The Virginia State Employee Loan Program
Program Summary

In 2009, employees in the Commonwealth of Virginia were struggling to make ends meet. The economy was flailing. The workforce was being downsized. Unemployment was climbing. Two-income families became single-income families. Extended family members moved in with relatives because their financial situation is deteriorating.

This condition is not unique to Virginia. What is unique is the solution that was developed to help ease the financial burdens of our employees. The workplace giving program for Virginia state employees (CVC) formed a 501(c)(3) charity in 2006 to provide small emergency grants to employees facing an unplanned, emergency financial crisis. By 2009, grant applications revealed that there were many employees in financial distress due to non-emergency causes, such as car repairs, uncovered medical bills, and the need for bill consolidation. Employees were facing a financial gap and struggling to pay regular monthly bills. Finding a solution to this problem was the challenge.

The Department of Human Resource Management (DHRM), which manages the CVC programs, met with the Virginia Credit Union (VACU) to develop a pilot program called the Virginia State Employee Loan program in 2009. VACU and DHRM provided IT resources to create an online, electronic loan application system. Employee-borrowers were required to successfully complete an online financial literacy course to proceed with the loan application.

Since the loan program began in July 2009, over $7,424,000 has been loaned to employees in $500 increments (over 15,000 loans). The only marketing for this program was an email to employees announcing the program, resulting in over 100 loans processed the first day and the news spread quickly by word of mouth is the first loan program of this type for state employees in the nation. Charge offs for bankruptcies or defaulted loans are far below the rate for commercial lenders at 0.68%. The enormous program success is due to a confidential, quick, and accessible state wide program and is reflected by high customer satisfaction rates.

Program submission for NASPE Recognition: The Virginia State Employee Loan Program; State: Commonwealth of Virginia; Contact Person-Anne Dinterman, Director of Office of Employee Programs; Department of Human Resource Management; 101 N. 14th Street, 12th Floor, Richmond, VA 23219; 804-225-2159; Fax 804-371-7401; Email Anne.Dinterman@dhrm.virginia.gov

The Virginia State Employee Loan Program
Supporting Documentation

1. **Please provide a brief description of this program.** The Virginia State Employee Loan Program (VSELP), in partnership with the Virginia Credit Union, provides loans without a credit check of up to $500 to full-time, non-probationary state employees that have financial needs. Employees must complete a short on-line loan application, pass an on-line financial education course, and sign a credit agreement with payroll deductions before the funds are disbursed to their credit union account. Since everything is automated, the entire process from application to the deposit of the loan proceeds in the employee's account is usually completed within 24 hours. This easy, convenient, and confidential program helps employees consolidate bills, pay unexpected expenses and meet their financial obligations in these tough economic times.
2. **How long has this program been in operation?** The program was launched in July, 2009.
3. **Why was this program created? (What problems or issues does it address?)** In late 2006, the State Employee Emergency Fund, a 501(c)(3) run by the DHRM workplace giving campaign team, received many grant requests that were for non-emergencies. It became clear that employees needed financial assistance to weather tough economic times. The Virginia State Employee Loan Fund was developed to address a financial gap with a convenient, short–term, unsecured loan without a credit check. Since financial literacy was also a concern, employees must pass a free, on-line financial course before the loan is approved, allowing us to deliver financial education to those that needed it.
4. **Why is this program a new and creative method?**

   This is the first program of its type for state employees in the nation. A need was identified and a solution developed by state employees for state employees. The oversight and administration of the program is through a 501(c)(3), the Virginia State Employee Assistance Fund (VSEAF), which funds the reserves for charge-offs for defaulted loans. The VSEAF is governed by a board made up of employees across the Commonwealth. The

Virginia Credit Union (VACU) is the funding source for the employee loans, and no state money is used. The automated loan application process is online, confidential, and accessible across the state. The only paper document used is the signed loan agreement, which is written in simple terms and is easy to understand. It takes most applicants less than 45 minutes to complete the application process and pass the online financial education course. Employees who become borrowers must become members of the credit union. While no credit check is performed for these loans, an employee may elect to use the VACU as a credit reference after successfully repaying a loan.

The cost of a $500 loan in this program is $40 over a six-month payback period at 24.99% APR. A $500 loan through a typical commercial payday lender often results in $112 in interest and fees. This is a cost-effective solution for state employees.

5. What were the program's start-up costs? (Provide detailed information about specific purchases for this program, staffing needs, and other expenditures, as well as existing materials, technology, and staff already in place.)

No additional equipment was purchased by the state. No additional staffing was required. No marketing expenses were incurred.

IT development costs were absorbed by the VACU and DHRM IT staff provided interface IT services. No additional IT staff were required, but at both DHRM and VACU, some IT staff had to set aside other current project work to complete the programming tasks.

Staffing at the VACU Loan Resolution Line involved diverting some of their staff to the program for the first four weeks of the program when volumes were high, but they returned to normal staffing levels over the next few months. The two DHRM workplace giving program staff absorbed the additional tasks associated with releasing the loans and monitoring the financial education process.

Existing DHRM websites were enhanced to provide access to the online loan system. Other than some informational fliers for VACU staff, there were no marketing expenses for this successful program. All marketing was by word of mouth, employee to coworker.

6. What are the program's operational costs? Thirty percent of one staff member's time is devoted to this program. Less than $500 per year in mailing costs is expended in the collection of unpaid loans. The charge-off rate for borrowers declaring bankruptcy or leaving the state before repayment of the loan is 0.68%, well below charge-off rates for financial institutions.
7. How is the program funded? The Virginia Credit Union is the funding source for the loans. No state funds are used to finance this program. Non-general funds from employee workplace giving contributions are used to fund the DHRM staff support of the program.
8. Did this program initiate in your state? Yes.
9. Are you aware of similar programs in other states? If yes, how does this program differ? Extensive research was conducted during the design of the program, and there is no evidence of any other program of this type available for state employees anywhere in the United States. While some states offer loans through state colleges and universities for the purpose of educational costs for its employees attending courses at their schools, we have not found a program of the specific purpose for small, unsecured loans.
10. How do you measure the success of this program? The program's success is measured by loan volume as well as customer satisfaction ratings. The loan volume has far exceeded anyone's expectations, with $7,424,000 borrowed and over 15,000 loans made. This is incredible since the maximum loan is $500 and only two loans may be taken out per year per employee. Governor Kaine touted this program in his press conference addressing pay

day lenders, and it was picked up by the local media as well as the Wall Street Journal. The FDIC and state and local entities as well as other non-profits have inquired about the program. The only marketing for the program has been one email distribution in July 2009 kicking off the program. Everything else has been by word of mouth by satisfied customers. After the first 6 weeks of the program, a customer satisfaction survey was sent to all borrowers via email, with a return rate of 28%. Respondents cited the speed to process loans, confidentiality, and access to the funds as the top three advantages of the program. The survey showed that best reasons for borrowing included bill consolidation, unexpected/uncovered medical bills, taxes, education and tuition bills, home and vehicle maintenance, and paying off other loans including high-interest debt. 96% of the respondents found the educational component helpful. A majority of the respondents wanted to increase the loan amount, with 50% recommending a $1,000 loan cap and 22% wanting up to a $2,000 loan limit. With the number of repeat customers, the program is clearly a success.

11. How has the program grown and/or changed since its inception? While the program has largely remained unchanged, some of the process steps have been modified or streamlined as we gained experience. Statements on the credit agreement have been strengthened to inform employees about their obligation to repay their loan balance in full if they separate from the state for any reason and to facilitate continuance of direct deposits if an employee transfers directly to another state agency. The flow of direct deposits from employee pay checks to their VACU account has been changed so that the payments are immediately applied to the loan account and not available for withdrawal by employees for other reasons. Some additional administrative reports have been added to help determine trends and demographics of borrowers. This successful program continues to be evaluated and strengthened to improve access by employees, increase employee financial literacy, and to reduce charge-off rates.

Since these difficult economic times effect all states' employees, this cost-effective program could be adapted for other states.