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LETTERS

Viable Alternative for Workers Needing Payday Loans

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The article "Workplace Loans Gain in Popularity" (Money & Investing, Dec. 16) draws attention to a type of short-term loan offered through employers. While some criticize this model, I see employer-based lending as a game changer for the consumer-lending industry. Every year, 12 million Americans rely on payday loans to help make ends meet, according to Pew Research Center. We can acknowledge that payday loans—short-term cash infusions that can lead borrowers into a cycle of debt—need to come to an end, but there needs to be a viable alternative for consumers who require access to emergency credit. To end payday lending for good, we need to present consumers with not only a responsible credit alternative, but a realistic one.

The Federal Deposit Insurance Corporation has recognized employer-based loans as an emerging safe and innovative small-dollar loan business model (A Template for Success: the FDIC's Small-Dollar Loan Pilot Program, 2010). The FDIC rightly notes that lenders can use employment information for underwriting and integrate with company payroll systems, allowing providers to offer the loans at a significantly more affordable rate compared with payday loans and even mainstream credit products such as direct-deposit advance and bank overdraft.

Having focused for many years on the growing wage and wealth gap, particularly for minority and working-class Americans, I am intimately familiar with the types of financial troubles employees can encounter and how those troubles negatively impact them at work and at home. I joined the board of Think Finance, one of the companies pioneering these solutions, because I firmly believe Americans need better options for short-term financial difficulties.

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