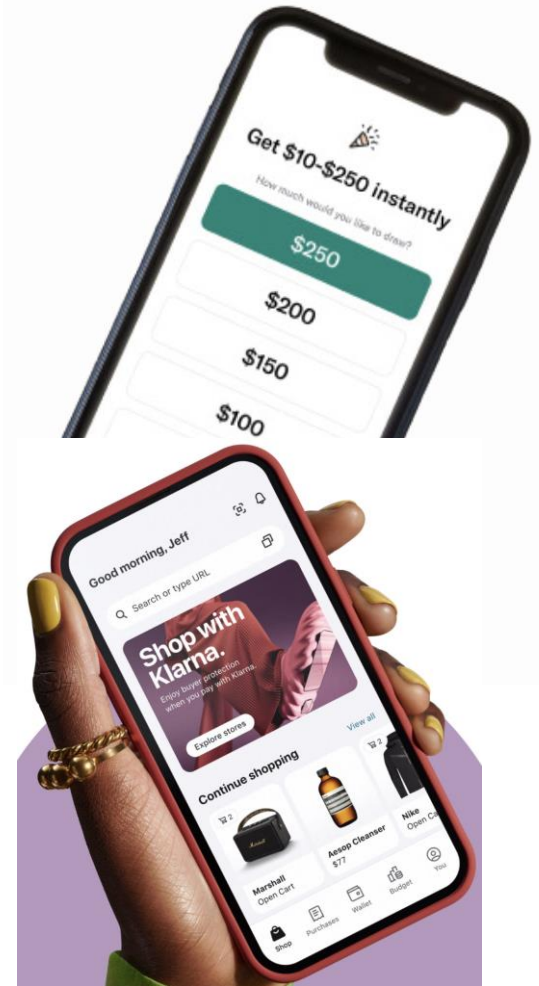


Understanding “Earned Wage Access” & “Buy Now, Pay Later” Apps

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What is Earned Wage Access & Buy Now, Pay Later?

“Earned Wage Access”

- Earned Wage Access (EWA) and cash advance products are **small, short-term loans**, ranging anywhere from **\$20 to \$750 per pay period**, that are typically repaid on the user’s next payday either (1) directly from a bank account or (2) through payroll deduction
- Also known as *Early Wage Access, Earned Wage Advance, Early Wage Advance*, and sometimes called “*workplace payday loans*”

“Buy Now, Pay Later”

- Buy Now, Pay Later (BNPL), or pay-in-four products, allow users to purchase goods in **four equal**, often interest-free **installments** over a set time period, typically 6 weeks
- Purchases typically require a down payment of 25% of the total purchase
- Minimum payment is typically \$30 and can go up to \$1,500

How do people access these products?

Earned Wage Access



- There are two forms/methods of EWA: Employer-Based & Direct-to-Consumer
- Consumers access these products using an app on their phone by linking their bank accounts **or** by enrolling through their employer
- Process: Link your bank account, request a cash advance, select your transfer method, and the advance will be automatically deducted from your bank account or your next paycheck

Buy Now, Pay Later



- Directly to consumer before a purchase is made through a merchant partnership
- Directly at checkout on an e-commerce website (like Amazon or Apple) or through a third-party smartphone or web application
- Process: Download the BNPL application, create an account, shop for items on the store of your choice using the BNPL app, make a purchase, and repay over 6 weeks

What do we know about EWA?



\$50,000 per year or less
Income of typical customer



\$40-\$100
80% of the advance amounts fall in this range



367% APR
Average cost of an advance



56%
Average increase in overdrafts after use of EWA advance



75%
Took out at least one advance on the same day or day after making a repayment

Sources

"Financial Technology: Products Have Benefits and Risks to Underserved Consumers, and Regulatory Clarity Is Needed," United States Government Accountability Office (March 2023).

"2021 Earned Wage Access Data Findings," California Department of Financial Protection and Innovation.

"Not Free: The Large Hidden Costs of Small-Dollar Loans Made Through Cash Advance Apps," Center For Responsible Lender (April 2024).

What do we know about BNPL?



\$20-50,000
annually

Income range of typical customer



\$135

Average loan amount over 6 weeks



16%

Charged a late or rescheduling fee in the last 6 months



37%

Incurred an overdraft fee in the last 6 months



10%

Of U.S. consumers have used BNPL at least once

Sources:

["Consumer Use of Buy Now, Pay Later: Insights from the CFPB Making Ends Meet Survey,"](#) Consumer Financial Protection Bureau (March 2023).

["Issue Brief: Consumer Understanding of Buy Now, Pay Later in California,"](#) Consumer Federation of America and Center for Responsible Lending (October 2023).

How is EWA regulated?

Two Competing Regulatory Approaches

- Some states consider EWA cash advance products loans, therefore regulating them under state lending laws
 - Legislation: Connecticut
 - State Agency: California, Maryland
- Other states do *not* consider these products loan and have exempted them from state lending laws.
 - State Legislation: Nevada, Missouri, Wisconsin, Kansas, South Carolina
 - Legal Opinions*: Arizona, Montana
- Federal efforts to regulate EWA include U.S. Department of Treasury proposals, federal legislation, and CFPB action..

In 2024, the Consumer Financial Protection Bureau (CFPB) issued an “advisory opinion” that clearly defines EWA cash advances as loans under federal credit laws.

- Many loan costs are finance charges, such as “tips” and expedite delivery fees
- Borrowers must receive key disclosures to understand and compare loan options
- **Current status:** Pending

How is BNPL regulated?

Previously Considered Exempt from Federal Regulations

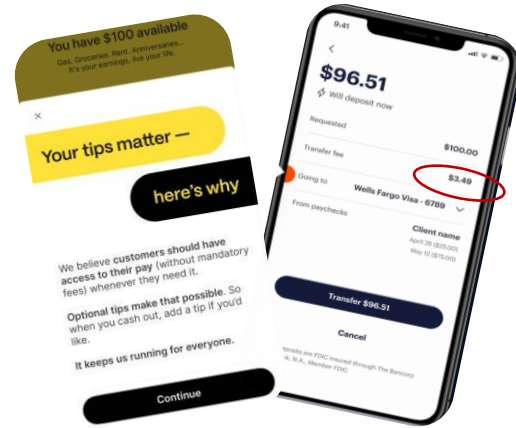
- The **Truth in Lending Act** (TILA) requires credit card companies and other lenders to disclose certain important information to consumers (interest rates, fees) and provides borrowers with various protections (e.g., ability to dispute)
- TILA applies to loans with more than four payments and loans that include a finance charge, which effectively **excludes many BNPL loans**

In 2024, however, the CFPB issued an “interpretive rule” that (1) clarifies that BNPL providers are credit card providers and (2) addresses certain BNPL provider obligations.

- Three main obligations:
 - Investigate disputes: Providers must investigate disputes & pause payments during the investigation
 - Refund returned products or cancelled services: Providers must credit the refunds to users’ accounts when they return products or cancel services for a refund
 - Provide billing statements: Providers must issues user’s periodic billing statements
- **Current Status:** Being challenged in court.

What are the concerns with EWA?

- **Numerous fees with no cap**
 - Expedite/fast-funding fees: \$0.99 - \$5
 - Subscription/membership fees: \$1 - \$14.99
 - Tips: eg. default of \$11 on a \$100 advance (Earnin)
- **Manipulative tactics to encourage “tipping”**
 - “Your optional tips keep us running” – Earnin
 - “We also provide a meal for every % you tip.” – Dave
- **No accountability for harm caused**
 - Direct-to-Consumer: No guarantee of immediate compensation when product causes overdrafts because funds are withdrawn before paycheck hits
 - Employer-Based: When controlling full paycheck disbursement, no accountability for late deposit of pay or incorrect amount
- **Lack of data privacy protections**
 - No accountability to ensure user data (financial and location information) is protected from sale to third-parties
- **Largely unregulated at the federal and state level**
 - State: Nevada, Missouri, Wisconsin, Kansas, South Carolina each have EWA laws
 - Federal: CFPB advisory opinion pending.



What are the concerns with BNPL?

- **Unmanageable debt loads** due to lack of underwriting
 - Most don't meaningfully assess a borrower's ability to repay
 - Verify identity, provide payment form, "soft" credit check*
- **Negative credit report and score impacts**
 - Some providers report to the credit bureaus, but it varies
 - No reporting for positive payments, yes to reporting for adverse actions
- **No limits on the types of fees and other charges**
 - Service charge, late fee, reschedule fee, overdraft and NSF fees
 - Amount varies, but some reach as high as \$25
- **Unclear dispute and chargeback processes**
 - Many providers don't offer dispute protections for faulty or scam purchases
- **Largely unregulated at the federal and state level***
 - No accountability for harm caused
 - People think they're protected from harm, but they aren't

