RESEARCH REPORT

Employer-Sponsored Small-Dollar Loans

A Survey of Products and Employers

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Employer-Sponsored Small-Dollar Loans

In recent years, a growing number of employers have collaborated with financial institutions to offer employees small-dollar loans. These loans are intended to help workers cover short-term financial emergencies or other needs that might disrupt their ability to get to work or perform well on the job. Participating financial institutions often use underwriting criteria (such as income and length of employment in good standing) that may help employees with poor or no credit avoid predatory lenders. These loans may also include parameters that discourage additional debt, as well as features designed to help borrowers build or repair credit and develop savings habits. This report describes the current employer-sponsored small-dollar loan market, including business models developed by lenders, the range of available products, and employer perspectives on the implementation and effectiveness of these programs. As the market develops, employers that want to offer a small-dollar loan benefit will need to consider carefully how available products meet their business needs and support employee financial well-being. Existing research on employer-sponsored loan programs is promising but limited—presenting an opportunity for nonprofit organizations, business leaders, researchers, and philanthropy to help expand this knowledge base.

In 2010, the Federal Deposit Insurance Corporation (FDIC) reported on a two-year pilot program designed to learn how banks could profitably offer safe and affordable small-dollar loans as an alternative to high-cost credit, including payday loans and overdrafts (Miller et al. 2010). Among other findings, the FDIC identified partnerships with employers as a promising strategy for expanding the supply of small-dollar loans. Now, more than 10 years later, the availability of employer-sponsored small-dollar loans (ESSDLs) is still limited, but there may be signs of growth.

More and more, employers looking to attract and retain talent are moving beyond offering only traditional benefits, such as retirement plans and insurance, to include benefits like ESSDLs that support a broader approach to employee "wellness" (Scott and Spievack 2019). A survey of 777 companies, each with more than 100 employees, found that 83 percent offered some form of financial wellness program in 2018, up from 20 percent in 2015 (Prudential 2018). In addition to ESSDLs, employers and benefit providers are exploring other financial wellness benefits, such as emergency savings programs, credit counseling, and student loan repayment programs (Prosperity Now 2017).[1] Employers are motivated by the recognition that financial stress can affect employee performance and the company's bottom line (CFPB 2014b). Employers face costs if employees are less productive because of financial distractions, miss work to address a financial emergency, are subject to wage garnishment, or separate from the company to access retirement funds. At the same time, a 2018 survey of 175 employers found that the top two reasons cited for offering a financial wellness program included "enhancing the overall employee experience" (84 percent) and the belief that it is "the right thing to do" for employees (82 percent). More than half (53 percent) of respondents said a financial wellness benefit increases a company's attractiveness and differentiates it from other employers (Alight 2019).

Alongside increased employer demand, new technologies have enabled fintechs (financial technology companies) to develop and introduce scalable products to help people manage their finances. These include short-term, small-dollar loans, as well as solutions designed to build savings, smooth uneven income streams, or facilitate instant access to accrued wages (Baker 2017).

As the ESSDL market evolves, it is important for employers and other stakeholders (including community organizations, policymakers, and researchers) to understand and consider how different lender business models, loan terms, and loan features affect financial outcomes for workers while meeting needs for companies and communities. For example, employers must consider the numerous trade-offs between "low-touch" loan programs (offering a basic loan with limited direct interaction with borrowers) and "high-touch" loan programs (offering a loan bundled with other services, including financial education and one-on-one coaching or counseling).

To help employers and others understand the current ESSDL market and emerging issues, this report discusses the need for safe and affordable short-term loans. It then describes the business models, loan terms, and features of available ESSDL products based on a review of the field and interviews with 10 ESSDL providers. We discuss how the existing landscape aligns with best practices advanced by regulators, researchers, and consumer advocates, and we examine employer perceptions of ESSDL products, both from the literature and from 11 employers we interviewed. We synthesize early findings about the potential influence of ESSDLs on outcomes of interest for employers and workers, and we identify directions for additional research.

The Need for Affordable Short-Term, Small-Dollar Loans

Six in ten American households experience at least one financial shock in any given year, such as a major home or car repair, medical expense, family disruption (e.g., divorce or parental death), pay cut, or other major expense (Pew Charitable Trusts 2015). Each year between 2013 and 2015, nearly four in ten families (37 percent) made unexpected payments of about $1,500 for medical costs, car repairs, or taxes (Farrell and Greig 2017). At the same time, 46 percent of Americans lack an emergency fund sufficient to cover three months of expenses.[2] For many households (40 percent), unexpected expenses as little as $400 could create financial hardship (Federal Reserve Board 2019).

For households without adequate savings, affordable small-dollar credit can be a lifeline for weathering short-term emergencies or bridging temporary cashflow gaps. Research finds that most small-dollar borrowers are using such loans to pay for unexpected expenses (32 percent) or cover temporary income shortfalls (32 percent). Another 9 percent take out small-dollar loans for large, planned expenses. About 30 percent of borrowers face chronic income shortfalls, and unless they receive other income supports and services, the use of small-dollar credit is unlikely to improve their longer-term financial security (Bianchi and Levy 2013).

Accessing affordable credit is a challenge for many. In 2010, the Consumer Financial Protection Bureau found that 26 million US consumers were "credit invisible," meaning they lacked a credit record with any of the three major credit bureaus. Another 19 million consumers had a "thin credit file," meaning they lacked sufficient credit history to generate the credit scores used by most mainstream lenders to assess creditworthiness and set loan interest rates (CFPB 2015). About one-third (34.8 percent) of people with a credit score had a subprime score, which can restrict credit access and increase borrowing costs.[3] Without access to mainstream credit, some families turn to alternatives that may undermine long-term financial security, including the following:

- ***Alternative financial services.*** The 2018 FINRA Investor Education Foundation National Financial Capability Study found that 29 percent of Americans had used payday and auto-title loans, pawn shops, or rent-to-own services in the previous five years.[4] These alternative loans typically cost borrowers several times the cost of credit available to people with prime credit scores (Elliott and Lowitz 2018; Braga, McKernan, and Hassani 2019). For example, a $550 payday loan repaid over three months at a 391 percent annual percentage rate (APR) would cost a borrower $941.67 (Elliott and Lowitz 2018). High interest rates, often paired with short repayment terms, can force borrowers to roll loans over repeatedly, trapping them in a dangerous debt cycle (Flannery and Samolyk 2005).

- ***Overdrafts.*** Households sometimes incur bank overdraft or nonsufficient funds (NSF) fees to cover temporary shortfalls, either intentionally or unintentionally. Nearly one-third (30 percent) of checking accounts are overdrawn each year. A small minority (8 percent) of customers overdraw more than 10 times a year, accumulating fees averaging $380 annually and accounting for three-quarters of all overdraft fees. In total, overdraft and NSF fees amount to up to $17 billion a year (CFPB 2017; CFPB 2014a).
- **Retirement account withdrawals.** People who experience financial shocks during the year, especially those in households with lower incomes, are more likely to take out loans or make early withdrawals from retirement accounts than those who do not report financial shocks (Pew Charitable Trusts 2017). Borrowing from a retirement plan can be a setback for achieving retirement readiness and can exacerbate problems for those who default on loans and trigger tax penalties (Lu et al. 2017). Under one estimate, a worker who withdraws $10,000 from their 401(k) in their fifth year participating in the plan would reduce their wealth after 30 years of employment by nearly $43,000 (assuming a starting salary of $40,000, a 3 percent annual salary increase, a 6 percent deferral rate, and 6 percent investment return—annualized).[5]

For people with limited access to credit, ESSDLs offer improved affordability and more manageable terms than payday loans and other alternative borrowing methods. Table 1 compares the terms and features of typical ESSDLs, payday loans, and credit cards. Employers and borrowers should pay close attention to the credit terms for any product, as they may differ from these examples.

TABLE 1

Employer-Sponsored Loans Offer Relative Affordability and More Manageable Terms

Comparison of terms and features across different types of credit

Employer-sponsored small-dollar loans	Payday loans	Credit cards
▪ Annual percentage rates between 5 and 29.9 percent ▪ Typical repayment periods between 6 and 12 months ▪ Payments may be made automatically through payroll deduction ▪ Repayment reported to credit bureaus	▪ Average annual percentage rate of 391 percent ▪ Short repayment periods, with around 80 percent of the loan principal due in two weeks ▪ Borrowers make payments directly to payday lender ▪ No reporting to credit bureaus for on-time repayment	▪ Average annual percentage rate of 15.1 percent ▪ Repayment over one month without fees; longer repayment with interest ▪ Borrowers make payments directly to credit card company ▪ Repayment reported to credit bureaus

Sources: Information on ESSDLs is from lender interviews (*N* = 10). Information on payday loans is from "How Do Payday Loans Work?," InCharge Debt Solutions, accessed February 7, 2020, https://www.incharge.org/debt-relief/how-payday-loans-work/. Information on credit cards is from Adam McCann, "What Is the Average Credit Card Interest Rate?" WalletHub, January 9, 2019, https://wallethub.com/edu/cc/average-credit-card-interest-rate/50841/.

Notes: These interviews were conducted with 10 lenders during July and August 2019. These lenders may not wholly represent the ESSDL market. Lenders reported 6- to 12-month repayment periods as typical, but loan terms vary across and within lenders. Consumers with subprime credit may not be eligible for credit cards or may face higher annual percentage rates or annual fees.

The ESSDL Landscape: Business Models, Loan Terms, and Product Features

To better understand the landscape of the ESSDL marketplace, we identified and interviewed 10 providers offering loans in collaboration with employers as an employee benefit.[6] Though we found similarities among the providers and loan products, we also found wide-ranging differences. In this section, we discuss the range of ESSDL business models, including the different types of lending institutions, employer and employee costs and fees, loan terms, and program features. We also weigh these costs, loan terms, and features against best practices identified by consumer groups and financial regulators. Box 1 provides a brief overview of the ESSDL legal and regulatory framework.

Lending Institutions

We identified ESSDL products offered by banks, credit unions, a community development corporation, and a consumer finance company.[7] The type of lender may impact the availability, terms, or design features of an ESSDL.

- **Banks** are typically for-profit depository institutions. ESSDLs originated by banks may include features that help un- or underbanked borrowers form a relationship with a financial institution and develop a savings habit.
- **Credit unions** are nonprofit depository institutions that serve their members. ESSDL borrowers are required to become a member of the credit union by opening a depository account, which may help un- or underbanked borrowers form a relationship with a financial institution. Loan features may encourage borrowers to develop a savings habit.
- **Community Development Corporations (CDCs)** are nondepository 501(c)(3) nonprofit organizations created to support consumers and communities with lower incomes. CDCs may receive funding from public and private sources (including banks).
- **Consumer finance companies** are for-profit nondepository loan providers. Typically, consumer finance companies are formed as corporations and licensed by states.

BOX 1

ESSDL Legal and Regulatory Framework

ESSDLs, like all consumer loan products, are subject to a complex framework of state and federal laws, rules, regulations, and other guidance designed to protect consumers. Regulatory protections differ by type of lender or category of borrower (e.g., military service members and their dependents) and are subject to change. Employer-based lending programs are also subject to state employment and labor laws that may impact how ESSDL benefits are designed or delivered. Employers should seek competent legal advice before implementing an ESSDL benefit.

The ESSDL providers in our sample can also be segmented in the following ways:

- Three lenders (including a bank and a CDC) hold Community Development Financial Institution (CDFI) certification, which is the US Department of the Treasury's recognition of financial institutions that help underserved people and those with lower incomes enter the financial mainstream. CDFIs include regulated institutions such as community development banks and credit unions, as well as nonregulated institutions such as loan and venture capital funds.[8]
- Three lenders (two banks and a consumer finance company) are fintechs that deliver loans through an online platform. Loans delivered by a fintech may provide a solution for companies with employees in multiple locations, that lack capacity to offer a benefit requiring more involvement with human resources staff, or that lack access to a local lender.
- Three local lenders (a bank and two credit unions) were recruited by a local nonprofit organization to offer an ESSDL as part of a more comprehensive employee financial wellness program that bundles the loan with other financial wellness services, including financial education, one-on-one coaching, and referrals to supportive community resources.
- Two banks (one fintech and one local provider) are Certified B Corps. B Lab is a nonprofit organization that awards B Corp certification to for-profit organizations that meet rigorous standards of social and environmental performance, accountability, and transparency.

Table 2 compares the ESSDL loan providers that participated in this study, including whether the provider is a fintech or a local or regional financial institution, the type of financial institution originating the loan, and loan availability.

TABLE 2

Participating Employer-Sponsored Small-Dollar Loan Providers: Fintechs and Local/Regional Lenders

Provider	Loan originating financial institution	Availability
Financial technology company (fintech) providers		
Kashable, LLC *New York, NY*	Consumer finance company	Employees of participating employers in 48 states
Salary Finance *Boston, MA* **Loans originated by Axos Bank** *Boston, MA*	Bank	Employees of participating employers in all 50 states
TrueConnect (Employee Loan Solutions LLC) *San Diego, CA* **Loans originated by Sunrise Bank** *St. Paul, MN*	Bank Certified B Corp	Employees of participating employers in all 50 states TrueConnect works with employers directly and provides access to its automated platform to banking partners
Local and regional financial institution providers		
Citizen Potawatomi CDC *Shawnee, OK*	Native community development financial institution	Employees of the Citizen Potawatomi Nation, regardless of whether the employee is a tribal member
Community Loan Center of the Rio Grande Valley *Brownsville, TX* **Loans originated by Rio Grande Valley Multibank** *Brownsville, TX*	Consumer finance company Community development financial institution	Employees of participating employers in the Rio Grande Valley The Community Loan Center of the Rio Grande Valley franchises its employer-sponsored loan to other financial institutions that may tailor the loan to the needs of local employers
Evans Bank *Buffalo, NY*	Bank	Employees of participating *Work/Life Solutions* program employers The *Work/Life Solutions* program, delivered through a partnership between Evans Bank and United Way of Buffalo and Erie County, provides employees with one-on-one help and referrals to community resources, onsite financial education classes, and a loan and savings program

Provider	Loan originating financial institution	Availability
Geauga Credit Union *Burton, OH*	Credit union	Employees of participating *Bridges@Work* program employers The *Bridges@Work* program—delivered through a partnership among United Way Services of Geauga County, Geauga Growth Partnership, Catholic Charities Community Services of Geauga, and Geauga Credit Union—provides employees with one-on-one help and referrals to community resources, onsite financial education classes, and a loan and savings program
NorthCountry Federal Credit Union *Burlington, VT*	Credit union	Employees of participating employers in 10 counties in Vermont, including employees of *Working Bridges* program employers United Way of Northwest Vermont's *Working Bridges* program provides employees with one-on-one help and referrals to community resources, a loan and savings program, onsite tax assistance, financial coaching, financial education, GED classes, and English language learner classes
Nusenda Credit Union *Albuquerque, NM*	Credit union	Employees of participating employers in greater Albuquerque
Spring Bank *Bronx, NY*	Bank Community development financial institution Certified B Corp	Employees of participating employers in greater New York metro area

Source: Urban Institute interviews with lenders and review of publicly available materials.

Employer and Employee Costs and Fees

Each lender we interviewed, whether for-profit or nonprofit, described the provision of an ESSDL as having a social purpose—that is, to help workers who might otherwise be unable to access emergency credit on affordable terms. Within this framework, interest rates and employer and employee costs and fees varied widely (see box 2 and table 3).

BOX 2

Employer Partnerships May Reduce Barriers to Small-Dollar Lending by Conventional Lenders

Financial regulators, consumer advocates, and policymakers have encouraged banks and credit unions to offer affordable small-dollar consumer loans as an alternative to payday loans that trap consumers in a cycle of debt. These groups endorse a 36 percent APR cap (or lower) on small-dollar lending as a rate that does not undermine individual economic stability (Saunders 2013).[9]

Banks and credit unions cite profitability concerns, opportunity costs, and a complex and changing regulatory environment as challenges to offering small-dollar loans. The overhead costs of small personal loans (e.g., marketing, underwriting, and loan processing) can be large relative to the loan size—especially when compared with home or car loans (McKernan, Ratcliffe, and Quakenbush 2014).

Lenders that collaborate with employers to offer small-dollar loans as an employee benefit may reduce handling costs and loan default rates by using information supplied by the employer (including income and length of employment in good standing) as a proxy for standard underwriting criteria and by simplifying loan repayment through payroll deduction. Marketing costs are reduced or eliminated by leveraging existing employer communication channels. Employers, employer groups, or nonprofit organizations that want to recruit a financial institution to collaborate on an ESSDL employee benefit may further reduce lender concerns about profitability by providing a "loan loss reserve" to cover estimated losses on loans because of defaults and nonpayment.

Employers and other stakeholders in ESSDL programs should compare the fee structures of available products carefully. Both interest rate and APR are ways to compare loans. The APR combines the interest rate with lender fees (e.g., origination fees) associated with the cost of credit. At the same time, certain costs to employee borrowers may be excluded from the APR calculation, including application fees, late payment fees, and penalty fees for paying a loan off early. Employee and employer costs for the 10 lenders we interviewed are summarized below and included in table 3.

- **APR or interest rates.** The APR for the ESSDL products in our survey ranged from 5 percent to 29.9 percent. For most lenders, the lack of fees meant the APR and interest rate were the same.[10] Six of the ten lenders we interviewed had one interest rate or APR for all borrowers, with eligibility based on salary and length of employment rather than credit score. Three lenders varied borrowers' APR based on credit and employment information, and one incentivized automatic repayment with a lower rate.
- **Employee fees.** Three lenders charged application fees of either $20 or $25; one of these charged an additional $50 for a credit report.

- **Employer fees.** One lender charged employers an initial set-up fee and an annual fee based on use and charge-off rates. Two lenders, recruited by local nonprofits to provide a loan as part of a larger financial wellness at work program, limited loan availability to the employees of participating companies that paid a fee for services to the nonprofit program provider. One lender charged "premium service fees" to smaller employers and employers that wanted to expand standard eligibility and approval rates. No lenders we interviewed held employers responsible for loan defaults or charge-offs, though one lender charged an annual employer administrative fee (ranging from $50 to $750) that was partly dependent on the overall company charge-off rate. Because payroll deduction reduces the risk of missed payments, loan defaults by borrowers were relatively rare (the lenders who shared information about defaults or charge-off rates placed them in the "low single digits"). Loan defaults typically occurred when borrowers separated from their employer, requiring the remaining payments to be made by the borrower directly to the lender.

TABLE 3

Participating ESSDL Providers' Interest Rates and Fees

Provider	Interest rate or APR*	Employee fees	Employer fees
Citizen Potawatomi CDC	15–21% APR	$75 ($50 for credit report and $25 application fee).	No
Community Loan Center of the Rio Grande Valley	18% interest rate	$20 application fee	No
Evans Bank	12.99% APR with an automatic payment plan; 15.99% APR without an automatic payment plan	No	Annual fee for service paid to nonprofit partner for onsite financial wellness program that includes one-on-one employee assistance, financial education workshops, and access to the ESSDL
Geauga Credit Union	18% interest rate	No	Annual fee for service paid to nonprofit partner for onsite financial wellness program that includes one-on-one employee assistance, financial education workshops, and access to the ESSDL
Kashable	6–29.9% APR	No	No cost to employers with 500 or more employees for standard loan eligibility and approvals. Smaller employers and employers that want to expand loan

Provider	Interest rate or APR*	Employee fees	Employer fees
			eligibility and approval may purchase premium services
NorthCountry Federal Credit Union	16.99% APR	No	$100–$300 initial set up fee. Annual fee between $50–$750 based on usage and company charge-off rate Employers may offer the loan as a stand-alone benefit or, for an annual fee for service paid to a nonprofit partner, provide an onsite financial wellness program including one-on-one employee assistance, financial education, access to the ESSDL, and other supportive services
Nusenda Credit Union	5% APR	No	No
Salary Finance	5.9–19.9% APR	No	No
Spring Bank	16% APR	$25 application fee	No
TrueConnect	19.99% APR	No	No

Source: Urban Institute interviews with lenders and review of publicly available materials.
Notes: Most lenders provided the APR for their loan products, but several lenders elected to provide interest rates. TrueConnect loans with no credit check are the same interest rate for all employees: 19.99% APR. The optional credit check program, which allows employees to use their credit score to apply for an installment loan, has rates from 3.99% APR to 19.99% APR.

Comparison of Loan Terms and Features

In this section, we compare the loan amounts, terms, underwriting criteria, administrative processes, and features of the ESSDLs in our sample (see table 4 for loan terms and underwriting). We also review additional financial wellness services offered to borrowers by lenders or their partners.

LOAN AMOUNTS AND TERMS

- ***Loan amounts***. Most lenders offered employees a range of loan amounts, typically from a few hundred dollars to a few thousand dollars. Lenders frequently capped the maximum loan at a standard dollar amount or an amount relative to the borrower's income. For example, Kashable loans ranged from 3 to 12 percent of a borrower's net annual compensation.[11]
- ***Loan terms***. The typical loan term was 12 months, with a range from 6 to 36 months. Nusenda was unique among the lenders we interviewed in offering loans with repayment periods ranging from 10 months to 15 years, though its average loan term was a few years. All the lenders we interviewed gave borrowers the option of repaying loans early without penalty.

UNDERWRITING

- ***Determining loan eligibility***. The common underwriting criterion among the ESSDLs in our survey was the borrower's status as an employee "in good standing" with the participating employer for a preestablished length of time (ranging from three to 12 months). Depending on the lender, qualifying periods were set either by the lender or the employer. For some lenders, length of employment served to qualify employees to apply for a loan, while the applicants' income determined the maximum loan amount. At Citizen Potawatomi, employees with longer terms of service were able to borrow larger amounts.
- ***Credit checks***. Six of the ten lenders did not check loan applicants' credit at all, and one, Spring Bank, used only a soft credit check to track outcomes among loan holders. Citizen Potawatomi, Kashable, and Salary Finance used both employment and credit information to determine individual borrowers' interest rate and loan term. For some lenders, including those that made loans regardless of credit score, a recent bankruptcy was disqualifying. Loan approval rates among the lenders who shared information with the researchers were at or above 90 percent.

TABLE 4

Loan Terms and Underwriting

Provider	Loan amount	Loan term	Credit check	Eligibility and underwriting criteria
Citizen Potawatomi CDC	\$500–\$2,000	12–18 months	Yes	Loan amount based on length of employment; interest rate based on credit score
Community Loan Center of the Rio Grande Valley	\$400–\$1,000	12 months	No	Length of employment
Evans Bank	\$500 or \$1,000	6 or 11 months	No	Length of employment
Geauga Credit Union	Up to \$1,000	12 months	No	Length of employment
Kashable	\$250–\$20,000 (3–12% of salary)	6–24 months (average: 12 months)	Yes	Lending decision and interest rate based on employment data and credit score, and level of service provided by employer
NorthCountry Federal Credit Union	Up to \$1,500 depending on employer agreement	Loan term dependent on employer agreement (average: 6 months)	No	Length of employment

Provider	Loan amount	Loan term	Credit check	Eligibility and underwriting criteria
Nusenda Credit Union	$250–$10,000 (average $1,800)	10 months to 15 years (average several years)	No	Lending criteria determined in cooperation with each participating employer
Salary Finance	Up to 20% of a borrower's annual salary	12–36 months	Yes	Lending decision based on length of employment, credit score, employer verification, and information supplied by applicant
Spring Bank	Limited to 80% of an employee's gross monthly income up to $3,500	12 months	Yes: soft pull for information only	Length of employment
TrueConnect	$500–$5,000	12 months	No	Length of employment and income. No more than 8% of the paycheck can be used for loan repayment

Source: Urban Institute interviews with lenders.
Notes: TrueConnect offers an option for employers to add a credit check required loan in addition to the standard no credit check loan program. Employees with good credit may qualify for lower rates.

ADMINISTRATION

- ***Application process***. Seven lenders we interviewed had (or were developing) online applications that took 5 to 10 minutes to complete and provided near-instant loan approval. Three lenders required employees to apply in-person at the lender's bank or through a workplace resource coordinator. Resource coordinators are employees of third-party workplace financial wellness programs that facilitate the loan application process and can assess whether the employee may benefit from other supportive services instead of, or in addition to, a loan.[12]
- ***Verifying employee data***. The lenders we interviewed relied on employers to verify employment, but the process to verify additional application information required differing amounts of time and effort from employers. Some lenders required no additional information. Some lenders provided employers with completed information and an online link for verification, while others required the employer to provide additional information. TrueConnect has automated this process through their employer payroll system.
- ***Approval and delivery of funds***. Most lenders we interviewed said that approved loan funds were typically available to employees within 24 to 48 hours from loan application, while two said their processes took between five days and two weeks.

- ***Payroll deductions***. All the lenders we interviewed used payroll deductions (or similar processes where payroll deductions are prohibited) for loan repayment and worked cooperatively with employers' human resources departments to link to company payroll systems.[13] TrueConnect has automated this process with employers through their payroll system.
- ***Employee separation from employer***. Loans repaid through payroll deduction reduce the risk to lenders of late payments and loan defaults, and lenders reported that most ESSDL charge-offs occurred when an employee with an outstanding balance separated from the employer. Before approving loans, some lenders established repayment plans in the event of job separation by asking applicants to designate a secondary account from which they could divert payments.

OTHER FEATURES AND SERVICES

Among the lenders we interviewed, many described loan parameters designed to help borrowers avoid additional debt, such as limiting borrowers to one loan at a time and limiting the number of loans taken out over a period of time. The lenders also provided varying degrees of access to financial education and other services to improve borrowers' financial wellness. Our research did not evaluate whether mandating these services deters employees from accessing ESSDLs as an alternative to payday loans.

In this section, we discuss the availability of savings features, credit reporting, financial counseling, and financial education among the lenders in our survey (tables 5 and 6). Box 3 discusses the role of nonprofit community organizations in supporting and scaling ESSDL models.

- ***Savings***. Several lenders linked ESSDLs to opportunities for borrowers to build emergency savings and avoid the need to pay interest on a loan in the future. Evans Bank and Geauga Credit Union included automatic monthly savings with each loan repayment as a condition of the loan. NorthCountry Federal Credit Union continued payroll deduction on an opt-out basis and converted the loan repayment amount into savings. Spring Bank and TrueConnect offered borrowers the option to save both during and after loan repayment.
- ***Credit reporting***. All lenders we interviewed reported borrower payments to at least one major credit reporting agency. On-time, regular ESSDL payments can build or improve borrowers' credit scores over time, helping employees gain access to credit (including credit cards, auto loans, or mortgages) on more favorable terms.

TABLE 5

Savings Features and Credit Reporting

Lender	Savings features	Credit reporting
Citizen Potawatomi CDC	No	Yes
Community Loan Center of the Rio Grande Valley	No	Yes/no: franchisees may opt-out of credit reporting
Evans Bank	Automatic monthly savings in addition to loan repayment required as a condition of the loan	Yes
Geauga Credit Union	Automatic monthly savings in addition to loan repayment required as a condition of the loan	Yes
Kashable	No	Yes
NorthCountry Federal Credit Union	Payroll deductions are continued on an opt-out basis after loans are repaid and deposited into savings	Yes
Nusenda Credit Union	No	Yes
Salary Finance (Axos Bank)	No: planned for 2021	Yes
Spring Bank	Borrowers were offered the option to save both during and after loan repayment	Yes
TrueConnect (Sunrise Bank)	Yes: TrueConnect allows borrowers to continue payroll deductions into savings after their loan is repaid, or they can choose to deduct an additional amount during their loan repayment and have it deposited into savings	Yes

Source: Urban Institute interviews with lenders.

- ***Financial counseling***. Research has found that financial counseling can reduce past-due debt and may increase the share of families with low incomes who are banked (Wiedrich et al. 2014). Several lenders we interviewed offered financial counseling services to employees directly or through community partners or offered referrals to financial counseling services. Only one lender required financial counseling as a condition of the loan.
- ***Financial education and resources.*** Financial education may be associated with fewer defaults, higher credit scores, and reduced likelihood of payday borrowing among young people (Urban et al. 2018; Harvey 2019). Most lenders in our survey provided financial education and related resources either directly or in partnership with community nonprofits. Some lenders offered formal financial counseling or education and in-person sessions for groups of employees, while others made financial wellness information available on their online portals.

TABLE 6

Financial Counseling and Education

Lender, Product	Financial counseling	Financial education and resources
Citizen Potawatomi CDC	Yes: Ongoing financial counseling services are available	Yes: offer borrowers financial education in the form of videos, articles, and both video and in-person classes
Community Loan Center of the Rio Grande Valley	Yes: Each franchise offers consumers financial counseling directly or in partnership with a community nonprofit	No
Evans Bank, Work/Life Solutions	Yes: One-on-one assistance is provided in the workplace through a partnership with a community nonprofit	Yes: through a community partnership, employees can access financial education classes
Geauga Credit Union, Bridges@Work	No	Yes: employers provide funding for employees' financial education classes
Kashable	No	Yes: financial and credit education resources, including a financial literacy library and videos, are available to workers via an online portal; employees are not required to apply for a loan before accessing these resources; additional financial wellness resources and information are available to employer HR teams to share with their employees
NorthCountry Federal Credit Union, Working Bridges	No	No
Nusenda Credit Union	Yes: Financial counseling sessions, provided in cooperation with nonprofit community partners, are required as a condition of the loan	No
Salary Finance (Axos Bank)	Yes: employees have access to financial counseling services through a network of partners, including United Way Worldwide	Yes: employees have access to a library of financial wellness content and educational tools organized by topic, as well as free personalized referrals to local nonprofit and government resources
Spring Bank	No	No
TrueConnect (Sunrise Bank)	Yes: through a community partnership, borrowers can attend up to six credit or financial counseling sessions a year with a federally licensed, nonprofit, credit counseling organization at no cost	Yes: through partnerships with local United Ways, Neighborhood Housing Organizations, and other community organizations

Source: Urban Institute interviews with lenders.

BOX 3

Nonprofits Support and Scale ESSDL Models

Nonprofit community organizations have played an important role in the development and replication of ESSDL program models. Local United Ways, Catholic Charities, and other social service organizations serve as conveners of employer work groups, trusted intermediaries, and providers of onsite workplace financial wellness programs (OFN 2017).

In 2007, United Way of Northwest Vermont convened a group of employers in Burlington to facilitate the development and implementation of workplace supports to help workers get and keep stable employment. Among the needs identified by this *Working Bridges* employer collaborative was a way to help growing numbers of employees requesting pay advances or quitting their jobs to gain access to retirement funds. *Working Bridges* employers partnered with NorthCountry Federal Credit Union to design a small-dollar loan to help their employees access emergency cash, avoid the high cost of payday lenders, establish or repair credit, and begin to save. In addition to the ESSDL, the *Working Bridges* program provides employees with onsite referrals to community services, financial education, English language learner classes, and GED classes. The NorthCountry ESSDL, originally limited to *Working Bridges* employers, is now available more broadly to employers in 10 counties in Vermont.

Through the *Financial Wellness at Work* program, a partnership between United Way Worldwide and the FINRA Investor Education Foundation, the *Working Bridges* program has informed the development of programs and partnerships in communities across the country. These include the *Bridges@Work* program, launched in Northeast Ohio in 2015 through a partnership among United Way Services of Geauga County, Geauga Growth Partnership, Catholic Charities Community Services of Geauga, and Geauga Credit Union, as well as the *Work/Life Solutions* program in Buffalo, New York, started in 2018 through a partnership between United Way of Buffalo and Erie County and Evans Bank.[a]

Rhino Foods, a specialty food manufacturer in Burlington was among the first companies to pilot test the ESSDL developed by NorthCountry Federal Credit Union (known in Vermont as the Income Advance Loan). In 2019, Rhino Foods CEO Ted Castle created the nonprofit Rhino Foods Foundation to champion ESSDLs and other innovative business practices designed to support employee financial stability.[b]

Notes: [a]The *Financial Wellness at Work* program cooperates with leading community practitioners to conduct training and provide tools and resources to help nonprofits identify the processes and partnerships to implement a successful workplace financial wellness program. [b] Rhino Foods, a B Corp, collaborated with B Labs to prepare the Income Advance Guide for employers: "Income Advance," Income Advance Guide, accessed November 1, 2020, https://www.incomeadvance.org/.

ESSDL Products Compare Well with Small-Dollar Loan Best Practices

Numerous consumer and public policy groups have recommended best practices for the provision of short-term small-dollar credit that safeguards the financial well-being of borrowers. For example, the

Financial Health Network's Compass Principles identify core practices, such as minimal and transparent fees, accommodative underwriting, and flexible repayment options for borrowers (Financial Health Network 2014). A report from the Pew Charitable Trusts recommends limiting installment payments to 5 percent of pretax income and loans that amortize over time without front-loading fees (Bourke et al. 2013).[14]

The products we surveyed either met many common guidelines for small-dollar credit or had safeguards in place to ensure borrowers successfully repay loans:

- **Application and underwriting are fast and convenient, and funds are available quickly.** Many employees seek small-dollar loans to cover financial emergencies. ESSDLs must have low barriers and high approval rates to help employees avoid payday lenders and other alternative forms of credit.
- **Loan parameters guard against unmanageable debt.** Using payroll data gives ESSDL lenders an accurate picture of a potential borrower's primary income source. Several lenders in our survey limited the maximum loan amount to a percentage of the borrower's paycheck, and some assessed applicants' total debt burden and other financial obligations (e.g., rent and utilities) as part of the underwriting process. Most lenders in our survey limited ESSDL borrowers to one loan at a time and limited the number of loans that may be taken out over a period of time.
- **Interest rate and fees are below the 36 percent APR rate cap endorsed by policy groups and consumer advocates** (Saunders 2013). Lenders in our survey offered a rate below this threshold, with minimal fees for employers or borrowers.
- **Early repayment is not penalized.** No lenders we interviewed prohibited borrowers from repaying loans early. Although making regular payments for a longer period may benefit borrowers' credit scores, many people are reluctant to have outstanding debt if they feel they do not need it (Elliott and Quakenbush 2019).
- **Savings features support longer-term success.** Even small amounts of savings can help avoid hardships like eviction or utilities shutoffs after a financial shock (McKernan et al. 2016). Five ESSDLs in our survey either required savings as a condition of the loan, provided a transition to savings on an opt-out basis after loan repayment, or offered borrowers a choice of savings options.

The low charge-off rates observed by lenders suggest that the ESSDL model can deliver small-dollar credit in ways that do not undermine the financial stability of borrowers.

Employer Perceptions of ESSDL Products

To understand employers' perceptions of the ESSDL products they chose, we interviewed representatives from 11 employers about the reasons they chose to offer an ESSDL product; the benefits, risks, and challenges they encountered; and what they valued or wanted in an ESSDL product. Employers we spoke to were referred to us through field partners and the lenders we interviewed.[15] They represent some but not all products in the landscape above. Employer locations included the Southwest, Great Lakes region, and New England. Employers had a few dozen to several hundred employees and came from the local government, health care, small manufacturing, nonprofit, and small business sectors.

Feedback from employers aligns with what other ESSDL implementation studies have found (FINRA Foundation and Filene 2017). Employers indicated they were generally satisfied with the loan programs they offered and pointed anecdotally to positive employee feedback. Employers saw the ESSDL as a safer, if sometimes still expensive, alternative to the payday loans they observed employees seeking. They saw few risks associated with offering an ESSDL program because employer fees were low or nonexistent, employers bore no risk for the loans, and in most cases staff time for handling applications was minimal.

Employers did not track metrics to assess the programs' effects on outcomes such as productivity, retention, or retirement account withdrawals, but a few anecdotally noticed declines in calls from debt collectors and requests for salary advances or retirement account withdrawals.

Perceived Benefits

Employers identified several benefits to sponsoring small-dollar loan products and spoke at least as much about perceived benefits to their workers as about benefits for the employer. Box 4 offers a case study of borrowers' experiences with the TrueConnect product.

REDUCES RISK FOR EMPLOYERS

Before sponsoring small-dollar loan products, some employers provided ad hoc loans to employees or offered payroll advances. Employers offering such direct assistance face financial risks if workers fail to repay loans or leave their jobs. Employers also risk perceptions of unfair treatment if the process for accessing a payroll advance is not transparent or if loans are not available to all workers. Having a formalized loan program with clear eligibility requirements minimizes these risks. One employer anecdotally mentioned a decline in requests for payroll advances following introduction of the ESSDL program, and several expressed satisfaction that they were not liable for ESSDL defaults.

Many employers we interviewed noted that offering the employer-sponsored small-dollar loan service came at little to no cost for them.

POTENTIALLY REDUCES EMPLOYEES' HIGH-COST CREDIT USE

Multiple employers we spoke to said they first considered offering an ESSDL product because of concerns about employees accessing high-cost payday loans. Employers were aware that many of their employees with low incomes struggled financially and shared anecdotes about receiving calls from payday loan debt collectors. One employer mentioned that wage garnishments fell to zero after the loan program was introduced. In at least two cases, employers cited employees using the ESSDL to refinance higher-cost debt.

POTENTIALLY REDUCES RETIREMENT PLAN LOANS AND HARDSHIP WITHDRAWALS

Some employers mentioned a decline in retirement account withdrawals after launching an ESSDL but noted that they had not formally evaluated whether the ESSDL program was a contributing factor. More formal research would be needed to confirm whether offering an ESSDL helped employees maintain retirement savings or helped employers realize a net decrease in administrative costs.

PRIVACY ABOUT WORKERS' FINANCIAL CIRCUMSTANCES

Employers cited the relative privacy of the ESSDL process as a benefit to both employers and employees. One employer noted that privacy was an important factor in choosing which product to offer. Another said that the anonymity of borrowers was part of the program's appeal.

Employers don't always want to know the specifics of employees' financial circumstances, but the ESSDL application process doesn't allow for complete anonymity. One employer expressed reservations that the ESSDL program increased the company's involvement in employees' financial lives because human resources staff must verify employee eligibility. In several programs, employees must meet with a resource coordinator to start the loan application process. Resource coordinators are the employees of third-party providers, but leaving the floor at one participating manufacturing company required permission from a direct supervisor. Although a lack of complete anonymity may deter some workers from applying for an ESSDL, some employers felt that the individualized service offered by a resource coordinator could improve borrower outcomes compared with an anonymous online application process. To address privacy concerns, TrueConnect automated this process through the employer's payroll system, so HR staff are not involved in verifying employment or eligibility.

POTENTIALLY BUILDS EMPLOYEE BANKING RELATIONSHIPS

Employers (and lenders) noted that ESSDL programs may build trusted relationships between un- and underbanked employees and financial institutions. ESSDL borrowers may establish or improve credit, allowing them to borrow in the future at more favorable rates and to build assets.

CONVENIENCE FOR EMPLOYEES

Employers we spoke to thought the process for accessing ESSDLs was convenient for employees. Employers believed the convenience of payroll deductions for loan repayments reduced the risk of missed payments. Also, the quick delivery of funds—sometimes within a business day—was a selling point. For employers concerned about workers seeking nonbank loans, convenience matters. People seeking emergency funds often need money fast, so the application process must be competitive with the speed and convenience of payday lenders (McKernan et al. 2014).

BUILDING CREDIT AND SAVINGS

Employers we interviewed cited the credit-building and saving features of some ESSDL program models as important worker benefits. As employers expand financial counseling and coaching programs available to employees, employees often seek ways to build and improve their credit (Elliott, Heffernan, and Okoli 2019). Beyond credit, emergency savings can help people weather a hardship. One employer liked that the savings feature helped young workers establish healthy savings habits. Another, whose product did not feature a savings component, wished for one.

BOX 4

TrueConnect Case Study: Do Borrower Experiences Point to Improved Financial Well-Being?

Research on how ESSDL programs affect employee financial well-being is still limited, but early studies on employee experiences bring insights for future research. One mixed-methods study by researchers at the Social Policy Institute at Washington University in St. Louis examined borrowers' experiences with the TrueConnect product from Employee Loan Solutions, LLC (Frank-Miller et al. 2019). The study examined data from a TrueConnect borrower survey of 781 respondents across 55 organizations to identify borrower characteristics. Researchers then surveyed borrowers at a large social service agency and interviewed 7 employees and 11 managers at the organization to better understand experiences at the workplace.

The TrueConnect borrower survey showed that the top loan uses were for home expenses (42 percent), vehicle expenses (29 percent), and medical expenses (18 percent), with "high-cost debt," "other," "travel," and "taxes" representing other common uses. More than half (54 percent) of respondents had previously used a payday, auto-title, or pawnshop loan, and 28 percent had borrowed from a 401(k) or other retirement plan. Respondents were satisfied overall with the loan product and said their perception of their employer was more favorable for offering the benefit.

At the social service agency, 400 of 2,000 employees had borrowed using TrueConnect—many more than once—and 45 responded to the survey. Employees at the agency were generally part-time workers paid low wages. Managers interviewed said it was common for employees to have second jobs and live paycheck to paycheck. Respondents primarily cited using the loan to meet "planned-for costs rather than unexpected financial costs"—that is, to pay for "essential household expenses," overdue bills, or overdue rent or mortgage payments. This contrasted with what managers expected—that workers would primarily borrow for medical and transportation costs.

Frank-Miller and colleagues (2019) concluded that the TrueConnect loan reached its intended demographic: workers paid low wages who might otherwise turn to high-cost nonbank loans when seeking credit. However, the authors concluded the evidence so far was insufficient to determine whether ESSDLs were improving financial well-being. Although borrowers reported satisfaction with the loan, workers often took out multiple loans for basic living expenses, which could be a sign of financial distress if expenses chronically exceed income. However, participants also reported improved credit scores, and borrowing for planned living expenses may have prevented negative outcomes like eviction or utility shut-offs.

Perceived Risks and Challenges

When we asked employers about potential risks or concerns about offering an ESSDL benefit, a few mentioned the products' double-digit interest rates as being higher than they preferred. Although they expressed this concern, they also understood that many workers might otherwise seek (and had sought) even more expensive options like payday loans.

These concerns speak to the need for employers and lenders alike to ensure that ESSDLs support employee financial wellness and discourage unmanageable debt. For example, to promote consumer success, some lenders we surveyed allowed only one loan at a time, limited the number of loans over a given period, restricted loan size based on wage income, and implemented features to help borrowers accumulate savings during the repayment period or transition to savings after loan repayment.

OTHER CONSIDERATIONS

Administration and flexibility

Overall, the employers we spoke to were satisfied with the product they chose and found the employer's role in providing verification information for the loan straightforward. Different product designs, however, required varying levels of effort from employers. In addition, one employer reported that, at least initially, they received more loan applications than anticipated, which created additional administrative burden on staff.

Advertising and employee awareness of the program

Employee awareness of the program could wane unless information is routinely shared with employees through channels workers regularly access and understand (Frank-Miller et al. 2019). Employers we spoke to said they advertised the loan program through means such as all-staff meetings, employee onboarding, and on-site lender presentations.

Conclusion and Future Directions

Our investigation found that research on employer-based lending is limited to small-scale studies that help identify emerging employer and borrower perceptions of ESSDL programs. Nonetheless, these pilots and implementation studies have found that the ESSDL model shows promise as a feasible way to provide access to credit for workers with low and middle incomes, including those with no or negative credit histories, at a significantly lower cost to borrowers than payday loans, auto title loans, and other alternative forms of credit.

This report identifies common loan features and practices, as well as significant differences, among 10 ESSDL providers. These lenders, both for-profit and nonprofit, identify themselves as mission-driven to help people who lack access to affordable credit. The products we examined align with practices encouraged by consumer advocates by keeping interest rates significantly lower than those of payday loans and similar products; placing limits on outstanding loans and loan amounts; ensuring timely repayment through payroll deduction; and providing savings, credit-building, and financial knowledge features to support borrowers' long-term financial success.

Employers, meanwhile, increasingly explore expanding their financial wellness benefits, including through ESSDLs, to attract and retain workers and improve workplace outcomes by helping workers address personal financial challenges that might otherwise diminish their productivity. The employers we interviewed approached these benefits with a degree of community-mindedness after seeing many employees cash out their retirement plans or struggle with payday loans. Employers also recognize that employee financial distress can create administrative burdens and risks related to debt-related wage garnishments, salary advances, and retirement plan leakage. To support the availability and adoption of ESSDLs, additional research is needed to increase understanding about how employer-sponsored lending can meet the needs of employers, employees, and financial institutions.

First, additional research is warranted on how these loans affect employers' bottom lines, whether from lower costs of processing wage garnishments and 401(k) withdrawals, or from improved worker productivity and retention. Employers reported anecdotal evidence of positive employee outcomes, including reductions in collections calls and withdrawals from retirement savings. However, it has not been firmly established whether these outcomes are attributable to ESSDLs or other circumstances (e.g., a relatively strong economy at the time of the study). Some employers we spoke with were taking early steps to measure program impact, but results are still to be determined.

Second, additional research is warranted on how specific loan features may affect employees' participation and align with employer and employee needs. Most employers we interviewed did not shop for an ESSDL. Instead, they were approached by a lender or nonprofit community partner and took up the program after determining the program was relatively low risk for them. As options expand, employers will need to pay careful attention to ensure that the ESSDL product they choose aligns well with their employee and business needs. For example, does a "high-touch" program model bundled with other services improve borrower outcomes? Can a local financial service provider support an employer with ambitions to scale nationally or internationally? Do lenders that mandate financial education as a condition of receiving a loan raise barriers that discourage some employees from accessing loans? And what degree of privacy about their financial situations do employees demand? The answers to these questions are likely to vary with individual circumstances.

Last, additional research is warranted on ways to incentivize more and larger mainstream financial service providers to offer affordable small-dollar loan products. Though there are signs of new entry into the ESSDL and broader small-dollar loan market, still relatively few products are available.

Access to employer-based credit can be a lifeline for families to bridge temporary cash shortfalls or address a household emergency. A well-designed ESSDL can help employees avoid high-cost payday or auto title loans, improve or repair credit (reducing the cost of future credit), and develop a savings habit. Additional research on employer-sponsored lending, and on specific loan features, will enhance understanding about how access to affordable credit may contribute to improved financial stability over time.

Notes

1 Stephen Miller, "Financial Wellness Perks Expand to Address Employee Needs," Society for Human Resource Management blog, June 11, 2018, https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/financial-wellness-perks-expand.aspx.

2 See FINRA Foundation (2019); "About the National Financial Capability Study," accessed October 5, 2020, https://www.usfinancialcapability.org/about.php.

3 Matt Tatham, "Fewer Americans Have a Subprime Credit Score," Experian, March 12, 2019, https://www.experian.com/blogs/ask-experian/research/subprime-study/.

4 See FINRA Foundation (2019).

5 Healy Jones, "401(k) Leakage," For Us All blog, April 19, 2017, https://www.forusall.com/401k-blog/401k-leakage/. Actual losses depend on assumptions about wage growth (assumed 3 percent) and investment return (assumed 6 percent). For another hypothetical example of the costs of retirement plan leakage, see Munnell and Webb (2015).

6 The 10 lenders included in this study were identified through a literature review and discussions with field partners, and they responded to our invitation to participate in the study. We conducted semi-structured phone interviews with lenders during July and August 2019 regarding their products and business models. Lenders verified the information included in this report and gave us permission to publicly share the information.

7 Loan origination includes all steps in the process from loan application through disbursal of funds or declining the application.

8 "CDFI Certification," US Department of the Treasury Community Development Financial Institutions Fund, accessed October 5, 2020, https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx.

9 Military Lending Act, 10 U.S.C. § 987 (2006), https://www.fdic.gov/regulations/compliance/manual/5/v-13.1.pdf.

10 Kashable provides a website example that suggests the APR includes a finance charge that was calculated as a percentage of the loan and deducted from the amount received by borrowers. Our understanding is that this example does not apply to Kashable's employer-sponsored loans. "A $3,000 loan with a finance charge of $267.02 and amount financed of $2,925, repayable in 26 biweekly installments, and an interest rate of 12.6 percent would have an APR of 17.84 percent and biweekly installments of $127.77." "Kashable," accessed November 15, 2020, https://kashable.com/.

11 Although much of the discussion about employer-sponsored lending focuses on meeting the needs of workers with lower incomes or workers with no or subprime credit, Kashable offers employers a range of options to provide access to loans for all employees, including those with higher incomes and good credit. The Kashable "Basic Plan" is free to employers with 500 or more benefits-eligible employees using standard loan eligibility and approvals. Smaller employers and employers that want to expand loan eligibility and approval limits may purchase a "Premium Plan."

12 Shared onsite resource coordinators (or resource navigators) are typically trained social workers and/or information and referral specialists employed by nonprofit community organizations providing workplace supports for employees with lower incomes.

13 State regulations may prevent financial institutions from deducting funds from worker's paychecks. Loan programs in these states may require that funds be deposited into a bank account before being directed toward loan repayment.

[14] For more product design and consumer protection regulations frequently used, see McKernan, Ratcliffe, and Quakenbush (2014) and (2015).

[15] At our request, lenders reached out to employers offering their products to invite them to participate in the study. We conducted semi-structured phone interviews with 11 employers between August 2019 and January 2020 regarding the reasons they chose to offer an ESSDL product; the benefits, risks, and challenges they encountered; and what they valued or wanted in an ESSDL product. Employers were assured that their comments would be kept anonymous.

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