

Opening financial doors

Small-dollar loan programs can serve as an entry point to credit unions for low-income borrowers.

Olivia Barrow

Many credit unions that have started small-dollar loan programs find they serve as an entry point into the traditional financial system.

But credit unions need to boost their marketing efforts if they want to attract more low-income borrowers away from payday lenders, says George Hofheimer, executive vice president/chief research and development officer for the [Filene Research Institute](#). That includes increasing awareness of the products and services they offer and recognizing many people labeled as “unbanked” or “underbanked” are in those categories because the financial system doesn’t work for them.

“A lot of low-income people go toward alternative financial services because the pricing is upfront, even though it’s expensive,” he says. Becoming a credit union member can be a gateway to a much more stable financial future.

Hofheimer is overseeing a pilot program where credit unions partner with employers to provide small-dollar loans to employees.

Research shows more than half of American households have at least some difficulty keeping up with monthly expenses, and more than a quarter of all households have turned to high-cost alternative bor-



rowing methods such as auto title or payday loans over the past five years to help them make ends meet.

At the same time, financial stress has a negative impact on employee engagement, absenteeism, and productivity.

Through the Employer-Sponsored Small-Dollar Loan (ESSDL) program, credit unions are collaborating with employers to provide safe and affordable small-dollar loans to help hardworking employees meet their immediate needs and build a stronger financial foundation.

The program uses the [QCash](#) digital lending solution, which provides instant funding of small-dollar loans in less than 60 seconds via a mobile app.

“If an employee is working at a typical job where it’s hard for them to get off of work to apply for a loan, then the best place to apply for a loan is at the workplace,”

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Hofheimer says. “It’s an innovative way to deliver financial services to consumers who are stressed out and might not have other options for these small-dollar loans.”

By partnering with credit unions, employers can offer small-dollar loans to their employees at almost no cost. In many cases, employees repay the loans through payroll deduction.

Employers are interested in the program because of research that shows the **negative impact financial stress** has on employee engagement, absenteeism, and productivity, Hofheimer says.

The results from Filene’s pilot test have been positive, and Filene has created an **implementation guide** to make it easier for credit unions to get started with an ESSDL program.

Small-dollar loan programs can make a big impact in peoples’ lives. Felicia Lyles recalls a **HOPE Federal Credit Union** member in her late 50s who thought she was too old to begin building up her credit. But after completing the Jackson, Miss., credit

union’s “Borrow and Save” program, her credit score was high enough to qualify for an auto loan, says Lyles, senior vice president of retail operations at the \$301 million asset credit union.

It was the first vehicle she had ever purchased.

The Borrow and Save program aims to help members build up both their credit score and savings account balance. If a member takes out a Borrow and Save loan for \$1,000, HOPE Federal issues \$500 to them immediately, and then puts the other \$500 in a locked savings account. Once the member pays off the full balance of the loan, the hold on the savings account is lifted.

“Now she’s looking into a mortgage with us,” she says. “Those are the stories we get with this product.”

Lyles encourages credit unions to offer programs that help members pay for emergency expenses at reasonable interest rates. “We need more financial institutions to respond to this need.”



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CFOs are still good prospects for CEO roles—if they are more than just numbers-oriented.

Felicia Lyles

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