Prelude

Megan slapped the table with her open palm and said, "Phil, I'm tired of talking! What can we do?" This happened at a meeting in December 2013 with Megan Vahey Casiere (Chief of Planning and Development for Lucas County, Ohio), Phil DeVol and I. We met to discuss how to apply Bridges Out of Poverty concepts to enhance workforce development and increase financial stability for families in Lucas County. That's when Phil first told us about Employer Sponsored Small Dollar Loans (ESSDL). Megan and I both loved the idea, and I immediately started researching to find out how it worked.

The Case Against Predatory Lending

Predatory lending practices harm individuals and communities. Most Americans with low family incomes are experiencing financial problems,[1] which makes them susceptible to predatory lending.[2] Employees who are working hard to make ends meet struggle to pay the loans back before the next payday, especially when charges and fees can equal interest rates of 400%. Employers deal with turnover, tardiness, and absenteeism as a consequence of employees' financial stress. Customers who are paying down debt don't have as much money to meet their family's needs and everyone suffers when money that would have been spent at multiple local businesses is siphoned out of the community. ESSDL's were first developed to increase community stability by providing an alternative to predatory lending.

What are ESSDL'S?

ESSDL's are based on an agreement between a specific business and a specific credit union. The roles and responsibilities of each party are detailed in a memorandum of understanding. Simply put, the credit union agrees to provide small dollar loans to employees of the business based on the word of the employer. A credit report is run, but the loan is not given based on the report, it is given because the employer has given the employee the designation of 'employee in good standing' based on their tenure at the employer site. If an employee has good credit, they have access to credit at market rates and don't need this program. ESSDL's are for employees who would not have otherwise qualified for a loan from a bank or credit union.

- ESSDL's range from $300 to $1,200 with interest rates ranging from 14-17%*
- Available to low-and-moderate-income working people
- A six-month payment term eases the burden on cash flow
- The loan payment is made to the credit union through automatic payroll deduction
- The loan payment is reported to the credit bureau so employees can build their credit score with successful repayment

Here's the icing on the cake. The automatic payroll deduction continues after the loan is paid back; the money gets deposited in a savings account unless the employee opts out. Most employees don't opt out. In order to stop saving, they have to remember that they are saving, decide to stop saving, make an appointment with HR department, visit the HR office, and complete the 'opt out' form. Most employees begin saving because it is the path of least resistance. ESSDL's are purposefully designed to establish habits of savings in people who might otherwise never acquire this tremendously stabilizing practice.

[1] http://www.pewresearch.org/daily-number/many-americans-particularly-low-income-families-still-facing-financial-stress/

[2] http://www.cfsinnovation.com/Document-Library/Know-Your-Borrower-The-Four-Need-Cases-of-Smal-%281%29.aspx

How We Initiated ESSDL's

In December of 2013, I spoke with Lisa Falcone who is the Working Bridges Project Director for the United Way of Chittenden County and with staff from North Country FCU who have implemented ESSDL's in South Burlington, VT.[3] Lisa connected me with Cynthia Campbell from the Filene Research Institute. Filene received a grant from the Ford Foundation to create an incubator to test five financial service products.[4] The accessible financial services incubator grant funded a 30-month research project to benefit low and moderate income (LMI) and un/under-banked consumers in a profitable and sustainable way. The purpose of the incubator is to test, package, and scale innovative, viable products that provide alternatives to predatory products.

I didn't wait until I had all the answers before I started telling people about ESSDL's; I talked about them to anyone who would listen. The Lucas County Bridges Out of Poverty Steering Committee members were already engaged and the project had the support of the Lucas County Commissioners. However, we didn't have an official project team until Valerie Moffitt, Community Services Manager for Local Initiatives Support Corporation (LISC), Evelyn McKinney, Income Manager for the United Way of Greater Toledo, and I met in January 2014. We started 'high fiving' each other less than half way through the meeting! We felt confident and excited about increasing the stability of employees, families, and businesses by bringing ESSDL's to Lucas County.

When the Filene Research Institute selected Lucas County as an ESSDL incubator pilot site, Valerie, Evelyn and I added Cynthia Campbell from Filene as the fourth member of the ESSDL team. Cynthia started calling us the "Toledo Team." From February to July 2014, the Toledo Team created lists of contacts at credit unions, business, and other organizations. We held meetings and made phone calls to promote the project. By the end of July 2014, we had stimulated sufficient interest from employers and credit unions to move forward. The Lucas County Commissioners released a media alert and hosted a press conference. The United Way of Greater Toledo hosted an employer training to encourage participation in the program.

By August 2014, the project was mostly in the hands of the credit unions and employers. The Filene Research Institute supported the credit unions with boiler plate policies and sample marketing materials. The credit unions committed to provide regular reports to Filene to demonstrate return on investment including information on number of loans provided, dollar amount of loans, successful repayments, and changes in credit scores of loan recipients. The credit unions worked with the employers to institute policies and procedures necessary to provide the loans. The credit unions and employers finalized the memorandums of understanding to ensure that each organization understood its roles and responsibilities.

It takes time and effort to change organizational systems and get all the players on board with new initiatives. We found that this stage of the project has taken longer than anticipated. Some credit unions experienced delays and predict initiating loans in the first quarter of 2015, and others have not yet submitted reports. However, the first reports started arriving in January 2015. What follows it the Lucas County ESSDL status report as of December 31, 2014:

- Six credit unions and eight employers are participating
- Fifteen loans have been provided for a total of $15,700
- Average loan amount: $1,047

[3] http://www.pbs.org/wnet/need-to-know/economy/need-to-know-april-5-2013-behavioral-economics/16637/

[4] http://filene.org/blog/post/five-products-enter-accessible-financial-services-incubator

Comments

The Toledo Team was confident that the ESSDL project would be successful. Surprisingly, it also felt like an easy project to accomplish! I'm not saying starting ESSDL's in your community won't require effort and diligence. On the contrary, there are multiple barriers and difficulties to be overcome. However, the Toledo Team always had an abiding sense that there was no possibility that the project would fail. Why did this project seem so easy?

I didn't realize the reason for this sense of ease until Phil DeVol and Mike Saccocio facilitated a Building Bridges to Sustainable Communities workshop in Toledo in September 2014. Mike presented the "Teach, Embed and Spread" mental model.[5] The purpose of Teach, Embed, and Spread is as follows. "Utilizing the Bridges Out of Poverty constructs as a foundation, organizations stabilize the environment, remove barriers, and build resources through dynamic programming and economic development leading to individual, organizational, and communitywide wellness, opportunity, and transformation."[6] For the model to be successful, the programs and procedures that are initiated need to solve concrete problems that the engaged sectors are struggling with. Without realizing it, this was the approach the Toledo Team took with ESSDL's in Lucas County. The project seemed easy because we were using a successful model.

The "Teach" phase of the ESSDL project was easy because there was already a broad consensus of understanding that pay day lending is harmful to the financial stability of our community. We didn't need to convince people that there was a problem, they already knew it. The "Embedding" phase referred to successful ESSDL programs (like the program in South Burlington, VT) that were already working. We didn't need to embed a program from scratch. We pointed to what was happening in Vermont, distributed the materials and research from Filene and said, "This is already working. Would you help us get this started in Lucas County?" We still had to embed ESSDL's locally, but it was much easier than it would have been if it had never been done before. As a result, the focus of the Toledo Team was on the "Spread" phase, which consisted of engaging credit unions and businesses to participate in ESSDL's. Again, this job was easier because we were proposing ESSDL's as a way to solve concrete problems. Businesses want stable, productive employees and credit unions want to achieve their mission and increase their membership. When we talked about ESSDL's to credit unions and businesses, we described problems they were aware of and provided the method for fixing them.

Conclusion

I have gleaned three major insights from the work on this project. The first insight is the strength of the Teach, Embed and Spread model as a grounded and reliable approach to increasing financial stability in communities. Again, I believe the use of the model by the Toledo Team was the reason for our confidence and sense of ease in accomplishing the project. The second insight is that sustainability is built into the project. Because ESSDL's are a mutually benefiting collaboration between employers and credit unions, I won't need to write a grant to keep the project going next year. As a career nonprofit and county employee, this point is particularly satisfying. And talk about sustainability! The third insight is rooted in the belief that ESSDL's are an example of the kind of 'low hanging fruit' that can be easily picked to improve the financial stability of communities. ESSDL's have profound and broad impact that helps everyone. The loans keep money in employees' pockets that can be saved or spent for their families benefit. Employees also build credit and establish relationships with financial institutions. Employers have more stable and productive employees. Credit Unions build their customer base and

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[5] http://www.ethnn.org/uploads/1/4/0/3/14034592/bridges_approach-train_embed_spread.pdf.pdf
[6] Ibid.

can provide more loans. More money is spent in on goods and services from local businesses, which increases the financial stability of the entire community. How many other projects are yet to be discovered that will have broad, cross sector impact toward increasing community stability? What other low hanging fruit is ripe for the picking?

***Notes Concerning Interest Rates**

Interest rates on loans are established based on a number of factors, including anticipated charge offs. Currently, if a credit union member has a high credit score, the least they will pay in interest on an unsecured loan is 6.9%. If they have a poor credit score, they might pay as much as 15.49% interest on an unsecured loan.

The 14-17% interest rate for the ESSDL is in the ballpark relative to industry standards and is designed for employees who would not be given a credit union loan without it. More specifically, the only option for these employees would be to utilize the services of exploitive, predatory lenders whose interest rates are exponentially higher.

For example:

- With a payday lender, an employee who gets a $500 loan for three months can pay $450 in fees and interest (see ESSDL vs. Pay Day Loans attached). For people short on money, coming up with an extra $450 in 90 days creates big problems and lots of stress.
- With an ESSDL, an employee who gets a $500 loan for three months at 16.99% interest pays a maximum of $22. This $7 per month is not burdensome, especially given that it is $428 less than payday lending.
- A credit union member with an average credit score who gets a $500 loan for three months at 11% interest pays $14 in interest. This is only $8 less than ESSDL.