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FINANCIAL REGULATION

New Workplace Perk: Loans for Low-Income Employees

More U.S. companies offer small loans as a way to attract and retain workers

By Yuka Hayashi

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More U.S. employers are teaming up with financial institutions such as credit unions to offer small personal loans to their workers, offering employees a way to bridge financial crunches without turning to high-cost payday loans.

Lower-income workers' pay is stagnating, propping up demand for small consumer loans. A Federal Reserve survey last year found 44% of Americans had difficulty covering an emergency expense of $400. Many low-income workers lack credit history and access to credit cards or bank loans.

A new federal regulation cracking down on payday lenders is likely to create further needs for alternative forms of credit, but it remains unclear who can fill the gap.

No formal statistics exist to show how many employers offer such programs, but several community-based networks with participating local employers have emerged across the country in recent years. A program in Savannah, Georgia, for example, was started in 2015 and one in Geauga County, Ohio, in 2014.

Rhino Foods Inc., a Burlington, Vt., company that makes ice-cream ingredients, teamed up with a local credit union to provide same-day loans of as much as $1,000 with no credit checks and no questions asked to any employee that has worked at the company for at least a year. The loans' current annual interest rate is 16.99%, a fraction of the rates for payday credit—small consumer loans used by millions of Americans each year—which can climb to 400%.

"If you could help an employee whose car breaks down or water heater is broken, you are going to have an employee come to work in better shape," said Ted Castle, chief executive of Rhino, which has 140 employees. Ms. Castle said the loan program helped the company boost its employee retention rate.

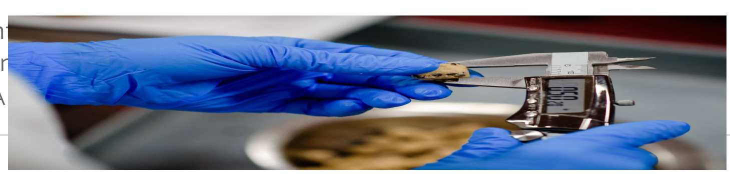
Ted Castle, the CEO of Rhino Foods in Burlington, Vermont. PHOTO: JACOB HANNAH FOR THE WALL STREET JOURNAL

Rhino employee Justin Charron, a 32-year-old line operator, recently used the program to buy a car, which allowed him to end his daily two-mile walk to work. He took an earlier loan to pay an unexpectedly large heating bill in 2015. The company's HR department arranged for a loan with the local lender, NorthCountry Federal Credit Union. By the end of the day, he had a $1,000 loan, which he paid off within several months through weekly payroll deductions of $50.

"Life happens. I know it really helped to keep me on track," said Mr. Charron.

Employer-sponsored loans aren't a big moneymaker but nonprofit financial institutions, including credit unions, have recently found ways to make them work. They keep costs low by skipping underwriting, with the company essentially vouching for an employee's ability to repay the loan. Automated payroll deductions mean repayment rates are high. The biggest challenge occurs when the worker leaves the employer.

Clockwise from top, Shelbie Lenz, righ
Foods in Burlington, Vermont on Wedr
cookie dough. PHOTOS: JACOB HANNA



Finra Investor Education Foundation, a nonprofit arm of the Financial Industry Regulatory Authority, a private regulator, recently completed an 18-month market test of an employer-sponsored loan program that included 13 financial institutions and 48 employers. The Finra foundation, along with the nonprofit Filene Research Institute, will soon start offering free resources to help companies and financial institutions launch such efforts. “This has the potential to really make a difference in the short-term liquidity needs of lower-income workers,” said Gerri Walsh, the Finra foundation’s president.

While the companies’ HR departments process payroll deductions, loans are kept confidential from the borrowers’ managers and company officials. Unlike payday loans, employer-based loans help the borrowers build credit history. Some programs also encourage employees to build rainy-day funds by continuing payroll deductions even after the loans are paid off.

“Part of what credit unions are founded to do is to provide small loans to people of limited means,” said Jeff Smith, NorthCountry’s director of credit administration, which works with over 30 employers in Vermont with a combined 4,700 employees. “We are breaking even with this program. It certainly achieves part of what we are founded to do.”

Justin Charron took advantage of a loan program from his employer, Rhino Foods, in Burlington, Vermont, to help purchase a new vehicle. PHOTO: JACOB HANNAH FOR THE WALL STREET JOURNAL

Texas-based Rio Grande Valley Multibank Corp., a community lender set up by several large banks as part of their lower-income lending efforts, started offering employer-based small-dollar loans in 2011 and now operates through its subsidiary in four states.

It works with local nonprofit lenders as a franchiser covering 150 employers with 74,000 workers—ranging from a hair salon with three workers to the Houston municipal government, with over 20,000 employees.

Nick Mitchell-Bennett, Rio Grande Valley's executive director, said the biggest challenge was figuring out the right mix of employers to minimize the default rate while serving as many lower-income borrowers as possible. In 2013, Rio Grande Valley's default rate surged to an unsustainable level of 13% after one large employer, a demolisher of ships, laid off many workers, who then stopped repayments. The group now keeps its rate of loan write-offs below 4% by working with a number of public-sector employers with fewer layoffs, as well as private companies.

"Nobody had done this before," he said. "There was no instruction manual for us to do it."

This year, the group is on track to make 13,000 loans, more than double the number in 2015, for a total sum of roughly $10 million. Within three to five years, it wants to offer 50,000 loans annually by recruiting more local Community Development Financial Institutions, which raise low-cost funds from the federal government and banks as part of their community lending programs.

Justin Charron spends time with his fiancee, Stephanie Alexandrovich, at their apartment in Burlington after his shift at Rhino Foods ended. PHOTO: JACOB HANNAH FOR THE WALL STREET JOURNAL

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