The Virginia State Employee Loan Program
Program Summary

Program History - In 2007, a Virginia State Emergency Assistance (grant) program was established as a 501(c)(3) charity to allow employees to donate to a fund from which other employees could receive monetary grants to help in the event of unplanned, unexpected financial crisis. After two years of experience in this program, 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. The Governor of Virginia was interested in providing an alternative to commercial pay-day loans to employees that could be repaid through direct deposits from their paychecks.

Program Structure - In partnership with the Virginia Credit Union, a loan program was developed to help employees who might not otherwise be able to qualify for a small loan and provide funds quickly and at a reasonable cost. The Credit Union provided the funds for the program and the Virginia State Emergency Assistance Fund managed the program. The credit union developed the online application system in partnership with the IT staff from DHRM.

Borrower Eligibility – To maximize success of the program, eligibility requirements were established. A borrower must be a full-time, non-probationary, salaried employee with no adverse history with the Credit Union. No credit checks were performed. Borrowers signed a credit agreement that required them to repay the loans over a six-month period through direct deposits to a credit union account and that they were required to repay the balance of the loan from their final check if they separated from the state for any reason.

Program Success – Since the program began in July 2009, over $10,079,500 has been loaned to employees in $500 increments. It 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.

Additional details about this program are provided in the attached documentation.

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 the program.** The Virginia State Employee Loan Program (VSELP) was established in 2009 to provide state employees with a resource to help in times of financial crisis that was not a result of an emergency but rather a need to consolidate bills, pay for education or medical bills, home maintenance, and similar reasons. Other employee programs showed that there were issues with financial literacy as well as a lack of savings plans for the future. Many employees were living paycheck to paycheck and some sought out commercial pay-day lenders as a solution, which sometimes resulted in a cycle of extending their loans multiple times, incurring large fees. This program provides access to $500 loans without a credit check and funding is generally available in one to two business days. Employees must meet eligibility criteria including the successful completion of an on-line financial education course.
2. **How long has this program been in operation?** The first loans were made July, 2009, and since then over $10,079,500 in loans have been funded.
3. **Why was this program created? (What problems or issues does it address?)** Many employees had no financial savings and some were seeking commercial pay-day loans to meet short-term financial needs, often resulting in a repeated cycle of debt. Employees demonstrated a lack of key components of financial planning education and had poor or no credit history. Employees were afraid or embarrassed about asking for information about possible financial solutions.
4. **Why is this program a new and creative method?**
    a. This is the first program of its type for state employees in the nation.
    b. Since the program partners with the Virginia Credit Union (VACU), the state is not responsible for the funds to be loaned to employees.

c. 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.

d. The loan application process is online, confidential, and accessible across the state and the only paper document is the signed loan agreement. It is written in simple terms and is easier to comprehend than many commercial lending papers.

e. Employees who become borrowers must join the credit union but are not required to be previous members of the credit union.

f. Employees can build credit through successful repayment of loans and can use the VACU as a credit reference afterwards.

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.)

   a. No equipment was purchased by the state.

   b. IT development costs were absorbed by the VACU. DHRM IT provided interface IT services. This did not require additional staffing for either the VACU or DHRM.

   c. Staffing at the VACU Loan Resolution Line involved diverting some of their staff to the program for the first four weeks of the program but returned to normal staffing levels over the next few months. Staffing at DHRM absorbed the administration of the program with existing personnel for the first year and added one additional (shared) staff to administer the program in 2010.

   d. Existing websites were enhanced to provide access to the online loan system. No new IT staff was required.

   e. 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? A portion of one staff member's salary (approximately $12,000 annual base salary plus benefits) is devoted to this program. Less than $500 per year in mailing costs is expended in the collection of unpaid loans.
7. How is the program funded? The Virginia Credit Union is the source for the loan funds and the recipient of the loan repayments and interest. The VSEAF 501(c)(3) is a charity member of the Commonwealth of Virginia Campaign, the workplace giving program managed by DHRM. Employees make donations to the VSEAF and a portion of these funds are used to create reserves on deposit at the VACU for charge-offs for unpaid loans. No state funds are used to support this program.
8. Did this program initiate in your state? We believe this to be the first program of its type.
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 at intervals since 2009 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 unsecured signature loans for $500 or less.
10. How do you measure the success of this program? Over $10,079,500 has been loaned to more than 8,779 employees, in $500 increments, in the first 45 months of the program. Employees may secure up to two loans per calendar year and may pay off their loan early with no interest penalty. About 70% of borrowers have had more than one loan during this program. The benefits of the loan program process have been shared among coworkers and some employees have assisted others in the process of submitting on-line applications. A strong partnership and solid communication channels with state agency payroll offices have ensured that payroll deductions begin on time and can prevent some potential delinquent loans.

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 with the program. 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. Statements on the credit agreement have been strengthened to inform employees about their obligation to immediately 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. Some additional administrative reports have been added to help determine trends and demographics of borrowers.