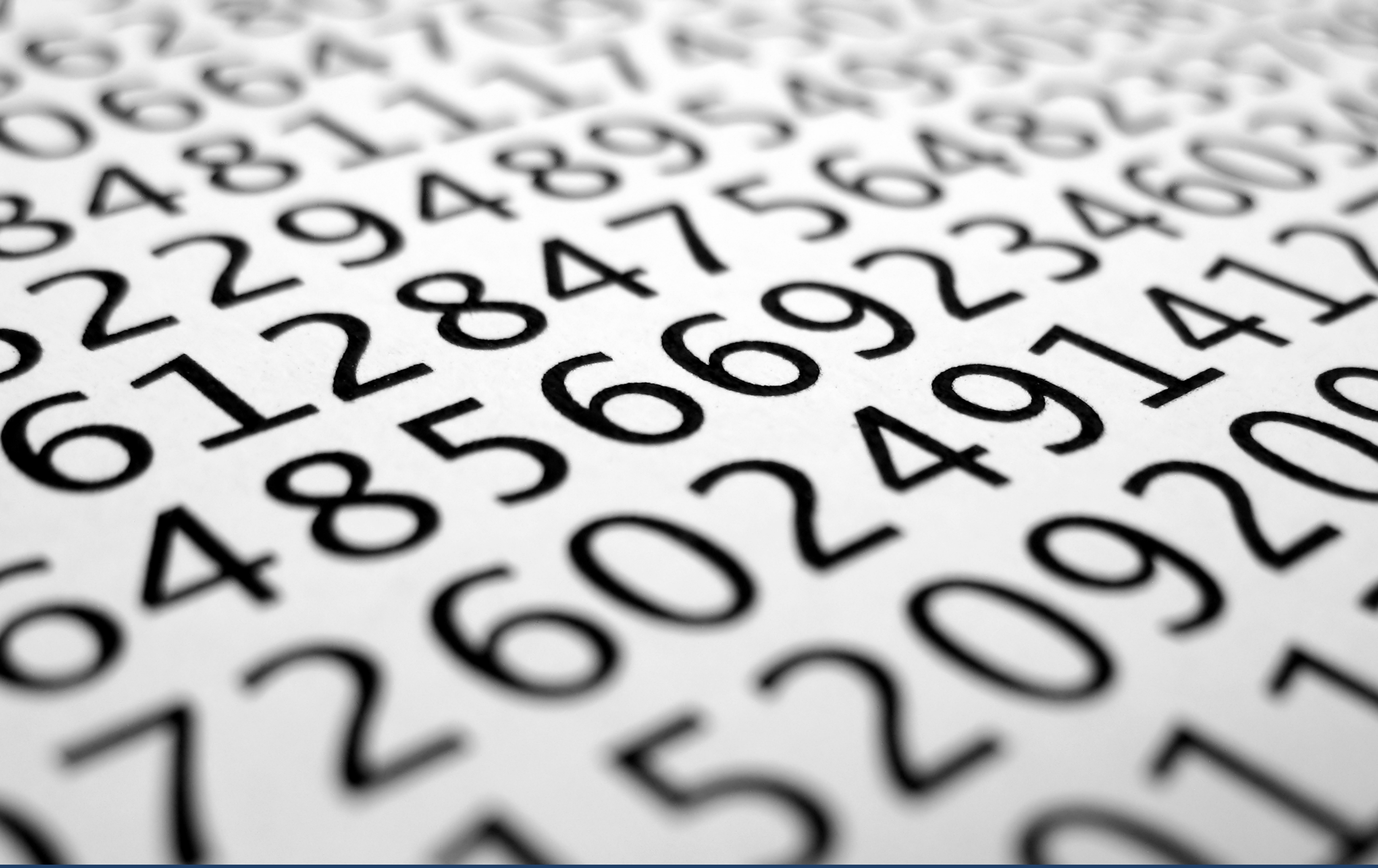

FEASIBILITY STUDY REPORT

Employer-Sponsored Small-Dollar Loan

FINRA Investor Education FOUNDATION

Filene Research Institute

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Executive Summary

An 18-month incubator test demonstrated that the Employer-Sponsored Small-Dollar Loan provides a practical way for financial institutions and employers to help low- to moderate-income wage earners obtain affordable credit.

Evidence is building that the right small-dollar loan can make a big difference in the lives of hardworking people. The Employer-Sponsored Small-Dollar Loan (ESSDL) was designed to help employees avoid the high cost of alternative borrowing, establish or repair credit, and begin to save.

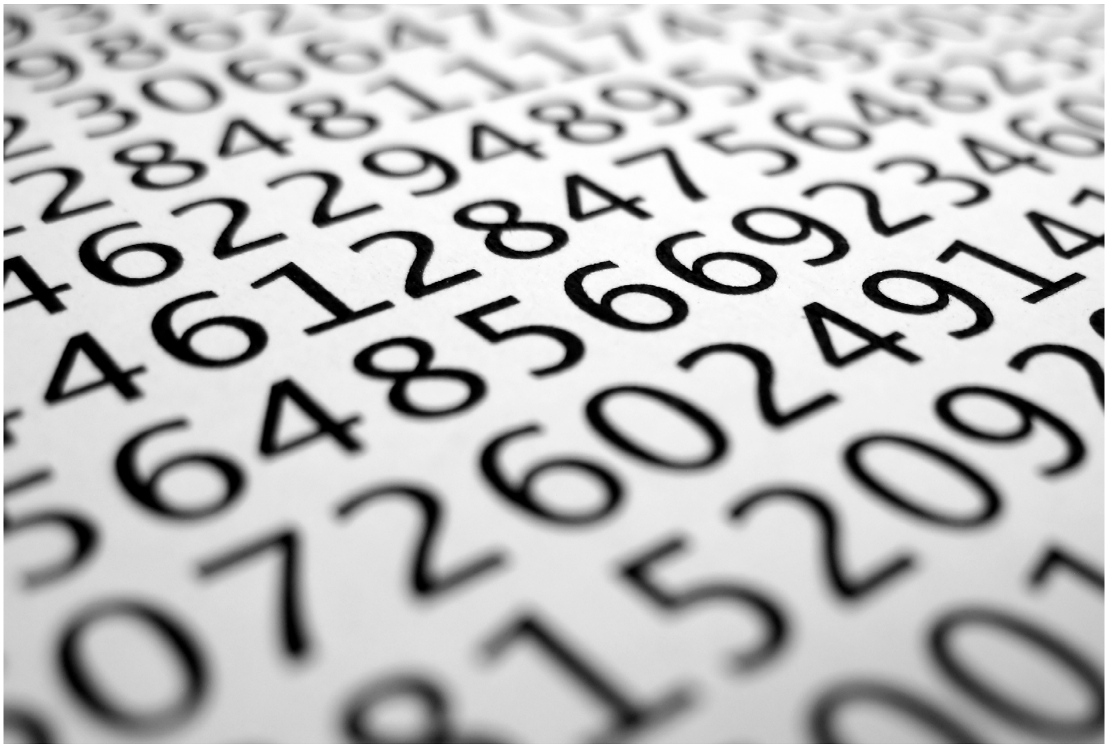
Through the ESSDL program, loans of up to $2,000 are made available to the employees of participating companies based on the borrower's ability to repay (as evidenced by length of employment in good standing), and not on credit scores. The application process is simple, and the money is typically ready within 24–48 hours. Loans are repaid through payroll deduction, and repayment is reported monthly to credit bureaus. After the loan is repaid, a deduction in the amount of the loan installment continues on an opt-out basis and is deposited into the participant's savings account.

During a comprehensive 18-month test conducted by the Filene Research Institute's Accessible Financial Services Incubator, the ESSDL was offered by 13 financial institutions in eight states with 48 employers. Over 1,000 loans were generated for a total volume of $1.2 million (M). Many employees continued to save after loan repayment, putting away some $42,000.

Key findings include the following:

1. **The ESSDL meets important needs for both employees and employers.** The ESSDL program exceeded employer expectations as a low-cost, highly valued employee benefit.
2. **Competition is minimal and often predatory.** The small-dollar lending market is dominated by high-cost alternative lenders and underserved by traditional lenders.
3. **Implementation is easy.** Offering the ESSDL requires little staff training and minimal changes to financial institution operating systems.
4. **The ESSDL is viable and beneficial for financial institutions.** The ESSDL outperformed financial projections—with reported loss rates ranging from 2 to 3% during the first two phases of product testing. Participating credit unions also reported that the program is recognized as a valuable community service.
5. **ESSDL programs benefit from collaboration with nonprofit partners.** While employers may offer the ESSDL as a stand-alone benefit, partnerships with nonprofit community partners enhance program uptake and implementation.

Feasibility Study Report: Employer-Sponsored Small-Dollar Loan



Background and Introduction

In 2007, the United Way in Chittenden County, Vermont, convened a group of employers to facilitate the development and implementation of workplace supports to improve employee productivity, retention, advancement, and financial stability.[1] Among the needs identified by this "Working Bridges" employer collaborative was a way to help the growing number of employees requesting pay advances or quitting their jobs to gain access to retirement funds. To address the challenge, Working Bridges employers partnered with NorthCountry Federal Credit Union to design a small-dollar loan to help their employees gain access to emergency cash, avoid the high cost of payday lenders, establish or repair credit, and begin to save.[2] The ESSDL was piloted at Rhino Foods (a specialty food manufacturer in Burlington, Vermont, with over 100 employees) and gained national attention in 2013 when it was featured on the PBS news and public affairs show *Need to Know*.[3] By 2016, the loan was available to the employees of nearly 50 companies in Vermont, through two credit unions, with loans generated in excess of $1.5M.

Under the ESSDL program model, loans of up to $2,000 are made available to the employees of participating companies based solely on the borrower's ability to repay, as evidenced by length of employment in good standing. The application process is simple, and the money is typically available to borrowers within 24–48 hours. Loans are repaid through payroll deduction, and repayment is reported monthly to credit bureaus. After the loan is repaid, a deduction in the amount of the loan installment continues on an opt-out basis and is deposited into the participant's savings account. Borrowers may only have one ESSDL at a time, with terms that range from 90 days to 12 months, and interest that ranges from 15.99% to 17.99% as an annual percentage rate (APR). (By contrast, payday lenders favor two-week terms, with costs and fees that equate to an APR of nearly 400%.[4])

Participating employers pay a small fee (based on the number of their employees) to help offset the costs of administering the program. Employers also agree to market the program through company channels, confirm applicant eligibility, set up payroll deductions, and inform the lender if a borrower is separating from the company. Employers do not underwrite the loans and bear no responsibility for defaulted loans.[5]

In April 2014, the Filene Research Institute and the Ford Foundation partnered to test the ESSDL within Filene's Accessible Financial Services Incubator.[6] During the 18-month test the loan was replicated and implemented by 13 financial institutions in eight states with 48 employers. Over 1,000 loans were generated for a total volume of $1.2M. Many employees continued to save after loan repayment, putting away some $42,000. The average loan was $1,173 with average savings of $152. The typical borrower was 39 years of age with an average income of $36,474 and an average credit score of 554.[7]

This report highlights key findings from the incubator test, which confirmed that the ESSDL is a feasible and easily replicable business development opportunity for credit unions and other mission-driven financial institutions.

Market Opportunity

A 2016 Federal Reserve Board study showed that nearly half of all Americans (46%) could not afford an unexpected $400 expense unless they borrowed money or sold assets.[8] Similarly, the FINRA Investor Education Foundation National Financial Capability Study found that over a third of respondents (34%) said they probably or certainly could not come up with $2,000 if an unexpected need arose in the next month.[9]

At the same time, the Consumer Financial Protection Bureau (CFPB) has proposed new regulations to eliminate payday loans, auto title loans, deposit advance products, and certain high-cost installment loans—potentially narrowing or eliminating any option for obtaining emergency credit for millions of people. In a 2014 report, the CFPB also offered ample evidence of the connection between the need for affordable financial help for employees and the interests of employers:

- Across workers of all generations, 24% admitted their personal finances have been a distraction at work. Among workers who are concerned about their finances, 39% spend at least three hours of each workweek either thinking about or dealing with financial problems.[10]
- Four in 10 employees reported that they want help in achieving financial security—and that number is much higher (about 8 in 10) for workers saying financial problems have affected their productivity.[11]
- Eighty-three percent of human resources professionals reported that financial stress is having a large negative impact (22%) or some negative impact (61%) on employee work performance in their organization.[12]
- Despite the challenges financial distress presents for employee engagement, only 6% of employees strongly agreed that their organization provides training or resources to help them manage their finances more effectively.[13]
- Among the more than 92,000 employees studied over a three-year period, healthcare costs for those reporting high stress were $413 more per year on average than for workers who were not at risk from stress. Because financial problems are a known stress factor, employers may be paying a high cost for employee financial stress through increased healthcare expenses.[14]

Competitive Analysis

The small-dollar credit market is dominated by high-cost alternative lenders, with few other options available for consumers who need help making ends meet. Technology and regulatory changes may alter the competitive landscape over time, but the need for a socially responsible employer-sponsored small-dollar loan will not diminish in the foreseeable future.

Alternative Credit

Millions of small-dollar borrowers spend approximately $9 billion (B) on payday loans and $3B on auto title loans each year. When added to other forms of single-payment and short-term credit (including pawn loans, overdraft fees, and subprime credit cards), these products generate nearly $44B in fees and interest revenue annually.[15] The cost to consumers of a typical payday loan is nearly 30 times greater than the typical cost of the ESSDL, as shown in Figure 1.

FIGURE 1

COMPARE RATES, FEES, AND FEATURES

$500 ESSDL	$500 payday lender loan
17.99 APR with no application fee	Fees and interest equal to $15 per every $100 borrowed every 14 days
Total cost for 90 days: $16	Total cost for 90 days: $450
Builds borrower's credit score	Does not build borrower's credit score
Strengthens savings for the future	Does not build savings

Online Marketplace Lenders

Online marketplace lending is a growing segment of the financial services industry that uses investment capital and data-driven online platforms to lend directly to consumers. This segment initially emerged as a "peer-to-peer" marketplace, with companies giving individual investors the ability to provide financing to individual borrowers. The investor base for online marketplace lenders has evolved and expanded to include institutional investors and hedge funds seeking higher returns in a low-rate environment. Such lenders face far less scrutiny than traditional financial institutions.

Retirement Account Loans

Consumers with short-term liquidity needs often choose to borrow from 401(k), 403(b), or similar employer-sponsored retirement accounts. According to the 2016 FINRA Investor Education Foundation National Financial Capability Study, 1 in 10 workers has taken a hardship withdrawal from a retirement account, while another 13% have borrowed from retirement savings. The top reasons given for retirement fund borrowing include unplanned expenses and credit card debt. Despite low interest rates and few barriers to obtaining retirement account loans, the consequences of these loans are high. Tapping into these funds will almost certainly reduce long-term balances and jeopardize retirement security.[16]

Banks and Credit Unions

In 2016, researchers at the Pew Charitable Trusts small-dollar loan project found that "banks generally do not provide small-dollar loans to financially fragile customers (with the . . . exception of fee-based overdraft), and only 1 in 7 credit unions offer a payday loan alternative."[17] In total, banks and credit unions made approximately 170,000 small-dollar loans in 2014, compared with more than 100 million payday loans.[18]

At the same time, Pew researchers determined that it is feasible for banks and credit unions to offer small-dollar loans at rates that are at least six times lower than those of alternative lenders. "Financial institutions have a significant comparative advantage," according to Pew, "including large existing branch networks, diversified product lines, existing relationships with borrowers, and the lowest cost of funds in the industry."[19]

Stakeholder Satisfaction and Program Impact

At the conclusion of the 18-month ESSDL incubator test, surveys and telephone interviews were conducted with participating financial institutions, employers, and consumers to better understand the feasibility and impact of the program.

Financial Institutions

All of the financial institutions that completed the incubator testing program found that the ESSDL was easy to launch and manage, and all reported that they would continue to offer the ESSDL after the conclusion of the test.[20]

Representative testimonials include the following:

> *We have had a phenomenal response! I've had several people who, with tears in their eyes, hug me and say what a huge blessing this program is for them and how thankful they are to have it available to them.*
>
> Kelly Krumwiede, member services officer
> Georgia Heritage Federal Credit Union, Savannah, Georgia

> *Participating in the ESSDL program created an important opportunity for Spring Bank to look at a new way to expand its small-dollar loan program. The program not only gave us incentive to launch our Employee Opportunity Loan but it helped create both internal and external buy-in for the project. With the support of Filene and the lead financial institution—NorthCountry Federal Credit Union—we have designed a program that will help us reach not only a large pool of borrowers but also build new*

business relationships. The program also incentivized us to build a lending platform that will streamline intake and closing and will be on-line by the end of this year. And this month we launched with our second employer—a social service agency with over 700 employees. This has been a win-win for the bank, our non-profit and business partners, and local employees.

Melanie Stern, director of consumer lending
Spring Bank, New York, New York

We were looking for a way to assist existing members with subprime credit and to attract new members. This program is helping us to accomplish both objectives. It has also allowed us to partner more closely with our single employer group (a hospital system) that was looking for a way to support employees with emergent financial needs. Based on comments we receive from our ESSDL borrowers, all are extremely grateful and appreciative of both the credit union and our employer.

Cheryl Dorman, CEO and treasurer-manager
Mercy Health Partners Federal Credit Union, Toledo, Ohio

FIGURE 2

FINANCIAL INSTITUTION SATISFACTION WITH THE ESSDL

Implementation prior to launching	
Systems adjustments were easy to incorporate.	4.13
Staff training was easy to deliver.	4.07
Marketing was easy to implement.	4.13
Implementation after launching	
Employee acceptance came easily and with minimal effort.	4.43
Our members like the product.	4.21
The employers we partnered with liked the application process we established.	4.23
The employers were comfortable in paying an annual fee (if no fee was charged, please select “N/A”).	3.25
We added value to our employers to help them improve the financial well-being of their employees.	4.08
We strengthened our relationship with employers by offering them the ESSDL program.	4.15
We added new employer groups that we would not have added without offering the ESSDL program.	3.38
Overall program	
We grew our membership because of this program.	3.29
We were effective at cross selling additional products to ESSDL members.	3.31
We would refer this program to another financial institution.	4.36

1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree.

Consumers

Surveys of borrowers indicate a high degree of satisfaction with the ESSDL program, as shown in Figure 3. A representative sample of borrower responses to a question about their experience with the ESSDL includes the following:

FIGURE 3

BORROWER SATISFACTION WITH THE ESSDL

This program helped me meet my emergency need.	4.86
This product was fairly priced.	4.58
My financial position improved because of this program.	4.04
I would take out another loan if the need arises in the future.	4.82
I am more loyal to my credit union after participating in this program.	4.18
I would recommend this program to my friends and family.	4.74

1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree.

- “It enabled me to meet an emergency when I had nowhere else to go.”
- “It helped with my emergency at a low cost and was very simple to go through the application process. It saved me a lot of time and hassle.”
- “Extraordinary; it was a Godsend that helped me make two goals; to get the vehicle repaired and the payday loan paid off.”
- “It eased my worries about affording my car repairs immediately and in the future if necessary.”
- “I could breathe a little easier and also liked that it helps build credit.”
- “[With] my truck fixed I was able to fulfill all of my responsibilities at my job without having transportation problems.”

Employers

Seven employers, ranging in size from 110 to 7,000 employees, participated in surveys and interviews at the completion of the incubator testing. These employers reported that the ESSDL was more popular with their employees than they had anticipated and that they would continue to partner with their local credit union to provide the loan to their employees. All would recommend the program to other employers in their area, and none encountered any significant obstacles with launching or running the program.

> *Helping employees solve problems in their personal lives allows them to bring their best selves to work every day.*
>
> Lorri Miller, human resources manager
> Rhino Foods, Burlington, Vermont

In general, the employer representatives reported overwhelmingly positive feedback from employees:

- "Employees are very pleased about this service."
- "They have been very happy with the loan program."
- "They have been very grateful. Many have expressed their appreciation for both the credit union and us."
- "They think it is great, some even call it a life saver."
- "They love it and appreciate having an opportunity for a small-dollar loan at a reasonable interest rate considering their financial history."
- "Very grateful."
- "When offered, they are delighted to hear about it."

In some cases, employers also learned about specific ways in which the ESSDL helped employees with emergency financial needs, including car repairs and heating fuel. One homeless employee reportedly used the loan to transition to permanent housing, and another was able to leave a difficult marital situation.

Participating employers offering 401(k) plans also credited the ESSDL with reducing withdrawals and loans from retirement savings:

- "As a result of the loan program, 401(k) withdrawals went down to zero."
- "We still see some requests for (retirement plan) loans when the requested loan amount is higher (than the maximum ESSDL)."
- "Our volume of (401(k) loan) requests has reduced."

Furthermore, the incubator testing confirmed the positive program evaluation findings of the Working Bridges program in Burlington, Vermont, where employers have consistently reported high levels of satisfaction with the ESSDL program since its launch in 2007. One Working Bridges employer credits the program with a 22% reduction in employee turnover, while another company reported a 23% drop in turnover and a reduction in unscheduled time off from 4.3% to 2%.[21]

Operational Considerations

Financial institutions that participated in the incubator testing program found that setup and implementation of the ESSDL were easy to accomplish at minimal cost.

Personnel Resources and Training

Little staff training is required prior to launching the ESSDL because the product is simple to administer and easy to explain to members. At the conclusion of the incubator program, several participating financial institutions suggested that a phased rollout (adding one or two employer partners at a time) helped the staff become more familiar with the loan and helped the financial institution monitor the impact on operations. None of the financial institutions that participated in the testing program added staff in order to launch the ESSDL, but some did assign specific staff to the project.

Technology

The ESSDL is easily integrated into standard financial institution reporting systems. In most cases, minor programming is necessary to identify the product within the financial institution's core system.

Tracking and Reporting

ESSDLs are audited like any other consumer loan and do not require special record-keeping. To gauge the effectiveness and long-term impact of the loan—on both business and consumer outcomes—financial institutions should track the following data:

- About individual borrowers:
  - Age of borrower
  - Borrower income
  - Employer
  - Credit score of borrower (not used for underwriting purposes—used to determine consumer impact)
  - Amount saved
- About the ESSDL portfolio:
  - Number of loans
  - Dollar amount of loans
  - Average loan amount

- Interest rate
- Loan term
- Charge-offs and delinquencies
- Percentage of the financial institution loan portfolio that is ESSDLs

Regulatory and Legal Considerations

The ESSDL is subject to a complex framework of federal and state laws. During the feasibility study, compliance officers at COMPASS (Compliance Assistance for Credit Unions) in Woodbridge, Virginia, identified and reviewed the following federal regulations:

- Truth in Lending Act (Reg Z)
- Truth in Savings Act (NCUA part 707)
- Equal Credit Opportunity Act (Reg B)
- NCUA Part 701.21, Loans to Members
- NCUA Part 740, Advertising Notice and Insured Status (does not apply if there is no insurance)
- Electronic Funds Transfer Act (Reg E)
- Dodd-Frank Wall Street Reform and Consumer Protection Act—Unfair, Deceptive, or Abusive Acts or Practices (UDAAP)
- Telephone Consumer Protection Act (TCPA)
- Military Lending Act

The Kaplan Law Firm in Austin, Texas, also reviewed these federal regulations as well as applicable employment and labor laws in all 50 states and the District of Columbia.

No inherent challenges with the ESSDL program model were identified during feasibility testing. Nevertheless, the regulatory and legal implications of offering or altering the ESSDL program are complicated and subject to change. Credit unions and other financial institutions should seek competent regulatory and legal advice during the development of an ESSDL program.

Figure 4 compares National Credit Union Association (NCUA) small-dollar loan parameters with the recommended design of the ESSDL.

FIGURE 4

COMPARING REGULATORY REQUIREMENTS FOR NCUA SMALL-DOLLAR LOANS AND ESSDLs

	NCUA	ESSDLs
Interest rate	Up to 28%	Between 15.99 and 17.99%
Fees	Up to $20	None for borrower*
Terms	30 days to 6 months**	90 days to 12 months
Amounts	$200–$2000	Up to $2000
Rollovers	None	None
Maximum loans/ 12-month period	3	3
Credit reports	Not required	Informational research purposes only
Required savings	N/A	After the loan is repaid, a deduction in the amount of the loan installment continues on an opt-out basis and is deposited into savings
Financial literacy or coaching	Not required	Available and offered

*According to NCUA regulations, fees charged are excluded from the finance charge calculation. These are not included in the APR. Fees can be charged on a per-loan or annual basis. If, however, fees are charged and then refunded based on a member's usage of the product, these fees would have to be included as a finance charge. There is a fee that can be charged to the employer, but this does not impact compliance with the NCUA guidelines.

**While the NCUA specifically prohibits roll-overs, federal credit unions are permitted to extend the term of a short-term small loan, provided that certain conditions are met.

Marketing Strategy

The ESSDL provides the employers of low- and moderate-income wage earners with a low-cost, highly valued employee benefit. During testing, the ESSDL was successfully offered by employers with 10 to 16,000 employees, including manufacturing firms, hospitals, construction companies, home health agencies, grocery stores, and retail stores, among others.

To develop employer partners, credit unions may offer the ESSDL to members of Select Employer Groups (SEGs) or to business owners and human resource managers known through business groups. Credit unions and nonprofit organizations participating in the ESSDL incubator test identified community-minded employers or those known to support employee wellness programs as the most likely early adopters of the program.

ESSDL Business Development and Nonprofit Community Partners

The ESSDL was created through a partnership that included a credit union, a nonprofit organization, and a coalition of employers seeking to meet the needs of low- and moderate-income workers in Burlington, Vermont. Nonprofit partners were also instrumental in engaging credit unions in Savannah, Georgia, and Toledo, Ohio, to replicate the ESSDL under the Filene incubator program. These nonprofit partners met with employers and employer groups to explain the program and its benefits, served as convening organizations for employer work groups, and provided additional workplace financial stability services—including financial education workshops, free tax preparation, one-on-one strategies including financial counseling and coaching, and referrals to community resources.

Financial Considerations

After taking salaries and expected losses into account, 7 of 11 participating credit unions determined that the ESSDL was profitable during the 18-month test period. Not surprisingly, the test phase also revealed a strong correlation between the total number of loans made and program profitability. Loss rates reported during the test ranged from 2% to 3%, which is the same, if not better, performance as that of traditional consumer loan products.

NorthCountry Federal Credit Union credits its ESSDL profitability to two features of the original program model: (1) employers that partner with the credit union to offer the program to their employees pay a nominal fee (ranging from $100 to $300 annually based on the number of employees), and (2) the credit union has significantly reduced its underwriting costs by looking only at the employee's employment history and standing with his or her employer rather than reviewing the employee's credit rating and credit history. NorthCountry allocates a 10% loan loss reserve for this program, and it has been able to stay under this amount year after year by following this underwriting model coupled with the payroll deduction usage for the loan repayment.

Figure 5 provides a snapshot of the potential profitability of the ESSDL as shown during the 18-month incubator test.[22] The results imply a return on assets (ROA) of 1.53%, which

FIGURE 5

STANDARDIZED INCOME STATEMENT FOR ESSDLs

	Dollar amount (1)	As a percentage of ESSDL volume (2)
1. ESSDL volume	1,170,292	
2. Interest income	196,100	16.76
3. Interest expense (cost of funds)	4,968	0.42
4. Loan losses (actual and/or expected)*	61,639	5.27
5. Noninterest income	59,407	5.08
6. Noninterest expense (including imputed salaries)	170,942	14.61
7. Net interest income (row 2 – row 3)	191,132	16.34
8. Net interest income after loan losses (row 2 – row 3 – row 4)	129,493	11.07
9. Net income (ROA)	17,958	1.53

Note: Aggregated across 11 credit unions, weighted by final loan volumes, interpolating expected loan losses and salary expenses.

*Actual delinquencies (per number of loans) were 1.87% during the (brief) pilot, substantially lower than expected loan losses.

is somewhat higher than the average for the credit union system in recent years (0.78% in 2014). Higher ROAs are appropriate given the higher credit risk associated with non-prime borrowers. These aggregate results are preliminary and should be interpreted with caution due to the length of the testing phase. Among the 11 credit unions that completed this analysis were several that made fewer loans, causing their per-loan expenses to skew high.

Ancillary Benefits to the Participating Credit Unions

While credit unions may use the ESSDL to build or retain profitable long-term relationships with employers and consumers, these loans also provide a valuable source of assistance in the community. When asked why the Georgia Heritage Federal Credit Union decided to offer the ESSDL, Vice President of Operations Robby Glore said, “Profitability is not our only driving force. We got involved with the ESSDL program because it supports the core ‘people helping people’ philosophy of the credit union movement. Programs like the ESSDL are why credit unions came into being.”

Credit unions may find that offering the ESSDL helps them to achieve and maintain Community Development Financial Institution (CDFI) certification. This certification, administered by the US Department of the Treasury Community Development Financial Institutions Fund, is awarded to financial institutions that meet certain criteria for providing access to affordable products and services (to individuals and businesses) in underserved communities.[23] The designation is well recognized among community organizations and a valuable tool for credit unions seeking to build strong community partnerships. Once certified, CDFIs are eligible to apply for resources offered by the CDFI Fund, including funding (direct and indirect), technical assistance, and training. In 2015, the CDFI Fund provided more than $31M in grants and awards to CDFI-certified credit unions.[24]

Managing Risk

As designed, the ESSDL program provides loans of up to $2,000 to the employees of participating companies based on the borrower's ability to repay (as evidenced by length of employment in good standing), and not on credit scores. The risks of making and servicing loans with limited underwriting and without regard to credit scores are typically greater than the risks associated with standard loans. However, the ESSDL program is uniquely strengthened through the prescription of loan repayment by payroll deduction.

Credit unions offering the ESSDL should put procedures in place to measure, monitor, and control standard lending risks. For example:

- Create and periodically review internal procedures.
- Adopt standards to control the use of renewals based on the borrower's willingness and ability to repay the ESSDL.
- Review and adjust the credit union's capital and allowances for loan losses, in accordance with generally accepted accounting principles and regulatory guidelines.
- Ensure that credit union employees and agents are trained and adhere to established underwriting guidelines.
- Guard the credit union's reputation by ensuring that loan fees are reasonable.
- Create a compliance management program to identify, monitor, and control ESSDL compliance activities.

Static Pool Analysis Tool

In its Risk Alert Letter of June 2005, the NCUA recommends credit unions use static pool analysis to monitor performance of loans over time.[25] A static pool is made up of those loans originated with similar underwriting criteria during the same month or quarter. It is a longitudinal study of the loan pool over its life. It then tracks the performance of the loans over 18–24 months, until the loans become seasoned. New loans entering a portfolio can mask the performance of older loans, since new loans generally perform better than seasoned loans. A static pool analysis eliminates any distortion from new loans because each pool is kept distinct based on its origination date.

Capture Exceptions

In order to monitor loan performance based on the ESSDL underwriting criteria, credit unions must have the data processing means to segregate these loans from other loan products. The NCUA also recommends that credit unions capture within some data processing field any loan exceptions made to policy or other at-risk loans that management would want to monitor for performance. The ability to collect data on and monitor loans in this manner provides management with the tools to identify problems early and make any changes to policy or underwriting guidelines.

Endnotes

1 In April 2016, United Way of Chittenden County merged with Franklin–Grand Isle United Way to form United Way of Northwest Vermont.

2 The Employer-Sponsored Small-Dollar Loan is marketed as the Income Advance Loan in Vermont.

3 "Working Bridges," by William Brangham, *Need to Know*, PBS, April 5, 2013, www.pbs.org/wnet/need-to-know/economy/need-to-know-april-5-2013-behavioral-economics/16637/.

4 Consumer Financial Protection Bureau, "Ask CFPB/Payday Loans," www.consumerfinance.gov/askcfpb/1589/what-costs-and-fees-could-i-expect-payday-loan.html.

5 Credit unions that participated in the ESSDL testing tailored the program model to meet their needs. For example, some credit unions did not charge employers a fee to participate. Others undertook some additional underwriting beyond confirming employment in good standing.

6 The Filene Research Institute Accessible Financial Services Incubator, with support from the Ford Foundation, sought to demonstrate that mainstream financial institutions can help the underserved gain access to affordable credit and other essential financial products without compromising their own profitability. Over two years, Filene collaborated with 42 credit unions to test five products, including the ESSDL. Ultimately, this portfolio housed nearly 12,000 accounts with over $100M in loan volume and nearly $1M in savings.

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8 Board of Governors of the Federal Reserve, *Report on the Economic Well-Being of U.S. Householders in 2015* (Washington, DC: Board of Governors of the Federal Reserve, 2016), www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.

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were earning less than $50,000 per year. FINRA Investor Education Foundation, *2016 National Financial Capability Study* (Washington, DC: FINRA Investor Education Foundation, 2016), www.usfinancialcapability.org.

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17 Nick Bourke, “How CFPB Rules Can Encourage Banks and Credit Unions to Offer Lower-Cost Small Loans,” Pew Charitable Trusts, April 5, 2016,

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18 Ibid.

19 Ibid.

20 One additional credit union was recruited to participate in the test. It was not able to fully implement the loan as designed due to its primary employer-partner's inability to allow loan repayment through payroll deduction. As a result, the credit union did not complete the incubator testing program.

21 "Employer Sponsored Small Dollar Loans Tool-Kit," revised December 2013, filene.org/assets/files-brains/Employer_Sponsored_SDL_Toolkit_Dec_2013.pdf.

22 Credit unions that participated in the ESSDL incubator test period completed a basic profit and loss sheet to assess the financial viability of the ESSDL. However, determining profitability for participating credit unions was difficult because of inconsistencies in data reporting (e.g., using data from the actual time period versus projected data, and including or not including costs such as the fraction of employees' salaries for time spent working on the ESSDL). To account for these irregularities and develop a consistent, aggregate picture of ESSDL profitability, data was combined from profitability surveys and actual volumes across individual loans. To standardize the data, it was interpolated for loan losses and salaries for credit unions that had not reported such data. These data-reporting challenges have been addressed for subsequent data collection in ongoing research being conducted by the FINRA Investor Education Foundation and the Filene Research Institute.

23 More information about the CDFI Fund and CDFI certification may be found on the US Department of the Treasury website at www.cdfifund.org.

24 National Credit Union Administration, "CDFI Certification Becoming Easier," *NCUA Report*, August 2016, www.ncua.gov/newsroom/Pages/ncua-report/2016/august/cdfi-certification-easier.aspx.

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List of Figures

Acknowledgments

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Financial Institution	Location	Asset Size
Commodore Perry FCU	Oak Harbor, OH	$34M
Cy-Fair FCU	Houston, TX	$200M
Express CU	Seattle, WA	$11M
Georgia Heritage FCU	Savannah, GA	$83M
Holy Rosary CU	Kansas City, MO	$18M
Mercy Health Partners FCU	Toledo, OH	$20M
Metrum Community CU	Centennial, CO	$61M
NorthCountry FCU	Burlington, VT	$455M
ProMedica FCU	Toledo, OH	$40M
Spring Bank	Bronx, NY	$117M
Sun Federal CU	Maumee, OH	$471M
Toledo Metro FCU	Toledo, OH	$40M
Toledo Urban FCU	Toledo, OH	$5M

About This Report

The Filene Research Institute and the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation formed a partnership in early 2016 to publish the *Employer-Sponsored Small-Dollar Loan Feasibility Study Report* and to create tools and materials based on the findings to help credit unions and other financial institutions with turnkey implementation of the ESSDL program. Filene and the FINRA Foundation are also conducting ongoing research, in partnership with six credit unions that participated in the initial testing, to examine the long-term impact of the ESSDL on consumer saving behavior and credit scores.

About the Filene Research Institute

The Filene Research Institute is an independent, consumer finance think and do tank dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance. Founded over 25 years ago, Filene is a 501(c)(3) nonprofit organization. For more information visit www.filene.org and @fileneresearch.

About the FINRA Investor Education Foundation

The FINRA Investor Education Foundation supports innovative and educational projects that give underserved Americans the knowledge, skills, and tools necessary for financial success throughout life. For details about grant programs and other FINRA Foundation initiatives, visit www.finrafoundation.org.

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