Loans as an Employee Benefit Boost DEI Recruiting Efforts

lending industry update human resources employees

Summary: With one-third of the country unable to secure traditional lending, some employers have begun adding loans for employees with adequate income but low credit scores to their benefit offerings. This allows employees to borrow funds and rebuild credit responsibly, while avoiding fees from siphoning off retirement savings.

Audrey Hepburn may have passed away in 1993, but her popularity endures — so much so that in 2017, nearly a quarter of a century later, two of her possessions from the film "Breakfast at Tiffany's" sold at a Christie's auction for close to $2MM. Hepburn's script from the film was purchased by Tiffany & Co. for just shy of $850K.

The script demonstrates that there really is merit to the old adage, "*You can't judge a book by its cover.*" Employers are embracing this phrase when it comes to employees with low credit scores. According to Experian, about 29% of Americans had subprime credit scores (FICO scores between 580 and 669) as of 2021. Having a credit score below 670 makes it difficult or impossible to get traditional loans, and subjects those who do secure loans to borrowing at higher interest rates. Such rates and premiums may make these loans unaffordable for those who need them, further harming their credit score or turning their average score into a subprime one.

The real cost of subprime credit scores. With inflation on the rise and an unstable market economy, those without access to traditional loans are facing tough decisions. These major economic changes are taking a toll on many people's mental health. Unsurprisingly, someone's financial stress can also have a negative impact on their performance at work.

Financial stress is felt disproportionately among women and minorities, who, despite some improvements in the pay gap, continue to earn significantly less than their peers. These minorities are disproportionately rejected for loan applications, according to data from Consumer Financial Protection Bureau.

A new employee benefit. In an effort to ease these financial inequities, bolster benefit packages, and improve retention rates, some employers have begun including low-cost loans in their benefits packages. Employers can enlist outside vendors to offer loans to these employees based on factors that showcase their current ability to afford loan payments, regardless of their credit rating.

Determining loan terms and repayment. As opposed to traditional credit score-based loans, an individual's credit risk and loan amount are determined by their current income and the stability of their employment history. These are typically individuals with full-time jobs who are unable to secure traditional loans. Loan amounts are determined based on what the loan service believes the applicant can afford rather than what they are requesting, to make sure they can make payments. Each provider will have different loan amount limits, terms, and rates, but these loans are designed to have lower interest rates than traditional loans and be easier to pay off.

Rather than relying on the borrower to make manual payments, the payments are deducted through direct debits from a company's payroll, making for worry-free borrowing. Even if an employee leaves the company, they can keep the loan, as long as they can provide a bank account for the loan repayment deductions. The best part is that this type of borrowing not only teaches financial responsibility, but it also helps the employees improve their credit scores.

Salary Finance, a popular employee loan provider states that, "*Working directly with your employer means we can usually offer you a better rate than you would get elsewhere. This ensures you can easily pay down existing high-cost debt and improve your financial situation.*"

According to Kashable, a financial wellness company that offers employee loan services, among other financial education, 82% of employees who have accessed its loans through employers have done so to avoid tapping into retirement savings, such as 401(k) plans. Half of borrowers have taken loans for emergencies, like car repairs or medical bills, which can be crippling expenses for anyone, but especially people who don't have access to traditional credit options. Kashable also has a special dedication to underserved communities — about 50% of their applicants are minorities.

While risk management and lending limitations would make it impossible for community financial institutions to offer identical services and to ignore traditional credit metrics, employee loans are gaining popularity. Not only will they help you stay in step with your competition, but they can offer you an edge when it comes to finding and retaining good talent. It's also a huge step toward diversity, equity, and inclusion for your business, while helping employees increase credit scores and learn more about responsible borrowing. If you'd like to start offering loans as a benefit, but aren't in the position to do so just yet, partnering with the HR departments of companies in your community to provide financial literacy programs is a great first step.

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ECONOMY & RATES

Rates As Of: 08/19/2022 08:50AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	2.71	0.30	2.65
6M	3.12	0.21	2.93
1Y	3.25	0.32	2.86
2Y	3.28	0.39	2.54
5Y	3.12	0.44	1.85
10Y	2.98	0.33	1.47
30Y	3.22	0.21	1.31

FF Market	FF Disc	IORB
2.33	2.50	2.40
SOFR	**Prime**	**OBFR**
2.28	5.50	2.32