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Employer-Sponsored Alternatives to Payday Loans in Virginia

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In the last decade, payday lenders emerged as the "go to" place for many consumers facing a cash crunch between paychecks. Today, alternative payday loan products are gaining the attention of employers who see an opportunity to provide their employees with a similar service but at a lower cost.[1] This article highlights several employer-sponsored loan programs in Virginia that provide innovative, lower cost alternatives to payday loans.

Background

Payday lending began to expand rapidly in Virginia with the passage of the Payday Loan Act in 2002. This law made payday lenders exempt from the 36-percent interest rate limit that applies to loans made under the Virginia Consumer Finance Act, which covers loans of $500 or less. As a result, payday lenders could charge fees and interest rates equivalent to an annual percentage rate of up to 782 percent for a one-week loan, more than 20 times the maximum that other lenders can charge for small dollar loans.[2]

The payday lending industry in Virginia grew from 604,087 loans and $165 million in total loan value in 2002 to approximately 3.5 million loans and $1.4 billion in total loan value in 2007.[3] Also in 2007, the average Virginia payday borrower held more than seven loans, with approximately 94,500 Virginians taking out more than 13 loans from the same lender.[4]

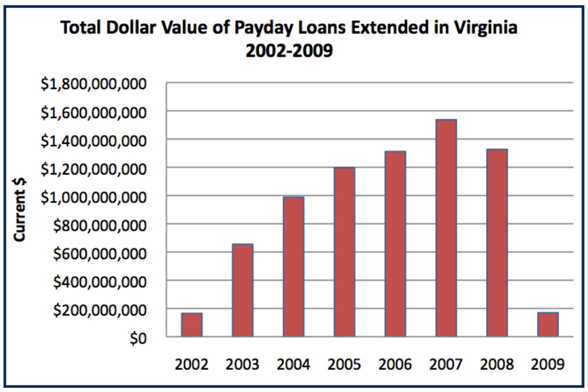
In 2008, to respond to the growth in payday lending, the General Assembly amended the Virginia Payday Loan Act to prohibit payday lenders from the following actions:

- Making more than one loan during the same time period to a borrower;[5]
- Renewing or extending an existing loan;
- Charging more than 36 percent simple interest annually, more than $100 (or 20 percent of the principal amount advanced) in fees and more than $5 per transaction fee;
- Lending more than $500; and
- Lending to military personnel and their spouses or dependents.

The amendment resulted in a significant decline in the volume of payday loans in Virginia. Figure 1 shows that the total loan value fell to $170 million in 2009 (less than 500,000 loans).

To respond to the financial needs of their workers with short-term cash emergencies, some Virginia companies have started to experiment with payday lending alternatives in partnership with credit unions. Credit unions and employers have a tradition of developing an affiliation or partnership that provides special financial products and services targeted to the needs of employees. These specialized financial products now include alternatives to payday loans that are convenient, small-scale loans with better pricing and repayment terms for the employee-borrower.

Figure 1.



Source: Bureau of Financial Institutions, State Corporation Commission, Commonwealth of Virginia.

Benefits to Employees/Borrowers

A 2009 survey of Virginia state government employees indicates that the greatest benefits of an employer-sponsored payday loan alternative are the access to a loan fund without checking credit scores; a quick and easy application process; a loan that is confidential in manner without the direct knowledge of the borrower's supervisor; and a direct debit service through payroll that makes repayment easy.[6]

In addition to these advantages, alternatives to payday loans provided through credit unions provide the opportunity to develop a long-term relationship with a financial institution that could help the borrower transition into mainstream financial products. (See sidebar on credit unions.) As employees become more financially stable at home, they can also become more productive and focused at work, leading to better overall job performance.

The following highlights the alternative payday lending programs for employees offered by selected Virginia employers: Langley Air Force Base, Virginia state government, Goodwill of Central Richmond and Riverside Health Systems.

Langley Air Force Base – Langley Federal Credit Union

Langley Federal Credit Union of Hampton, Virginia, started its QuickCash program in 2004 after senior officers at Langley Air Force Base became concerned about the impact of payday lending on workforce readiness among their airmen. "There are a number of advantages that payday lenders provide that should not be overlooked when low-cost competitors are putting an alternative product together," says Brett Noll, senior vice president of marketing at Langley Federal Credit Union.[7] Payday lenders are competitive because they offer convenient business hours, convenient store locations, quick service with few hassles and they allow borrowers to possibly avoid credit score impairment that result from late payments. Using a payday lender also has the advantage of avoiding the embarrassment of requesting a cash advance directly from one's employer. Langley Federal Credit Union's QuickCash program offers some of the same benefits as payday lending but keeps the cost of borrowing down. A QuickCash loan of up to $1,000 at 18-percent simple interest can be paid back via direct payroll deduction over a period of up to 31 days. Repeat borrowers are monitored for additional attention by credit union staff. If a borrower uses the payday alternative product more than three times, Langley Federal Credit Union staff are trained to ask the borrower questions to assess whether the credit union can offer a more appropriate product better suited to the borrower's needs. Additionally, Langley Federal Credit Union staff members encourage repeat borrowers to open a savings account and enroll in the credit union's financial counseling or education classes. These support services are offered to help open additional long-term financial options to the borrower. Since the program started in 2004, Langley Federal Credit Union has loaned about $23 million and saved its members about $3 million in payday lending fees.[8]

From July 2009 to mid-February 2010, the Virginia State Employee Loan Program loaned out more than $1.7 million.

Virginia State Employee Loan Program – Virginia Credit Union

Like Langley Federal Credit Union, Virginia Credit Union is working with employers on payday-lending alternative programs for their employees. In July 2009, the Virginia State Employee Assistance Fund approached Virginia Credit Union to help develop the Virginia State Employee Loan Program. The idea "didn't start as an alternative to payday lending *per se*," says Anne Dinterman, manager of the Commonwealth of Virginia Campaign at the Virginia Department of Human Resource Management, "but we found that some of the people applying for our employee assistance fund in the past four years had deeper financial problems. They could benefit from financial education and the credit union could offer that in addition to the loan."[9] A Virginia State Employee loan of up to $500 can be borrowed at about $8 to $9 per hundred borrowed or an annual percentage rate of 24.99 percent and be paid back via payroll deduction over a period of up to six months. According to Glenn Birch, director of public and media relations at Virginia Credit Union, "This is a product designed to serve our members, to be helpful. It is not a lucrative product for our credit union."[10]

The Virginia State Employee Loan Program can be accessed online by state employee credit union members. An online financial education tutorial for the loan program is a mandatory prerequisite for downloading the loan application. When an employee is approved for the loan, he or she prints a hard copy of the direct deposit or credit agreement page and delivers it to his or her agency's payroll office for processing. A hard copy of the loan application, the program credit agreement, and a Virginia Credit Union direct deposit form is then submitted for processing to the State's payroll system. "Employees borrow for all sorts of reasons – a child needs books for the first year of college, a car needs to be repaired to get to work, or medical expenses arise unexpectedly," says Dinterman, "this program helps people in a temporary pinch."[11] From July 2009 to mid-February 2010, the Virginia State Employee Loan Program loaned more than $1.7 million.[12]

Goodwill and Virginia Credit Union

In January 2010, Virginia Credit Union began pilot-testing another payday lending alternative product, GoodChoice, in partnership with Goodwill of Central Virginia and St. James's Episcopal Church. When Goodwill realized that 10 payday lending storefronts had opened up within one mile of its Richmond, Virginia, facilities, they began working with Virginia Credit Union to try to develop a product for employees at both Goodwill and Virginia Credit Union that would compete with a standard payday loan product. "GoodChoice provides clients with a short-term loan that mirrors many of the features that make payday loans appealing to borrowers, but with important distinctions," said Jane Watkins, president-CEO of Virginia Credit Union, such as a payback period of up to 45 days, no prepayment penalties, and a rate of $12 per hundred borrowed.[13]

Like the other alternative payday products, GoodChoice offers financial education to borrowers at no cost. "Goodwill was interested in GoodChoice because lack of financial skills and reliance on payday lenders is a common barrier to success for our clients," said Charles Layman, president-CEO of Goodwill Industries.[14] In addition to six hours of classroom training, GoodChoice offers one-on-one financial mentoring through St. James's Episcopal Church, which was instrumental in securing a $200,000 loan from the Jesse Ball Dupont Foundation. The loan was used to underwrite incentives to encourage borrowers to participate in financial education programs. Borrowers who receive financial education become eligible for forgiveness of 50 percent, up to $150, off of their first loans. At St. James's, "we want to help people break the cycle of crushing debt," said Rev. Randy Hollerith, rector of St. James's Episcopal Church. "GoodChoice allows people to get the emergency funding they need while offering them substantial education." [15] Virginia Credit Union and Goodwill of Central Virginia plan to officially launch the GoodChoice loan product in May 2010.

Riverside Health Systems – Employee Credit Union

Riverside Health Employees Credit Union, based in Newport News, Virginia, offers two financial products for health system employees designed as alternatives to traditional payday loans: Payday Relief loans and Helping Hand loans. In order to reduce risk to the credit union and costs to the borrowers, Riverside Health Systems redirected and deposited $100,000 at the credit union as security for the two loan programs.

For employees unable to repay payday loans in full and thus caught in a succession of payday loan renewals, or rollovers, the Payday Relief Loan Program allows Riverside employees to borrow up to $2,000 over a period of up to 21 months at 18 percent simple interest to clear their payday loans permanently. Mandatory financial education affiliated with the Payday Relief loan is intended to build the employee's knowledge of alternative sources of short-term small loans as well as strategies for saving and becoming more financially stable. Since the initial spike in lending at the program's launch, demand for the Payday Relief product has diminished since many credit union members have cleared their debts and no longer use payday lenders.[16]

Helping Hand loans allow credit union members to borrow up to $500 at 18 percent simple interest that can be paid back over a period of eight months to help employees recover from brief disruptions in their income.

The alternative loan products have also benefitted the employer and the credit union. "When I first became aware of the use of payday lending among our employees, I was determined to make sure that they had a more affordable way to access small emergency loans," says Rick Pearce, CEO of Riverside Health Systems.[17] While Pearce hesitates to attribute Riverside's increased employee retention rate to the payday lending program alone, he believes that it has had a positive impact on employee commitment. Janet Harris, CEO of the Riverside Health System Credit Union, thinks this is because "a reduced debt burden means an employee is less stressed and can be more focused at work" and has seen Riverside's credit union membership increase since the two programs started.[18] "Once the employee is out of the payday loan cycle, he or she can develop a positive routine with the credit union that builds credit and reduces debt over time," says Harris.[19]

Conclusion

The availability of payday lending alternatives provided by credit unions in partnership with employers can help to provide convenient access to small loans for employees, even those with low or no credit scores. This allows employees to weather short-term financial hardships without the costs of traditional payday loans. These alternatives also give employees access to financial education and increased financing options as a member of a mainstream financial institution.

Employer-sponsored credit unions provide benefits to employers by supporting the financial stability of their workforce through savings, credit and financial education. Similarly, credit unions benefit from a long-term relationship with employers as a source of new credit union members. As more credit unions innovate and develop payday loan alternative products tailored to their members, the range of models they offer can be further analyzed to identify features that lead to stable financial outcomes for borrowers over the long term. ■

Credit Unions

The National Credit Union Administration defines a credit union as "a nonprofit, cooperative financial institution owned and run by its members. Organized to serve, democratically controlled credit unions provide their members with a safe place to save and borrow at reasonable rates. Members pool their funds to make loans to one another."[20]

As of December 2009, credit unions comprised 9.7 percent of total consumer savings in the United States, while banks comprised 68.1 percent of savings.[21] In addition, there were 194 credit unions in Virginia holding more than $58 million in member deposits.[22]

Resources:

Credit Union National Association
www.cuna.org

National Credit Union Administration
www.ncua.gov

Langley Federal Credit Union
www.langleyfcu.org

Riverside Health Systems Employee Credit Union
www.rhsecu.org

Virginia Credit Union
www.vacu.org

Virginia Department of Human Resources
www.dhrm.virginia.gov/vaemploan

Endnotes:

[1] In Virginia, a payday loan is defined as "a small, short-maturity loan on the security of (1) a check, (2) any form of assignment of an interest in the account of an individual or individuals at a depository institution, or (3) any form of assignment of income payable to an individual or individuals, other than loans based on income tax refunds." Virginia Code, Title 6.1, Chapter 18, Section 6.1-444.

[2] Bureau of Financial Institutions, State Corporation Commission, Commonwealth of Virginia, "Supplement to the 2002 Annual Report of the Bureau of Financial Institutions: Payday Lender Licensees Check Cashers." December 31, 2002. www.scc.virginia.gov/bfi/annual/ar04-02.pdf

[3] Bureau of Financial Institutions, State Corporation Commission, Commonwealth of Virginia, "The 2007 Annual Report of the Bureau of Financial Institutions: Payday Lender Licensees Check Cashers." December 31, 2007; and Bureau of Financial Institutions, State Corporation Commission, Commonwealth of Virginia, "Supplement to the 2002 Annual Report of the Bureau of Financial Institutions: Payday Lender Licenses Check Cashers." December 31, 2002. www.scc.virginia.gov/bfi/annual/ar04-02.pdf and www.scc.virginia.gov/bfi/annual/ar04-07.pdf

[4] Ibid.

[5] The amendment also required the creation of a real-time database to which payday lenders must report the identity of a borrower and the amount borrowed. Since January 1, 2009, Virginia payday lenders have been required to search the database prior to extending a loan to verify that the borrower is eligible to receive financing according to the amended law.

[6] Virginia Department of Human Resource Management, Survey of Virginia State Employee Loan Program Borrowers, August 2009.

[7] Nolle, Brett, phone interview, February 12, 2010.

[8] Ibid.

[9] Dinterman, Anne, phone interview February 16, 2010.

[10] Birch, Glenn, phone interview, February 12, 2010.

[11] Dinterman interview.

[12] Dinterman interview.

[13] "An Alternative to Payday Lending: Community Partnership formed to 'Break the Cycle.'" February 12, 2010. Press Release

[14] Ibid.

[15] Ibid.

[16] Harris, Janet, phone interview, February 12, 2010.

[17] Pearce, Richard, phone interview, February 17, 2010.

[18] Harris interview.

[19] Ibid.

[20] National Credit Union Administration, www.ncua.gov.

[21] Credit Union National Association, "Credit Union Report Year-end 2009." http://advice.cuna.org/download/curepd09.pdf

[22] Ibid.