The Bell Policy Center

IN THE KNOW: EARNED WAGE ACCESS LOANS ARE A NEW TWIST ON AN OLD IDEA

State policymakers have a long history of prioritizing Coloradans' – including those who use small-dollar, high-cost loans – financial health. Colorado's progress, however, is jeopardized by the emergence of new, unregulated high-cost products like earned wage access (EWA) loans, sometimes known as earned wage advance.

What are Earned Wage Access products?

EWA products are short-term, small-dollar loans often repaid the following pay period. As a product primarily accessed through online apps, EWA loans are part of a growing fintech (financial technology) movement. Notably, use of EWA products has grown significantly over the past several years, with total loan amounts tripling between 2018 and 2020.

EWA loans are typically accessed via one of two models:

1. Employer-sponsored model: Either the employer, or a company that contracts with the employer, provides the loan. Repayment is drawn directly from the worker's paycheck.
2. Direct to consumer model: While this model operates outside of the employer relationship, many companies require the borrower to provide proof of employment or income. Individuals provide the EWA company with their bank account information, from which the loan is directly repaid.

A variety of fees and charges often accompany these loans. This can include transaction, subscription, and expedite fees, as well as tips. Concerningly, the federal Government Accountability Office has pointed to the lack of transparency surrounding these costs – particularly as it relates to tipping, which some consumers do not recognize is optional.

Striking similarities to payday loans

EWA loans and payday loans share remarkable similarities. Both products provide short-term, small-dollar loans, where individuals borrow against their future paycheck. The similarities, however, also extend to the problematic outcomes which can arise from their use.

As with payday loans, EWA products have been shown to:

- **Increase financial insecurity:** Research from the Center for Responsible Lending (CRL) found that after people started using EWA loans, their overdraft fees increased by an average of 56 percent.
- **Have high APRs:** The California Department of Financial Protection and Innovation found the average APR (a term inclusive of the interest rates, fees, and charges

paid on a loan) for EWA products provided by companies that allow tips was 334 percent and 331 percent for non-tip companies.

- **Create a reliance on high-cost products:** CRL also found that over one-quarter of those who used EWA products in Colorado between January 2021 and June 2024 took out 25 or more of these loans each year. According to CRL's research, 75 percent of EWA consumers take out another EWA loan either the day of, or one day after, repaying a prior loan. The prevalence of repeat borrowing can create significant burdens for consumers, as they are responsible for additional charges with each transaction.

Taken together, these outcomes can create problems for consumers, and as with payday loans, can lead to cycles of debt. Notably, it was these very concerns that led to the passage of Proposition 111 in Colorado, which capped payday loan APRs at 36 percent.

An unregulated industry

Despite the potential harm and their similarity to other high-cost products, EWA transactions are largely unregulated and are not currently being regulated as loans in Colorado. This means that EWA companies do not have to follow the same rules and regulations as those that offer other high-cost lending products. EWA companies, for example, do not have to register with the state, report how many loans were taken out, comply with APR and renewal limits, or provide key consumer disclosures.

Despite Colorado's lack of action, there is precedent for regulating EWA loans. For example:

- ***California:*** In 2024, the state's Department of Financial Protection and Innovation released rules requiring certain EWA providers to register with the state and periodically provide data on the number of Californians who use their products and the associated fees.
- ***Connecticut:*** Most EWA products are classified as loans in Connecticut, in turn subjecting them to APR caps and restrictions.
- ***Federal government:*** In July 2024, the Consumer Financial Protection Bureau (CFPB) proposed an interpretative rule that EWA products are loans, subject to the Truth in Lending Act. The upshot of this rule, if it were to become final, is that EWA companies would need to follow disclosure requirements and that certain fees and charges (including tips and expedite fees) would become subject to state APR limits.

EWA loans are new, growing, and largely unregulated in Colorado. This reality raises concerns about our ability to maintain the strong consumer protections Colorado is known for. Importantly, however, state policymakers have options as to how to better regulate these products to support residents' financial well-being.

Key Facts

- CRL found multiple EWA providers operate in Colorado, including Dave, Cleo, Brigit, MoneyLion and EarnIn. CRL's research has also shown, on average, half of all EWA users in Colorado access two or more of these platforms a month.
- Colorado has been, and continues to be, a recognized leader in advancing consumer protection work. Over the past several years, policymakers have capped interest rates on high-dollar loans, created the first statewide Office of Financial Empowerment, and supported the development of safer alternatives to high-cost loans.
- Proposition 111, which capped total interest and fees at 36 percent for payday loans, passed in 2018. This proposition remains one of the most popular ballot measures in the state's history, having passed with 77 percent of the vote, and gaining a plurality of votes in all but two counties.
- Additional data is needed to better understand how the two EWA models (employer-sponsored and direct to consumer) lead to different outcomes for consumers. However, data from CRL on direct-to-consumer EWA loans and from the CFPB on employer-sponsored EWA loans suggest some similarities across models. For example:
    - Direct-to-consumer EWA products have particularly high APRs, often topping 350 percent. However, APRs for employer-sponsored products are also sizable, coming to an average of 109 percent in the CFPB's analysis.
    - Repeat usage is high across both models. Over one-quarter of all individuals who take out employer-sponsored EWA loans do so 25 or more times a year. CRL found that for direct to consumer products, 37 percent of consumers took out four or more loans a month at least one month out of the year.
    - Average loan amounts are fairly consistent across both models - approximately $100 for loans made within the employer-sponsored model and $80 for direct-to consumer EWA loans.