying the \$500.
- **Declining balance method.** With this method, interest is calculated on the amount of money you still owe the institution after each payment (your loan balance). For example, with a loan of \$500, the first month you will pay interest on \$500, but the next month, the interest you owe will be calculated on the remaining loan balance, which will be less than the full \$500. Each loan payment you make reduces the balance you owe. Thus, the interest, calculated only on the balance owed (vs. the full amount of the loan), will be less with each payment.

Some institutions also require that you take out insurance to guarantee that they can recover the amount of the loan in the event that something bad happens to you. Additionally, some lenders require that you maintain a savings balance or save an obligatory amount of money every time you make a loan payment. The total cost of the loan is made up of these charges: interest charges, administrative fees, insurance and required savings.

You can follow seven simple steps to calculate the total cost of a loan:

STEPS TO CALCULATE THE TOTAL COST OF A LOAN

<i>Steps</i>	<i>Action</i>	<i>Calculation</i>
Amount of loan = \$1000		
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.	No. of months in loan term = 10 No. of payments per month = 1 No. of payments over term of the loan (1X10) = 10
2. What is the amount of principle and interest due at each payment?	Add the amount of principle due at each payment and the amount of interest due at each payment.	Amount of principle/month = \$100 Amount of interest/month = \$20 Total amount due each month (\$100+\$20) = \$120
3. What is the total amount owed in principle plus interest?	Multiply the number of payments (10) by the amount obtained in Step 2 (principle plus interest owed at each payment).	Number of payments = 10 Amount due each month = 120 Total amount due over term of loan (10 x \$120) = \$1,200
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay with each payment .	Number of payments = 10 Insurance due each month = 10 Total insurance paid over term of loan (10 x \$10) = \$100
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit with each payment .	Number of payments = 10 Savings due each month = 10 Total savings deposited over term of loan (10 x \$10) = \$100

STEPS TO CALCULATE THE TOTAL COST OF A LOAN (CONTINUED)

<i>Steps</i>	<i>Action</i>	<i>Calculation</i>
Amount of loan = \$1000		
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.	Application fee = \$50
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in <div style="margin-left: 40px;"> Step 3 Step 4 Step 5 + Step 6 <hr/> Total Amount Paid </div>	<div style="text-align: right;"> \$1,200 + 100 + 100 + 50 <hr/> = \$ 1,450 </div>
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.	<div style="text-align: right;"> \$1,450 - \$ 1,000 <hr/> = \$ 450 </div>
9. How much is the total cost of the loan — obligatory savings?	Subtract the amount you obtained in Step 5 (total amount of savings) from the total you obtained in Step 8.	<div style="text-align: right;"> \$450 - \$100 <hr/> = \$350 </div>

Know the amount of debt you can afford before signing the contract

Once you calculate the total cost of the product, analyze your capacity to repay the loan. Too much debt can cause serious problems; if you take on more debt than you can afford, you may not be able to fulfill all your responsibilities as a client of the financial institution.

How do you figure out how much debt is too much? Unfortunately, there is no simple guideline about a safe debt-to-income ratio, although 20 to 40 percent of household income is widely used. Should your household always avoid carrying more than one loan at a time? Not necessarily. There may be times that you urgently need cash to manage a crisis and expect to be able to repay it, or you may have an investment opportunity and need cash to take advantage of it.

Before taking a loan, you should consider both the costs and risks of borrowing. Answer the following questions based on your own circumstances:

- **What percentage of my household and/or business budget can I afford to make available for debt repayment? Will I have enough left over to adequately cover other household expenses?**
- **What are the consequences if I cannot repay my loan? What is the value of the collateral (for example, a motorbike, house, etc.) I have pledged?**
- **Can my guarantors afford to repay my loan? How will they feel towards me if they have to do so?**
- **Will I be better off if I save for the intended purpose instead of borrow?**

Ask the loan officer questions about the contract.

If you determine that that you do indeed have the capacity to repay the loan, you should analyze the contract before signing it. Review all the information in the contract and make sure that it corresponds to the information that was given to you during the “before the sale” stage. Remember, it is your right to receive truthful information. There are three key questions you should ask the loan officer before signing:

- **What are the obligations of the institution to me?** The obligations of the institution are to give you the loan according to the terms and conditions in the contract. Make sure these terms correspond to those that were given to you during the “before the sale” stage.
- **What are my obligations when signing the contract?** Normally, your obligations are to make the loan payment on the date stipulated in the contract.

- **What happens if I do not fulfill my obligations?** Find out what penalties you will have to pay in case you miss one payment or you make a late payment. Also, make sure you ask about the consequences for your guarantor and whether you and your guarantor will be reported to the credit bureau in case of default.

Use appropriate debt collection practices

Failure to repay a loan is serious business. It can stir up volatile emotions and lead to harsh actions. To protect all parties from the consequences of inappropriate debt collection practices, most contracts explain the lender's policies and practices regarding collecting on bad debt. If you become the victim of inappropriate debt collection practices that are not stated in the contract (such as painting your house with graffiti, or seizing your assets), make a complaint! You have the right to be heard.

If you are a member of a solidarity group, you have a similar responsibility to avoid inappropriate practices when collecting a delinquent or defaulted loan from one of your group members. While you do have a responsibility to recover the loan, you must respect the dignity of your fellow borrowers in the process. Talk with the member to find a mutually beneficial agreement or ask your loan officer for help. Remember, everyone has the right to be treated with respect.

Make a justified complaint.

At any time, you have the right to be heard. Remember, a justified complaint helps you and it helps the institution to improve their services. Before making a complaint, ask yourself the following questions to determine if it is justified:

1. Is my complaint founded on an agreement and/or a written contract?
2. Does my complaint relate to any of my five basic rights?
3. Is my complaint based on facts?

If you are certain that yours is a justified complaint, make sure to include the five following elements when you submit it to the lending institution.

- **What.** What is the basis of the complaint (which of your rights has been violated)?
- **Who.** The person(s) involved.
- **When.** Time/day/month when the event occurred. (You should submit your complaint as soon after the event as possible and be as specific as you can about when it occurred.)

- **Where.** Where did the event take place?
- **What for.** What do you want to achieve by making the complaint? What is its objective? What answer are you looking for? Once you make a complaint, it is important to follow up and ensure that it gets answered.

Your case will be stronger if you provide evidence demonstrating the truth of your complaint. Be sure to find out what mechanisms your institution provides for filing complaints and use them! Examples of these mechanisms are as follows:

- **A suggestion box.** Some institutions provide a “suggestion box” where you can ‘deposit’ your written complaint.
- **Toll-free number.** Some institutions provide a toll-free number that you can use to submit your complaint by telephone.
- **Letters or Complaint Forms.** Some institutions ask you to write a letter or fill in a special form to make your complaint.
- **Oral complaints.** Most institutions give you the opportunity to complain about their services orally. In this case, it is very important that you talk to the right person. For example, go first to your loan officer. If the loan officer cannot resolve your problem, go to his or her supervisor, and so on.

Independent of the mechanism available, it is very important to follow up with the institution until you get a satisfactory response to your complaint. If you are not satisfied with the answer you receive, and you have exhausted all avenues available with the lender, you can go outside the institution. Examples of external complaint mechanisms are as follows:

- **Ombudsman.** In some countries this is an institution or the person designated by the government to watch over the fulfillment of the rights of all the people in the community.
- **Consumer Protection Offices.** These are government or nongovernment institutions that protect consumers’ rights.
- **The media.** TV stations, radio stations, or newspapers.

Use communication techniques to help you exercise your rights and help you fulfill your responsibilities.

In order to exercise your rights and fulfill your responsibilities you may use the four techniques of effective communication:

- **Say what you want and need.** State clearly what you need, or what you need to get from the conversation.
- **Listen carefully to what the other person says to you.** Paying close attention to what the other person has to say may help you to explain better what you want or to ask more questions.

- **Stay focused.** Do not let the conversation go off the subject. If necessary, you may need to explain your point again.
- **Reach a conclusion or an agreement.** At the end, it is essential that all the people involved in the conversation reach an agreement. At this point, it is also important that you thank the other person for his or her time and for the conclusion reached.

The Bottom Line

As a client of a financial institution, you have five basic rights and five basic responsibilities. Exercise them wisely and everyone will benefit.

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Consumer Protection

*BALANCING RIGHTS AND
RESPONSIBILITIES*



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TRAINERS' GUIDES &
TRAINING OF
TRAINERS MANUALS

BUDGETING:
Use Money Wisely

SAVINGS:
You Can Do It!

DEBT MANAGEMENT:
Handle with Care

BANK SERVICES:
Know Your Options

FINANCIAL NEGOTIATIONS:
Communicate with Confidence

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Your Future, Your Money

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Make the Most of Them

**RISK MANAGEMENT
AND INSURANCE:**
Protect Your Family's Future

CONSUMER PROTECTION:
*Balancing Rights and
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