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Bosses Turn to Loans to Help Employees

Workers take advantage of low-cost borrowing options offered by companies

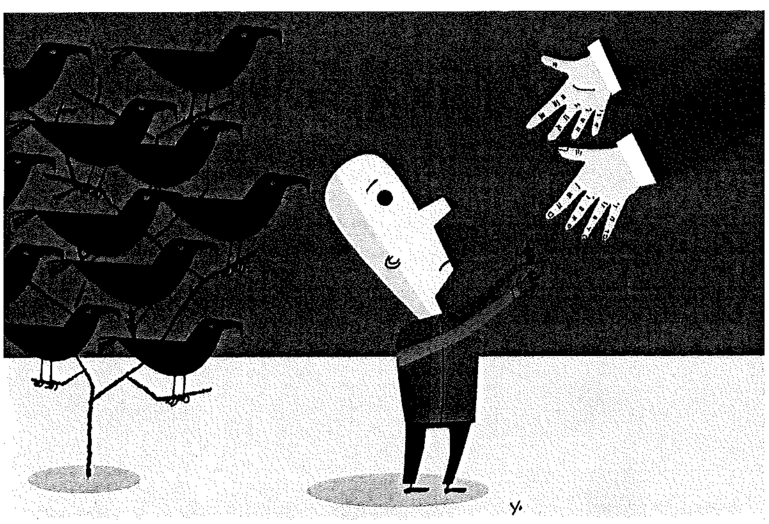

ILLUSTRATION: JAMES YANG

By RACHEL EMMA SILVERMAN
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Pam Dimitro, the controller at JNET Communications LLC, realized employees were often turning to payday lenders or high-interest credit cards in a financial pinch.

So the Warren, N.J., employer of call-center workers and cable installers began offering employees a new benefit: low-interest loans to help pay for things such as car repairs and health expenses.

Worried about their financially strapped workforce, a handful of companies are stepping in to offer employees alternatives to payday loans and other expensive financial products.

In some cases, employers such as software maker Kronos Inc. and International Business Machines Corp. are helping to pay off workers' student loans or offering to consolidate and refinance their existing student-loan debt. In other instances, businesses are providing access to low-interest or no-interest lines of credit to help workers cover emergency costs or pay down other debt.

"I can't have an effective employee if they are stressed and thinking about waiting tables on the side to make ends meet," said Erik Dochtermann, chief executive of New York creative media agency MODCo Media, which has 33 full-time workers.

Mr. Dochtermann has helped pay off several employees' high-interest debts and sets repayment at a 5% interest rate, reducing pretax compensation by the loan amount.

A HIGH-INTEREST PROBLEM

Employers are beginning to recognize that their workers face high debt loads

- 51% of full-time employed adults consistently carry balances on their credit cards, while 42% of millennial employees have student loans
- Some 12 million Americans —roughly 5% of adults—use payday loans each year
- 20% of all eligible 401(k) participants had loans outstanding against their accounts at the end of 2014
- 6% of employers offer low or no-interest loans for nonemergency situations, while 3% offer student-loan repayment

Sources: PwC; Pew Charitable Trusts; Employee Benefit Research Institute; Society for Human Resource Management

While few other employers go that far, managers know that financial worries are taking a toll on U.S. workers. A recent PwC survey of 1,600 full-time employed adults found that 40% find it difficult to meet monthly household expenses and 51% consistently carry balances on their credit cards.

Payday loans, which are typically made in small amounts and come due on a person's next payday, can carry fees equivalent to an annual percentage rate of almost 400%, according to the federal Consumer Financial Protection Bureau.

Some 12 million Americans use payday loans each year, according to Alex Horowitz, senior research officer with the Pew Charitable Trusts' small-dollar loans project.

Retirement borrowing remains common, too. According to the Employee Benefit Research Institute, 20% of all eligible 401(k) participants had loans outstanding against their 401(k) plan accounts at the end of 2014, up from 18% in 2008.

As an alternative, employers are joining with firms such as Kashable LLC, Ziero Financial Inc. and Zebit Inc. to help fund and service loans. Some companies are offering those products in conjunction with employee-focused seminars about saving, budgeting and debt.

Such loans could end up putting employees further into debt, critics say, especially if workers are unable to keep their spending in check. Loans "need to be utilized with some caution," said Kent Allison, national leader of consulting firm PwC's employee financial wellness practice.

Some employers aren't eager to offer loans, either, but say their employees lack other good options.

Barbara Snyder, vice president of human resources at Atlantic American Corp., said she didn't want to get into the loan business.

Many of the 100 employees of the Atlanta insurance provider "live paycheck to paycheck," she said, and were borrowing against their 401(k)s. After realizing the company wouldn't be liable if employees defaulted, she signed up with Kashable about two years ago.

Some 15% of Atlantic American's staff uses the service, and 401(k) borrowing has fallen, Ms. Snyder said. "This was a product we really did hesitate about offering," she said. "But I have given them a tool that will help them overcome some challenges."

Kashable's interest rates typically range from about 6% to the high teens, lower than what people with middling or low credit might get on their own, said founder Einat Steklov.

'Not offering a low-cost loan option is not going to prevent people from getting a loan. By not offering, we are going to force them to do something worse'

—Pam Dimitro, controller at JNET Communications

Loan payments are deducted from employee paychecks, with loan terms lasting from six months to three years. If employees leave their jobs, they continue paying from their own bank accounts, said Ms. Steklov.

About half of JNET's 2,000 employees have taken Kashable loans since 2013, said Ms. Dimitro.

"Not offering a low-cost loan option is not going to prevent people from getting a loan," she adds. "By not offering, we are going to force them to do something worse."

Jennifer Benz, a benefits consultant in San Francisco who advises companies on financial-wellness strategies, said firms seem more willing to address student-loan debt, rather than general consumer debt, since the former is tied to education and career advancement.

IBM, Kronos and Nvidia Corp. recently began offering student loan refinancing or direct student loan payments to their employees, while a slew of firms, such as SoFi and Tuition.io, have cropped up to help employers manage these offerings.

Only 6% of employers offer low or no-interest loans for nonemergency situations, a percentage which has stayed relatively steady in recent years, according to a 2015 survey of more than 450 employers from the Society for Human Resource Management.

Other companies are helping employees purchase big-ticket items without going into credit-card debt. This spring, Impact Outsourcing Solutions Inc., in Griffin, Ga., began offering no-interest lines of credit to its 2,500 employees via Zebit, the operator of a marketplace where customers can buy items like new appliances or smartphones.

The service is free to employers and employees; Zebit makes money through its retail business, said Michael Thiemann, Zebit's CEO.

"If we can help steer folks away from payday loans and high interest loans, it's worth it," said Todd Feltman, Impact's president.

Wesley Kennedy, head of operations at the Lotus Method, a San Francisco fitness chain catering to new and expecting mothers, wanted to provide emergency funding for his hourly employees, most of whom lack a financial cushion.

Mr. Kennedy recently began offering staffers access to no-interest loans from Ziero, which charges employers a fee of roughly 10% of the loan principal for handling the loans and providing the capital.

"Our whole business model depends on our workplace being a sanctuary," he said. "If our trainers are stressed out it doesn't work."

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