FINANCIAL HEALTH NETWORK

Financial Solutions Lab

# From Financial Struggle to Short-Term Financial Relief

## An Exploratory Study on Small-Dollar Lending for Low- and Moderate-Income Employees

**HONEYBEE**

# ABOUT US

The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding, and proven best practices in support of improved financial health for all.

The Financial Solutions Lab (FSL) is a $60 million, 10-year initiative managed by the Financial Health Network in collaboration with founding partner JPMorgan Chase and with support from Prudential Financial. FSL's mission is to cultivate, support, and scale innovative ideas that advance the financial health of low- to moderate-income (LMI) individuals and historically underserved communities.

Since launching its first cohort in 2015, the FSL Accelerator has grown to become one of the top fintech accelerators – and one of the few focused on financial health – in the country. The Accelerator works directly with entrepreneurs to support our mission of identifying, developing, and scaling fintech solutions for LMI and underserved consumers, particularly for populations facing acute and persistent financial health challenges, including (but not limited to) aging individuals; individuals with disabilities; immigrants; women; and people of color, especially Black, Latinx, and Indigenous communities.

# ACKNOWLEDGMENTS

**HoneyBee participated in the Financial Solutions Lab Accelerator program with a focus on developing innovative fintech tools to provide employers with new ways to improve worker financial health. We are thankful for their participation in this study.**

Washington University in St. Louis
Social Policy Institute

The research in this report was conducted in partnership with the Social Policy Institute (SPI) at Washington University in St. Louis. The Financial Health Network selected SPI to conduct exploratory studies of fintech solutions from select Accelerator companies. These exploratory studies examine the characteristics of employees who engage with and use these products, and explore the ways in which these products help promote employee financial health.

## ABOUT THIS SERIES

As part of the the FSL Accelerator program, fintechs from the 2019 cohort – Brightside, HoneyBee, Manifest, MedPut, and Onward – agreed to participate in research on the usage of, engagement with, and potential for impact of their workplace financial health solutions. These companies worked with FSL and the SPI at Washington University in St. Louis to explore user engagement and financial health outcomes related to use of innovations offered to their customers' employees. The goals of these efforts were to help FSL companies understand the financial health impact of their products on their customers' employees, allow FSL to learn from successful implementations and the most impactful results, and share these findings with a broader audience.

This is one of five briefs developed in collaboration with the participating companies and SPI as part of this research project. In addition, FSL developed "Fintech as a Solution for Employee Financial Health: Findings from Five Exploratory Studies" – a summary report sharing our findings from the individual company briefs. All materials are available at finlab.finhealthnetwork.org.

The views and opinions expressed in this report are those of the authors and do not necessarily reflect the views and opinions of JPMorgan Chase & Co., Prudential Financial, or their affiliates.

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Washington University in St. Louis

Social Policy Institute

# From Financial Struggle to Short-Term Financial Relief - An Exploratory Study on Small-Dollar Lending for Low-and Moderate-Income Employees

By: Yingying Zeng, Katie Kristensen, and Mathieu Despard

Social Policy Institute at Washington University in St. Louis
Research Report 20-04
December 2020

## Executive Summary

In this study, we examined HoneyBee, a service company that provide access to 0% APR loans and financial coaching through the workplace. HoneyBee aims to offer employees in need a more affordable credit alternative to payday and auto title loans and therefore help addressing significant cash flow emergencies. Data for this exploratory study included 65 employees who used HoneyBee at least once from August, 2017 through May, 2020, and 199 borrowers who answered a phone survey conducted by HoneyBee from August, 2019 to June, 2020.

Most of HoneyBee users were female, people of color and had low or moderate incomes, who face cash flow issues to smooth consumption. They highlighted the beneficial features of convenience and affordability, noting that the service eased their financial burden to cover expenses and pay bills. This was more common among repeat borrowers than one-time borrowers and more common among those with a lower hourly wage. For these employees, access to HoneyBee loan can help them avoid costly alternatives such as payday loans and car title loans, which many employees reported that they had used before provided HoneyBee or would have used if no HoneyBee service available.

## Introduction

The following report describes findings from an exploratory study of HoneyBee, a service that provides access to 0% APR loans through the workplace, as well as financial coaching. HoneyBee is a cohort member of the 5th Challenge of the Financial Solutions Lab which is focused on workplace fintech products that promote the financial health of low- and moderate-income (LMI) employees of companies located across the U.S. The Financial Solutions Lab is a $60 million 10 year initiative managed by the Financial Health Network with founding partner JPMorgan Chase and support from Prudential Financial to help develop fintech innovations that improve financial health.

The Social Policy Institute at Washington University in St. Louis was selected by the Financial Health Network to conduct exploratory studies of 5th Challenge cohort member fintech products. These exploratory studies examine the characteristics of employees who use these products, employees' product engagement, and ways in which these products help promote employees' financial health.

### *Employee Financial Wellness Programs*

The Financial Solution Lab's 5th Challenge is part of a larger trend of employers to offer employee financial wellness programs (EFWPs) to address employees' non-retirement financial challenges such as difficulty paying bills on time and managing debt. EFWPs include various financial products and services such as financial counseling and small-dollar loans and are often delivered through or in conjunction with a digital platform or app1. Growth and interest in these programs have coincided with increased awareness of employees' financial challenges, especially in the wake of the COVID-19 pandemic. For example, in the midst of the pandemic, over half of employees surveyed are more concerned about their financial health than their physical or mental health2.

## Product Overview

HoneyBee is a Certified B Corporation based in Los Angeles, California that offers employer-sponsored small-dollar loans of up to $1,000. HoneyBee has both a license to provide loans and also partners with a bank to make such loans. HoneyBee aims to offer a more affordable credit alternative to payday and auto title loans for employees who need help addressing significant cash flow emergencies.

The amount employees may borrow is determined by loan repayments not exceeding an ability-to-repay (ATR) standard of 5% to 7% of employee pay repaid over a loan term of two months. The ability-to-repay (ATR) standard for which employees are approved is higher among employees with longer tenure and higher pay.

Employees can borrow as many times as they like, yet loans do not overlap. Employees pay no interest or fees; employer subscription fees cover operating costs and fund a loan loss reserve. To qualify, employees need only to have been with their employer for six months; employees' credit reports are not pulled and reviewed to underwrite these loans. Loan payments are made on paydays from employee debit cards.

HoneyBee loans have changed over time. Previously, employees' paid time off (PTO) acted as a form of collateral when employees left their job before repaying their loan, loan terms were six months, employees could borrow up to $2,500 based on a 7% ability to repay standard, and paid a 5% fee. HoneyBee also stopped pulling credit reports in 2019 after discovering that nearly all applicants had subprime scores below 600. Regarding repayment, HoneyBee deprioritized collecting loan payments via Automated Clearing House (ACH) debits from employees' bank accounts due to account overdrafts that were occurring for some borrowers. Instead, HoneyBee focused on payments via debit card which do not typically assess overdraft or non-sufficient funds (NSF) fees if account balances are less than the loan payment to avoid exacerbating employees' financial distress. HoneyBee reports that the current product configuration described above has resulted in a sharp decrease in loan delinquencies.

HoneyBee also offers financial coaching through Neighborhood Trust to help employees address financial goals such as improving credit health and saving for retirement. Employees may schedule time with a financial coach through the HoneyBee app and may receive an unlimited number of sessions. Employees may choose their coaches, or switch to a new one at any time. Employees who are furloughed or terminated may continue to access their financial coach indefinitely and without restriction. Since the beginning of the COVID-19 pandemic, HoneyBee has experienced an increase in HR managers' engagement as well as product demand. New clientele are mainly employers in the nonprofit and social service sectors.

## Study Methods

This exploratory study sought to answer the following questions concerning HoneyBee:

- What are the demographic characteristics and financial circumstances of borrowers?
- Do demographic characteristics and financial circumstance differ between one-time and repeat borrowers?
- What are general loan trends among borrowers?
- Are loan characteristics related to borrowers' demographic and employment characteristics?
- Do loan and employment characteristics differ among survey respondents and non-respondents?

All study data were fully de-identified prior to release to the Social Policy Institute to conduct Analysis. Descriptive data analysis with necessary statistical tests were applied to address the research questions.

To answer these questions, we analyzed data from two sources:

1. Administrative data from the HoneyBee platform for 979 employees in 62 companies and organizations who registered for HoneyBee from August 2017 through May 2020, including 65 employees who used HoneyBee at least once. These data included basic information about employees (age, hourly wage), the employer (company, industry), and HoneyBee loans (principle loan amount, number of repayments).

2. A phone survey of 199 HoneyBee borrowers administered by the staff of HoneyBee at different time points from August 2019 to June 2020. Staff asked one-time and repeat borrowers slightly different questions about their prior borrowing behaviors, experience with HoneyBee loans, general household financial health, and demographic characteristics.

**Table 1. HoneyBee survey respondents: One-time borrowers vs. repeat borrowers (N = 199)**

| | % of Mean (SD) | | |
|---|---|---|---|
| | **Total** | **One-time Borrowers** | **Repeat Borrowers** |
| **Age** | 41.46 (11.92) | 41.46 (13.82) | 41.46 (10.94) |
| **Gender** | | | |
| Female | 66 | 60 | 68 |
| Male | 33 | 40 | 31 |
| Other | 1 | 0 | 1 |
| **Any children in the home** | 59.30 | 46.15 | 65.67* |
| **Language** | | | |
| English | 93 | 94 | 93 |
| Spanish | 7 | 6 | 7 |
| **Live with a spouse** | | | |
| Yes | 27 | 28 | 27 |
| No | 70 | 72 | 69 |
| Refused to answer | 3 | 0 | 4 |
| **Race/Ethnicity** | | | |
| African American | 27 | 23 | 28 |
| White | 12 | 11 | 12 |
| Hispanic | 46 | 46 | 46 |
| Other | 10 | 12 | 8 |
| No answer | 6 | 8 | 5 |
| **Average loan amount ($)** | 536.87 (251.29) | 522.14 (276.95) | 515.38 (189.84) |
| **Number of Loans** | 2.32 (1.49) | 1 (0.00) | 2.96 (1.42) |
| **Hourly Wage** | 20.40 (7.42) | 20.08 (6.28) | 21.06 (9.37) |
| **Household Income** | | | |
| <$25,000 | 15 | 20 | 12 |
| $25,000-49,999 | 37 | 32 | 39 |
| $50,000-74,999 | 19 | 14 | 22 |
| >$75,000 | 12 | 15 | 10 |
| Refuse | 18 | 18 | 18 |
| **N** | 199 | 65 | 134 |

*Note: Comparisons are between one-time and repeat borrowers. *p<.05.*

# Findings

## *Borrower Characteristics*

The average age of employee borrowers across 62 employers (N=979) was 39.96 (SD=11.41). Most employees were in the nonprofit sector (52%), followed by services (17%), and food service (10%); employees were heavily concentrated in California (91%). The average hourly wage of the employees was $21.41 (SD=9.86).

Responses from the 199 borrowers who completed a survey offer a more detailed picture of borrower characteristics as reflected in Table 1, including a comparison of one-time and repeat borrowers. Overall, a majority of borrowers were female, Hispanic or African American, had annual household income below $50,000, had one or more children, and lived without a spouse or partner. There were only one difference between one-time and repeat borrowers: repeat borrowers were more likely to have children in the home ($p < .05$).

## *Loan Characteristics and Patterns*

Table 2 displays the characteristics of loans taken by the 979 employees in the study sample. Only 3% of these loans were listed as delinquent, meaning the borrower had failed to repay the loan in full.

**Table 2: HoneyBee loan characteristics (N=979)**

| | Mean | Median | Range |
|---|---|---|---|
| **Total number of loans** | 2.01 | 2 | 1 - 10 |
| **Each loan amount** | $536.87 | $499 | $250 - $2,205 |
| **Total loan amount** | $1,107.26 | $780 | $250- $15,015 |

Loan characteristics were examined in relation to borrower demographics and employment characteristics reported in Table 1 such as age and hourly wage. Significant associations included:

- Employees with an annual household income **$50,000 and above** took out more loans (M=2.49) than those with incomes under $50,000 (M=2.07) ($p < .05$).
- Industry was associated with total number of loans, average loan amount, and loan delinquency:
    - Despite having higher than average hourly wages ($23.52), employees in food services had the highest number average number of loans (M=2.28 compared to 1.98 for all other industries; $p < .05$),
    - the highest average loan amount (M=$603.39 compared to $529.81; $p < .001$), and
    - the highest delinquency rate (11.70% compared to 5.54%; $p < .05$).
- Employees who had a **delinquency** had lower average hourly wage (M=$18.62 vs. $21.59, $p < .05$).

The total number of loans borrowers took was not, however, associated with gender, race/ethnicity, whether an employee lived with a spouse or partner, or whether they had children in the home.

## *Loan Uses*

To determine the different ways employees used their loan(s) they were asked “What did you do with the money from your HoneyBee loan?” Based on employees’ responses, HoneyBee staff administering the phone survey categorized response into the following categories:

- Caught up on bills and expenses

- Reduced or eliminated debt
- Paid for health care
- Legal issues
- Large expenses
- Family and
- Other

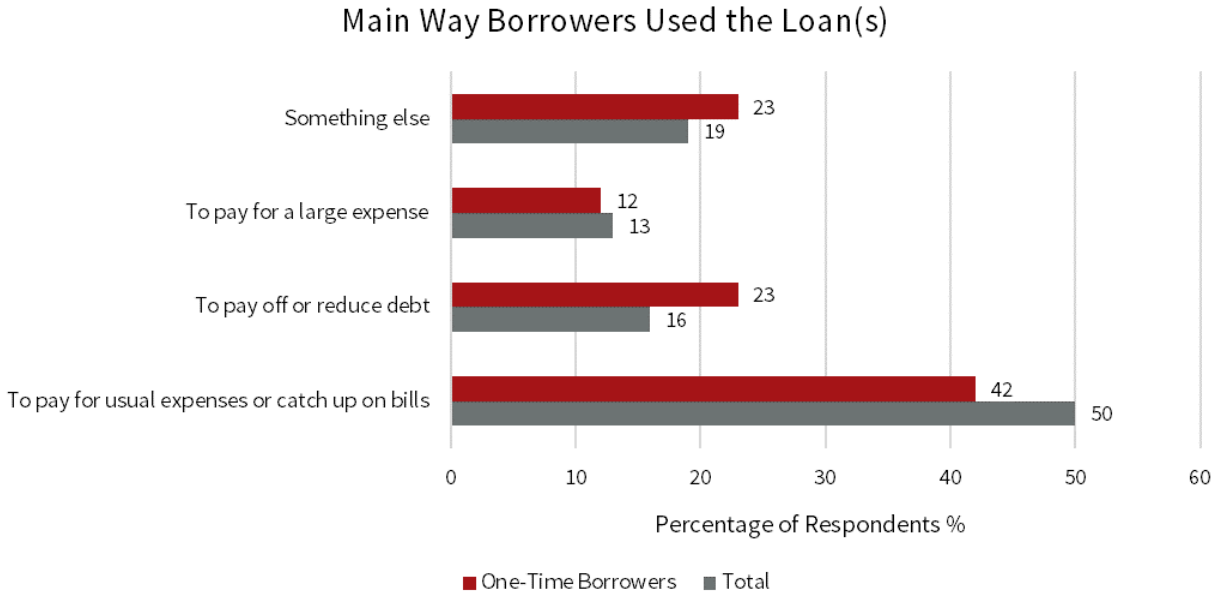
Over half (55%) of employees caught up on bills and expenses, followed by debt reduction (24%), and large expenses (16%). Employees that used loans to catch up on bills were younger ($p$ <. 01), had lower household incomes ($p$ <. 01) and hourly wages ($p$ < .05), and took more loans ($p$ <. 05) compared to employees who used loans for other purposes.

Other common ways of using the loans also included reducing or eliminating debt (24%), spending on large expenses (16%), and paying for health care (13%). Household income was related to debt reduction ($p$ < .05), as employees with household income between $50,000 and $74,999 had the highest proportion (45%). Employees who used loan funds to pay for health care were older than those did not select this option (M=49.84 vs. 41.00) ($p$ < .05).

Next, employees were given four response options to indicate the primary way they used their loan(s): "*To pay for usual expenses or catch up on bills*", "*To pay off or reduce debt*", "*To pay for a large expense*", or "*Something else*". As seen in Figure 2 below, half of survey respondents said they primarily used their loan(s) to pay for usual expenses or catch up on bills, and the share among repeat borrowers were even higher (54%). Nearly a quarter (23%) of one-time borrowers mainly used the money to reduce debt, while the share among the repeat borrowers was only 13%. Employees who primarily spent the loan money on smoothing consumption has lower average hourly wage than those who used the money to reduce debt ($19.60 vs. $21.58).

**Figure 2: Main way borrowers used the loan(s)**

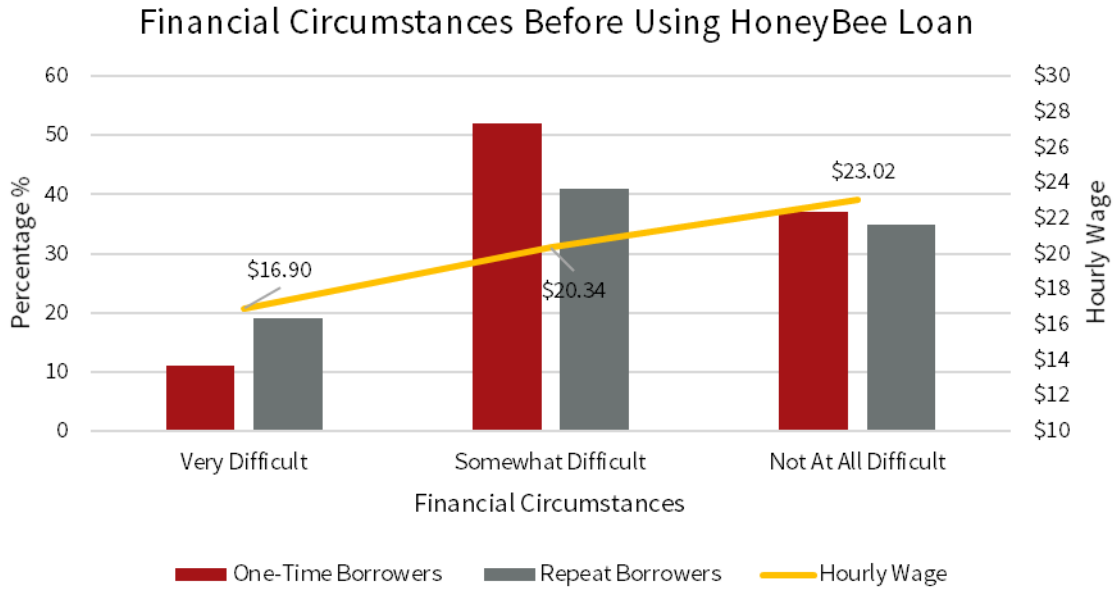
## *Financial Circumstances*



Employees who took the survey were asked about their financial circumstances before they took a HoneyBee loan and how their financial situation had changed after the loan. Among respondents, 14% said that in a typical month it was very difficult to pay their bills and cover their expenses, while nearly half (47%) said it was somewhat difficult.

Employees who said it was very difficult to cover usual expenses had the lowest average hourly wage (Figure 3). Over 62% of employees said that it became easier to cover usual expenses after they received a HoneyBee loan; among these respondents, the average hourly wage was slightly lower than that of all the survey respondents ($19.87 vs. $20.40).

**Figure 3: Financial circumstances before using HoneyBee loan**




## *Borrowing Behaviors*

Through the phone survey, HoneyBee staff also asked employees about their borrowing behaviors, including whether they had used various other sources for loans in the 12 months before they took a HoneyBee loan. As seen in Table 3, over a third (35%) had taken a high-cost payday, auto title, or pawnshop loan, and a fifth had borrowed money from family or friends. However, almost half (45%) said they had not borrowed money from any of the sources listed in Table 3. Similarly, when asked what they would have done had HoneyBee loans not been available, the two most frequent responses were borrowing from family or friends (27%) and a payday or auto title loan (25%).

**Table 3: Borrowing behavior of one-time and repeat borrowers**

| | Total % | One-time Borrowers % | Repeat Borrowers % |
|---|---|---|---|
| **Borrowing Behavior Prior to HB Loans** | | | |
| Payday Loan | 25 | 20 | 31 |
| Car Title Loan | 7 | 8 | 6 |
| Pawn Shop Loan | 3 | 2 | 6 |
| Loan From Family/Friend | 20 | 22 | 19 |
| Retirement Plan Loan or Withdrawal | 7 | 3 | 11 |
| None of These | 45 | 47 | 41 |
| **Possible Actions Had No HB Loans Been Provided** | | | |
| Use Savings | 9 | 12 | 6 |
| Loan or Withdrawal From Retirement | 10 | 9 | 11 |
| Increase Income | 10 | 12 | 7 |
| Reduce Expenses | 18 | 15 | 22 |
| More Expenses On Credit Card | 11 | 9 | 13 |
| Use Payday or Car Title Loan | 25 | 22 | 30 |
| Borrow From Friend/Family | 27 | 23 | 31 |

Employees who had used a payday loan(s) in the 12 months prior to receiving a HoneyBee loan were more likely to say they would again turn to a payday loan or car title loan had HoneyBee loans not been available ($p < .001$). There were no statistically significant differences, however, between one-time and repeat borrowers concerning past or prospective borrowing behaviors.

Repeat borrowers were also asked, "In your own words, why have you taken more than one HoneyBee loan?" Based on employees' responses, HoneyBee staff administering the phone survey categorized responses; employees could cite more than one reason for taking a repeat loans. As seen in Table 4, the most frequently cited reason was needing to pay for basic expenses, followed by convenience, lower costs, and having extra money if needed.

**Table 4: Borrowing motivation of repeat borrowers (N=80)**

| Reasons of Borrowing Multiple Loans | % |
|---|---|
| I enjoy the convenience | 41 |
| I am struggling to pay down or pay off high interest debt | 15 |
| I need it to pay my basic expenses | 51 |
| It's better than high-cost credit | 36 |
| I like having some extra money available if I need it | 35 |
| I am struggling to control my spending | 8 |
| I am struggling to save money | 13 |
| It allows me to make extra purchases | 11 |

## Discussion

A range of financial challenges facing low- and moderate-income (LMI) households underly the need for short-term and small-dollar credit. Workers who report week-to-week income volatility are 20% more likely to experience financial hardship and have trouble paying bills[1]. Financial shocks such as expensive car repairs are common; over half of U.S. households had experienced a shock in the prior year[2]. A lack of emergency savings makes many households ill prepared to respond to income volatility and expense shocks. Only half of all U.S. households and less than a quarter of low-income households have enough money saved to cover three months of usual expenses[3]. Even modest liquidity demands are problematic; over a third of US households would not use cash or its equivalent to pay for an unexpected $400 expense[4]. Difficulty covering usual expenses is a key reason why households – especially LMI households - lack the emergency savings they need to cope with financial uncertainty[5].

The challenges confronting U.S. households described above help explain why consumer demand for small dollar loans is high; 12 million Americans use payday loans each year, while 2.5 million use auto title loans[6]. Workers who reported high volatility are more likely to turn to high-cost alternative financial services such as payday loans than those with steady earnings[7]. Yet payday loans carry triple-digit interest rates and because these loans have to be repaid in full in a short amount of time, many consumers roll one loan into the next, catching them in a vicious debt cycle that is hard to escape[8].

Bank loans and credit cards are not an option for many LMI households with subprime credit scores or who lack a credit score; 43% of LMI households were turned down for credit in the past year[9]. Many credit unions offer Payday Alternative Loans (PALs), which have lower interest rates, can be repaid over terms of up to one year, and typically do not require that the borrower have good credit. However, the market reach of credit unions is limited and they have membership rules that limit access.

Employer-sponsored small-dollar loans such as those offered by HoneyBee offer an important alternative to high-cost credit for consumers who cannot access PALs and whose credit scores are too low to qualify for bank loans or credit cards. In this study, we examined HoneyBee, which offers employer-sponsored loans of up to $1,000 that are repaid over a term of up to four months at 0% interest and no fees, and access to financial coaching. Employers pay a subscription fee in lieu of interest and fees.

[1]EPIC Issues - Income Volatility - Current Issue - Income Volatility. (2017). Retrieved September 30, 2020, from http://www.aspenepic.org/epic-issues/income-volatility/
[2]Are American families becoming more financially resilient? Changing household balance sheets and the effects of financial shocks. (2017). Retrieved 09/30/2020, from https://www.pewtrusts.org/~/media/assets/2017/04/financialshocks_brief.pdf
[3]FINRA Investor Education Foundation (2019). Financial capability in the United States 2018. https://www.usfinancialcapability.org/downloads/NFCS_2018_Report_Natl_Findings.pdf
[4]Report on the economic well-being of U.S. households in 2019, featuring supplemental data from April 2020. (2020). Retrieved September 30, 2020, from https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf
[5]Despard, M. R., Friedline, T., & Martin-West, S. (2020.). Why Do Households Lack Emergency Savings? The Role of Financial Capability. Journal of Family and Economic Issues, 41, 542-557.
[6] Pew Charitable Trusts. (2017). Are American families becoming more financially resilient? Changing household balance sheets and the effects of financial shocks (Issue Brief). http://www.pewtrusts.org/~/media/assets/2017/04/financialshocks_brief.pdf
[7]See note 1
[8]Data Point: Payday lending (2014). Retrieved September 30, 2020, from https://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf
[9]See note 4

A few key themes emerge from our findings:

- HoneyBee appears to be reaching its target population of LMI employees who need an alternative to payday loans and other high cost credit.
- Loans are used primarily for to smooth consumption, alleviating short-term financial distress among LMI employees.
- Borrowers note convenience and cost as key benefits of HoneyBee loans.

### *Reach of HoneyBee*

Most of the employees who used HoneyBee were people of color and had low or moderate incomes – households that have fewer liquid financial assets and are more likely to be unbanked or underbanked and to use costly alternative financial services such as payday loans[10]. Also, HoneyBee is reaching employees in industries (e.g., food service, other services) with hourly workers likely to experience income volatility[11].

Most HoneyBee borrowers also had no partner or spouse and had children in the home – a household composition at much greater risk for persistent poverty and material hardship. Ultimately, the clearest signal that HoneyBee is reaching its intended audience was that most employees said it was somewhat or very difficult to cover their expenses and pay bills before they took a HoneyBee loan. This was more common among repeat borrowers than one-time borrowers and more common among those with a lower hourly wage.

### *Consumption Smoothing and Easing Financial Distress*

Most employees used their loans to cover essential expenses and catch up on bills and 62% said their loans made it less difficult to meet their basic needs. Thus, HoneyBee appears to play an important role in smoothing employees' consumption and easing financial distress. Though we did not assess specifically how HoneyBee loans appear to be smoothing consumption, the most plausible explanation is that the loans acted as timely cash infusions. For example, the loan may have offered a cash infusion that borrowers used to buy clothes for their children at the start of the school year, fix a car, catch up on a utility bill before experiencing a cut-off, or catch up on rent to avoid an eviction.

### *Avoiding Costly Alternatives*

Over a third of borrowers had previously used high-cost credit such as payday loans, a quarter said they would turn to this option had it not been for the availability of HoneyBee, and over a third cited cost as a key reason for taking more than one loan. These findings suggest that HoneyBee – like other employer-sponsored small-dollar loans – offers a safer and less expensive alternative to high-cost credit as only 11% of borrowers said that had HoneyBee not been available, they would use a credit card. Also, reducing debt was a common use of loans. It is possible that borrowers used their loans to pay off high-cost payday loans and/or reduce high interest credit card balances.

## Implications

Certain aspects of HoneyBee loans relate to important issues regarding short-term, small-dollar credit in the U.S. By offering four-month terms, HoneyBee may hit a "sweet spot" between payday and auto title loans, which are typically repaid in lump sum within 45 days, and other employer-sponsored small-dollar loans with 12 month terms. In doing so, monthly payments are limited to 5% of pay – an important regulatory

[10]Chan, P., Fergus, D. and Singh, L., 2018. Forced To Walk A Dangerous Line: The Causes And Consequences Of Debt In Black Communities. [online]
[11]Roll, S., Mitchell, D., Holub, K., Bufe, S., & Grinstein-Weiss, M. (2017). Income volatility

issue concerning small-dollar credit. These structural features – a four month term at 5% repayment ability – appear successful based on the low delinquency rate of 6% for HoneyBee loans.

In contrast, from its 2017 Final Payday Lending Rule – which regulates short-term small-dollar credit, the Consumer Financial Protection Bureau rescinded ability-to-repay (ATR) and other underwriting standards in July 2020. This change has an effective compliance date of November 19, 2020.

In May 2020, the four federal agencies that regulate banks and credit unions – the Federal Reserve System, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and National Credit Union Administration (NCUA) issued a set of responsible lending principles for small-dollar loans[12]. These principles include "repayment terms, pricing, and safeguards that minimize adverse customer outcomes" and repayment structures that "enhance a borrower's financial capabilities". The statement also refers to programs that may eschew traditional underwriting standards (e.g., credit report checks) and underwriting that manages "new processes, technologies, and automation to lower the cost of providing responsible small-dollar loans".

The interagency small-dollar lending principles reflect the approach HoneyBee and its banking partner are taking to extend credit to borrowers that are currently unserved by most banks, such as efficiently determining ability to repay based on wage data from the employer. Though the interagency statement does not specify ATR standards, HoneyBee and other employer-sponsored lenders could boost awareness concerning their program structures, underwriting standards, and loan performance to help shift demand away from high-cost credit.

To better understand the impact HoneyBee is having on the lives of LMI employees and their families, future research could examine whether borrowers are using their loans to exit payday and other high-cost loans and/or avoiding hardship events such as utility cut-offs and evictions. HoneyBee could also assess how loan use affects employees' credit health. Even though HoneyBee loan activity is not reported to credit agencies. For example, among borrowers with open revolving credit, HoneyBee may help them lower credit utilization rates. Borrowers might also use HoneyBee loans to retire delinquent or collections accounts.

More ambitiously, to promote longer-term financial stability, HoneyBee could look for opportunities to help borrowers transition from using credit to building emergency savings to smooth consumption. For example, Rhino Foods' Income Advance product offers loans to employees that are repaid over a 12 month term via payroll deduction. After the final loan payment, payroll deductions automatically convert to savings deposits, though employees can opt-out of this arrangement[13].

## Suggested Citation

Zeng, Y., Kristensen, K. & Despard, M. (2020). From Financial Struggle to Short-Term Financial Relief - An Exploratory Study on Small-Dollar Lending for Low-and Moderate-Income Employees (SPI Research Report No. 20-02). Social Policy Institute at Washington University in St. Louis.

[12]See https://www.occ.gov/news-issuances/news-releases/2020/nr-ia-2020-65a.pdf

[13]FINRA Investor Education Foundation & Filene Research Institute. (2017). Employer-sponsored small-dollar loan: Feasibility study report. https://filene.org/do-something/programs/employer-sponsored-small-dollar-loans