National Consumer Law Center

Data on Earned Wage Advances and Fintech Payday Loan "Tips" Show High Costs for Low-Wage Workers

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Data collected by the California Department of Financial Protection and Innovation (DFPI) on earned wage advances and other fintech payday loans show a cycle of repeat use and high costs typical of traditional payday loans.

DFPI analyzed data covering nearly 6 million transactions by California consumers from seven companies. Three companies had a tip-based model (in which borrowers are pushed to pay "tips" instead of explicit fees or interest); two used subscription fees; and two used fees other than tips and subscription fees. Some operated through employers, while some had no connection to payroll. **The data reveal:**

> Earned wage advances and other fintech payday loans **cost over 330% APR on average.**

HIGH APRS The average annual percentage rate (APR) was **334% for tip companies and 331% for the non-tip companies**, "comparable to the average APRs for licensed payday lenders in California." DFPI did not calculate APRs for subscription companies.

CYCLES OF REBORROWING Consumers took out **36 advances a year on average, and up to 100**, far higher than the 6-10 loans per year for traditional payday loans.

MOST CONSUMERS PAY "TIPS" Companies that push "tips" collected them **73% of the time**, generating over **$17 million** for three companies. DFPI identified "multiple strategies that lenders use to make tips almost as certain as required fees":

- Disabling a service if a borrower does not tip;
- Setting default tips and using other user interface elements to making tipping hard to avoid;
- Making it difficult to set a $0 tip or not advertising that a particular payment is optional; and
- Claiming that tips are used to help other vulnerable consumers or for charitable contributions.

EXPEDITE FEES PILE ON Consumers who want payday advances pay additional fees to get funds quickly. The three "tip" companies collected over $6 million in fees for fast service.

LITTLE CREDIT Most advances were between $40 and $100, for an average of 10 days.

REPAYMENT IS ALMOST CERTAIN Companies boast that they don't sue consumers to collect, but with payroll deduction and bank account debiting, they don't need to. Fintech payday lenders are repaid 97% of the time, a rate far higher than traditional payday lenders.

These fees pile up and are especially problematic for the low-wage workers who use fintech payday loans. A recent report reveals that, at one direct-to-consumer "earned wage" company that collects tips, more than three-quarters of the consumers made less than $25,000.

For more information, see Earned Wage Advances and Other Fintech Payday Loans: Workers Shouldn't Pay to be Paid.

The nonprofit National Consumer Law Center® (NCLC®) works for economic justice for low-income and other disadvantaged people in the U.S. through policy analysis and advocacy, publications, litigation, and training.

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