



Date: October 1, 2018

To: Patrick H. West, City Manager *West*

From: John Gross, Director of Financial Management *Gross*

For: Mayor and Members of the City Council

Subject: **Update on Request for an Emergency Loan Program for City Employees**

At its August 14, 2018 meeting, the City Council requested the City Manager to direct the Financial Management Department to issue a Request for Proposals (RFP) to identify qualified lending institutions that administer short-term, emergency lending services to City employees. This memo discusses the timing of a RFP issuance for employee emergency loan programs. The key parameters of such a RFP would be to make it easy for employees to borrow when they have an emergency, by allowing payroll deductions that effectively use the City as a collection agency to manage loan costs. The memo also discusses the loan programs already available to City employees.

Because the City is in the middle of major financial and human resource system changes, all payroll modifications are currently frozen (including adding another emergency loan program), and all available staff are working on the new system implementation. As a result, the requested RFP is expected to be issued as soon as practical, after implementation and stabilization of the new payroll system.

City employees already have access to very good personal and emergency-type loan programs. These programs appear to offer rates substantially below what the City would likely get as a result of a RFP proposal by public loan firms, even ones that rely on the City as a collection agency to reduce costs. For example, one of the most common public loan companies working through government payroll systems offers no question loans at a current rate of about 24 percent. Long Beach already offers its employees similar loans at rates ranging from 0 percent to 17 percent. It seems likely the RFP process will show that City employees already have superior options, though only the requested RFP process may confirm this (or not). To the best of the staff's knowledge, there has never been an employee request for some other loan program, or a complaint about the loan programs already offered.

City employees have access to personal and emergency-type loans through the Long Beach City Employees Federal Credit Union (LBCEFCU), the Long Beach Firemen's Credit Union (LBFCU), and the City's deferred compensation administrator (ICMA-RC). All offer the option to pay the loan via bi-weekly payroll deductions (whereby the City acts as a collection agent).

Both employee credit unions offer personal and share-secured loans with approvals typically within 24 hours. The interest rates vary from 4.5 percent to 13 percent. Employees have up to 60 months to repay the loan.

LBCEFCU offers an emergency loan program available to City employees. The "Special Emergency Loan" of up to \$2,000 currently has an interest rate of about 17 percent and employees have up to 24 months to repay the loan, with no pre-payment penalty. The employee's credit score will not impact their ability to get this loan. However, loan applications will be denied if the employee has a pending bankruptcy and/or a previous LBCEFCU loan default.

For employees who have a 457 deferred compensation plan through the City's deferred compensation administrator (ICMA-RC), there are two additional options. One is to borrow up to \$50,000 against their funds (via a loan) at interest rates generally well below 10 percent (most recent is 5.5 percent). This option does not require a credit check, and employees have up to 60 months to repay the loan. The second option is to do an "Unforeseeable Emergency Withdrawal," as defined by the IRS Code, from their account. Approximately 56 percent of City employees contribute to the deferred compensation plan and are eligible for these options. There are no additional costs associated with the withdrawal, but employees lose their potential retirement savings if they do not restore the withdrawn funds.

Because employees have several excellent and low-cost options currently available, we believe that issuing an RFP after the LB COAST implementation and stabilization will not cause any hardship for employees.

If you have any questions regarding this matter, please call me at (562) 570-6427.

JG:LF
K:\EXEC\TFF & MEMOS\2018 TFF & MEMOS\09-21-18 TFF - RESPONSE ON EMPLOYEE LOANS RFP.DOCX

CC: CHARLES PARKIN, CITY ATTORNEY
LAURA L. DOUD, CITY AUDITOR
DOUGLAS HAUBERT, CITY PROSECUTOR
TOM MODICA, ASSISTANT CITY MANAGER
KEVIN J. JACKSON, DEPUTY CITY MANAGER
REBECCA G. GARNER, ASSISTANT TO THE CITY MANAGER
MONIQUE DE LA GARZA, CITY CLERK (REF. FILE # 18-0689)