



# **An Update on Earned Wage Access Regulation NCOIL**

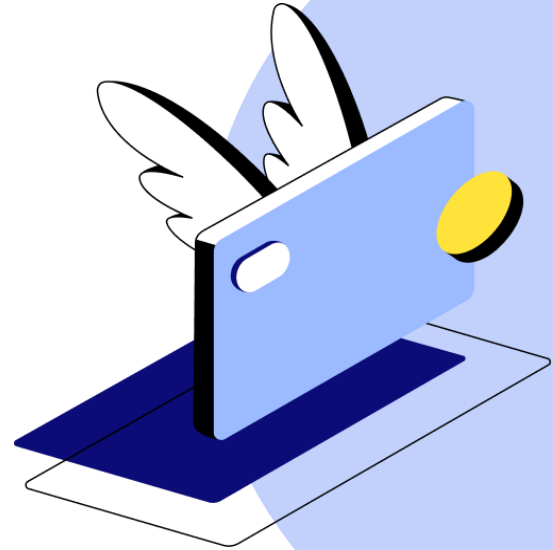
**April 13, 2024**



Proprietary and highly confidential. Not for circulation.

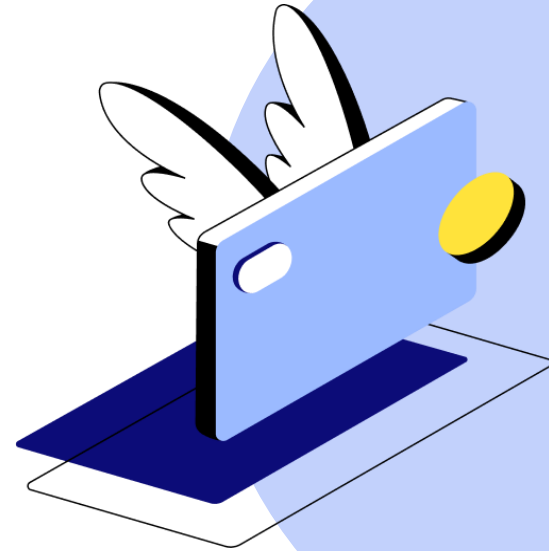
# What is Earned Wage Access (EWA)?

- Once you have earned wages, you have legal right to those funds, but your employer keeps possession of those funds until payday.
- EWA providers allow employees to access that store of value on their own terms.
- Wages are estimated and advanced by providers.
- Funds are paid to workers at a worker's request, and providers are repaid on payday.
- Service contracts are either directly with workers (D2C), or a combination of worker and employer (B2B).



# EWA Benefits

- Allows a faster connection between work and reward, incentivising work and smoothing consumption.
- Access to your own money - similar to transferring from an ATM
- Freemium model: base service is free with small upcharges for premium services.
- Non-recourse: no collections, no credit rating process or reporting
- No interest, no finance charges
- No selling of data



# How do we make money?

- **“Freemium” model: base service is free, ACH transfer or payroll card; fees for premium services for instant transfers (\$3-\$5); some - tip (EarnIn average tip ~\$1.25); some - monthly subscription**

Tip models are *“likely to be beneficial for consumers across the spectrum.”* CFPB Payday Rule

- **How do we not make money? No interest, no late fees, no selling data**
- **We make money when our customers succeed. We do not make money when they fail.**

# Why do we want to be regulated?

- **Bring EWA in line with other financial services to reduce business risk and ambiguity for future regulation**
- **Proactive good regulation to avoid reactive bad regulation**
- **Increase comfort of investors and business partners to grow the business**
- **Ensure consumer protections and robust competition**
- **More certain regulatory structure allows for more robust internal compliance systems**



# Public Policy History

**CFPB Payday Rule - 2017 “Earned Wage Access” and “Direct to Consumer Advance” providers exempted from rule if non-recourse and no mandatory payments.**

## **State Legislative and Regulatory Activity:**

- 2019 - 2020 First state bills - industry fractured and no action
- 2021 - CA DFPI MOUs and Proposed Rulemaking
- 2022 - ALEC passage of a model bill
- 2023 - CSG Model bill adopted based on NV bill (significant changes from ALEC bill)
- 2023 - 2024 - Legislation introduced in several states, 3 states signed into law (NV, MO, WI) - 1 state pending Governor’s signature (KS).
- 2024 California final rule - Due March 2024, and expected any day



# Who is the Center for Responsible Lending and why do they care about EWA?

**EarnIn: Make Every Day Payday**  
Access Your Money in Advance  
Open

275K RATINGS | AGE 4+ Years Old | CHART #76 Finance | DEV Active

4.7 ★★★★★

**Self-Help CU Mobile Banking**  
Finance  
Get

19 RATINGS | AGE 4+ Years Old | CATEGORY Finance | DEV Self-Hel

3.3 ★★★☆☆

**Update is horrible** Aug 17  
★★★★☆ Tygress413

I've used mobile banking with SHCU for years and I despise this update! I can't do anything with out having to answer security questions. I do not plan on using this app anymore than absolutely necessary.

**Annoying** Aug 11  
★★★★☆ MWC2023

Can't even log in.

**Changing banks** 1y ago  
★★★★☆ TiffanyDPate

For the past two months I've had nothing but issues with this app and bank. Payments are continuously being denied when I have plenty of money in my account. No one is available to speak to over the weekend. It's ridiculous and an inconvenience. Now here it is Monday and I'm in the medical field and it's harc [more](#)

# An honest reading of the CRL Report:

- “Customers are 50% more likely to need stitches after visiting a hospital”
- Customers find our product when they experience a financial shock, and we are the best option for them
- Overdrafts are result of financial shock, not EWA usage
- 37,000 transactions by 2,000 Customers over 18 months = 1 transaction per month on average
- There is incredibly strong demand for this product - policymakers should regulate it, not ban it
- Repeated use is similar to other products (Have you ever used more than one credit card at once? Or used your card more than once in a month?)
- Very poor data - biased and non-representative sample
- No evidence customers are harmed by EWA
- No counterfactual - what happens if they don't have EWA? They would be worse off, as we'll see in CT
- No explanation of how regulating as “credit” protects consumers
- No alternatives for customers who choose EWA as their best option

# Cost Comparisons: EarnIn vs. Self Help Credit Union

<b>Banking Service</b>	<b>EarnIn</b>	<b>Self Help Credit Union</b>
<b>ACH Transfer</b>	\$0	\$3
<b>Debit Transfer</b>	\$3.99	\$4.95
<b>Late Fee</b>	\$0	\$5 each plus 16% APR compounded monthly
<b>ATM Pin Change</b>	\$0	\$8
<b>ATM Pin Expedited</b>	\$0	\$45
<b>Membership Fee</b>	\$0	\$5 per month
<b>Account Opening</b>	\$0	\$5





# EWA vs Credit Cards

## What does the average consumer pay?

- Average revenue per credit card user year: \$1,000 (CFPB data)
- Average revenue user per EarnIn per year: \$60 (Internal data)

## What happens when something goes wrong?

- \$100 from EarnIn - one year later - \$100 owed - no late fees or interest, no impact on credit
- \$100 from SHCU credit card a year later - \$182 - \$60 in late fees and \$22 in interest, credit ruined for years to come (SHCU website data)



# APR Comparisons

<b>Liquidity Option for \$100</b>	<b>APR (TILA)</b>	<b>APR (CRL claim)</b>
EarnIn \$100 with \$3.99 fee for 7 days	0%	208%
SHCU Late Fee \$100 with \$5 fee for 6 days	0%	304%
ATM Fee \$100 with \$3.50 fee for 2 days	0%	638%
Overdraft \$100 with \$35 fee for 7 days	0%	1825%



# What Happened in Connecticut?

**“The bill incorporates income sharing agreements within the definition of small loans.”** Matt Smith, Department of Banking, February 21, 2023 from his public testimony on SB 1033

**“I’m not aware of any division employees communicating with legislators at all, nor am I aware of any employees communicating using different email domains or personal email systems.”** Carmine T. Costa, Division Director Consumer Credit, Department of Banking January 11, 2024, when asked about communications regarding EWA



# SB 1033 was a disaster for EarnIn users

- **Residents were overwhelmingly worse off both financially and emotionally**
- **10% more overdrafts than a similar group of customers next door in Massachusetts. Thousands of dollars of fees that should have been avoided.**
- **74% of respondents reported additional stress about their finances having lost EarnIn.**
- **60% feel worse off financially without EarnIn**
- **67% report cutting back on doing things they enjoy.**
- **60% felt helpless, 51% felt sadness, 47% were in “panic mode”, 46% were outraged**
- **34% percent said they need to resort to overdraft fees or late fees during emergencies because they did not have any other options.**
- **Our customers are real people. They are not just numbers on a piece of paper or clever slogans. Teachers, nurses, and warehouse workers trying to do the best with their lives.**

