

THE BEST ALTERNATIVES TO PAYDAY LOANS FOR YOUR EMPLOYEES

Financial stress is taking a toll on employees, and employers are paying the price.

- 46% of employees admit to spending 2-3 hours per week on personal financial matters while at work.
- Financially stressed employees are more likely to have health issues.
- According to a 2018 Federal Reserve Board report, 40% of Americans can't cover a \$400 emergency expense.
- According to a new survey from Bankrate, which interviewed 1,003 adults earlier this year, 57 percent of Americans don't have enough cash to cover a \$500 expense.
- According to the newly released PwC [2017 Employee Wellness Financial Survey](#), the majority of Americans are stressed about their finances.
- All of these factors can lead to reduced productivity at work and negatively affect your business/organization.

The purpose of this information is to help you help your employees avoid the enormous damages that payday loans can inflict on them. At times they might need a loan to fix their car or keep it from being repossessed, pay a doctor bill or rent, etc. There are ways your employees can borrow that money from a better alternative to a payday loan but only if your company decides to offer them.

Payday loans can be very appealing to those in a desperate situation, but they're rarely the solution to anyone's financial woes. They can cause serious problems for the borrower, particularly in Missouri, where the cost of a payday loan is basically unregulated and is therefore extremely high.

If your employee can find another solution to a payday loan that is less harmful, it is better for them, and it will also be better for business. These loans can increase stress on the employee which can lead to mental and physical illness and absenteeism. So we urge employers to offer alternatives through their employee assistance programs.

This brochure was produced by the Opportunity to Thrive Task Force, a joint project of Jews United for Justice and National Council of Jewish Women. The task force was formed to reduce predatory lending in response to the Forward Through Ferguson Report.

JUJ, Jews United for Justice, is a nonprofit organization dedicated to working in coalition with partners and allies for the goals of economic, social and racial justice in the St. Louis metropolitan area.

NCJWSTL works through a program of community service, advocacy, education and philanthropy to transform lives. We confront today's most urgent social and economic challenges powered by the Jewish imperative to ensure dignity for all. We impact policy, advocate for justice and support the community.



National Council of Jewish Women St. Louis



A Progressive Voice in the Jewish Community;
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Alternatives to Payday Loans Benefit Employers and Employees



What is a payday loan?

The Consumer Finance Protection Bureau (CFPB) defines a payday loan as a “short-term, high-cost loan, generally for \$500 or less, that is typically due within two weeks.” Basically, payday loans are designed to float borrowers that are in between paychecks but need cash fast.

The average repayment date is anywhere from two weeks to a month — or whenever the borrower gets his or her next paycheck. It's almost always agreed upon beforehand by both lender and borrower.

Payday loans are attractive because so little is required in order to receive one. As long as you can provide an address, proof of employment, and maybe some references, you'll be able to take out a loan. Whether you have good or bad credit, payday loans charge a flat rate of anywhere from \$15 to \$30 per \$100 borrowed. Even the best payday loans average around 400% Annual Percentage Rate (APR) per loan.

One of the biggest pitfalls that can happen with payday loans is when borrowers fall into a cycle of repeatedly extending their loans. They find themselves unable to repay the loan on payday, so they extend it for another pay period. They continue spending borrowed money, and, in the meantime, the fees pile up. It's a vicious cycle that can continue indefinitely since there is no limit on how many times a person can get this type of loan.

In 2013, the CFPB found that the average payday borrower remained in debt for almost 200 days. That means a short-term crisis will likely turn into a long-term debt nightmare that he/she will struggle to pay off for months.

If you don't have the money when the payment comes due, payday lenders are likely to:

- Send harassing phone calls and emails
- Hurt your credit score
- Add additional fees (on average \$15 per \$100 borrowed)
So if you take out \$400 and you don't have \$460 to spare when payment comes due, you'll owe even more money and receive threatening calls.

The best option for payday loans is to avoid them if at all possible. Fortunately, there are two options to explore which an employer can make available to employees.

Options to Payday Loans

TrueConnect

- TrueConnect has an annual interest rate of 24.9%.
- It is an installment loan with equal monthly payments over a year, repaid through payroll deduction.
- The amount borrowed may be between \$1000 - \$3,000.
- The maximum size of the loan will depend on the salary of the borrower.
- The monthly payment may not be greater than 8% of the employee's gross salary.
- TrueConnect offers free credit counseling sessions through LSS Financial Choice, and, unlike payday lenders, reports to credit bureaus when employees make payments to help rebuild credit.
- Because of the minimum loan of \$1000, TrueConnect is not useful if the employee needs to borrow a smaller sum.

PayActiv

- PayActiv is not actually a loan; it is an early payment of the wages that the employee has earned but not received. The good news is that the costs are very low.
- The limitation is that the early wages must be repaid from the very next paycheck or two paychecks that the employee receives. This means that a wage advance from PayActiv is only useful if the amount borrowed is less than five percent of the net paycheck.



TrueConnect and PayActiv are available to your employees only if you make them available through your employee benefits, and neither one will cost you.

For more information, see

websites:

<https://trueconnectloan.com>

<https://web.payactiv.com>

