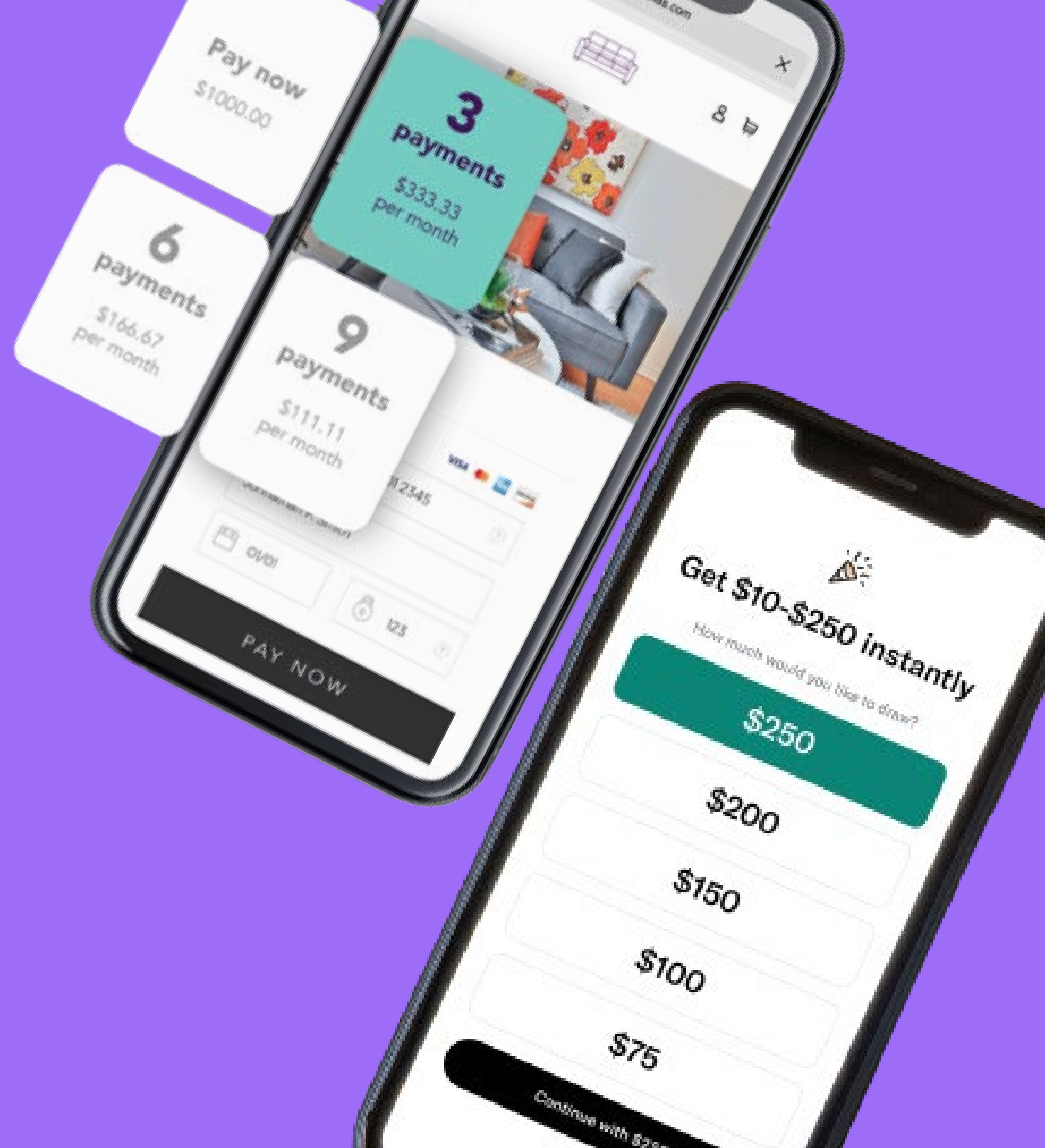


# Buyer Beware: Buy Now Pay Later & Early Wage Access



POLL: Have you used a  
Buy Now Pay Later or  
Early Wage Access app?

**Klarna.**

**brigit**



**afterpay** ↻

**earn in**



Briana Gordley, LMSW  
Senior Policy Analyst, Fair Financial Services Project  
Texas Appleseed

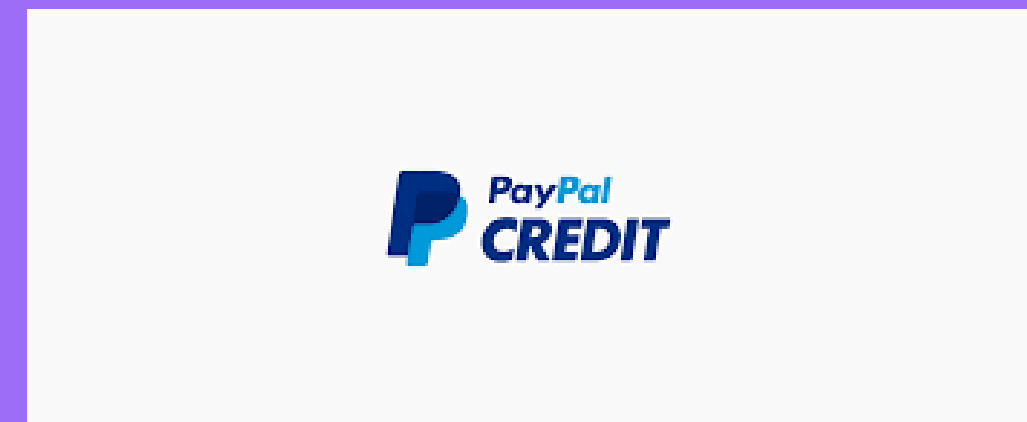
**THANK  
YOU!**



Learn how to use  
Buy Now Pay Later  
(BNPL) &  
Early Wage Access  
(EWA) apps safely.

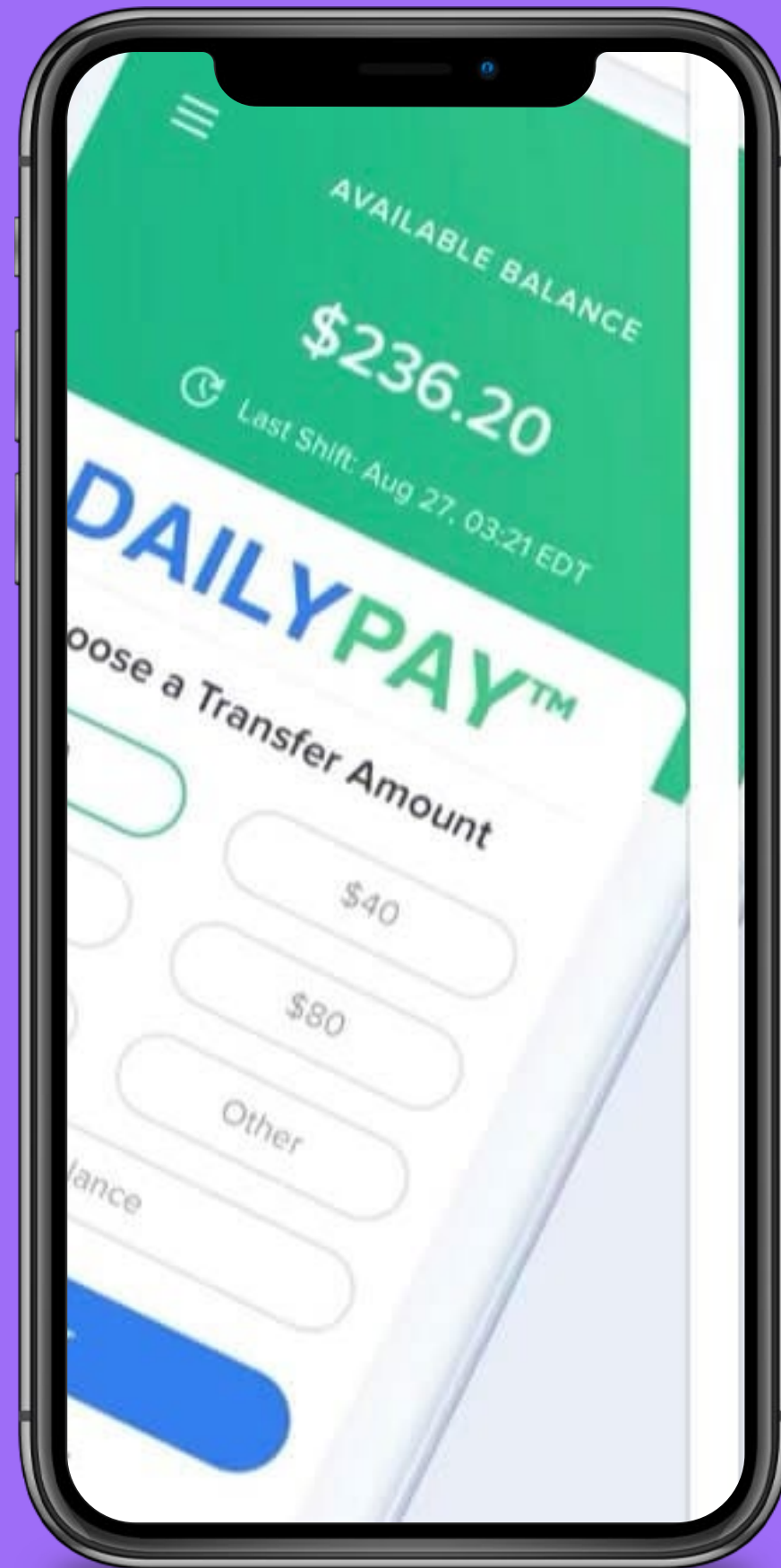
Learn the potential  
pitfalls and costs  
associated with these  
financial products.

# Big Market Players



Early Wage Access (EWA)

Buy Now Pay Later  
(BNPL)



# What is Early Wage Access (EWA)?

*AKA: Early Wage Advance, Earned Wage Access, Early Wage Access*

A service that offers users early pay, often in exchange for a fee, for work they have completed but has not yet been paid via a paycheck.

## Direct to Consumer

EWA company provides cash advances directly to consumers through a phone application and usually requires proof of employment or regular income & access to a checking or savings account with direct deposit.



## Employer-Based

Employer or payroll-partnered EWA providers work with an employer or payroll system to offer access to funds before payday, or the day funds are made available.



# How Much is the Average Loan?

- 2021 report found that the average advance was \$120 across two employer-based and two direct-to-consumer companies.
- In California, the Department of Financial Protection and Innovation (DFPI) found 80% of transactions were between \$40 and \$100.

<https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/2021-Earned-Wage-Access-Data-Findings-Cited-in-ISOR.pdf>

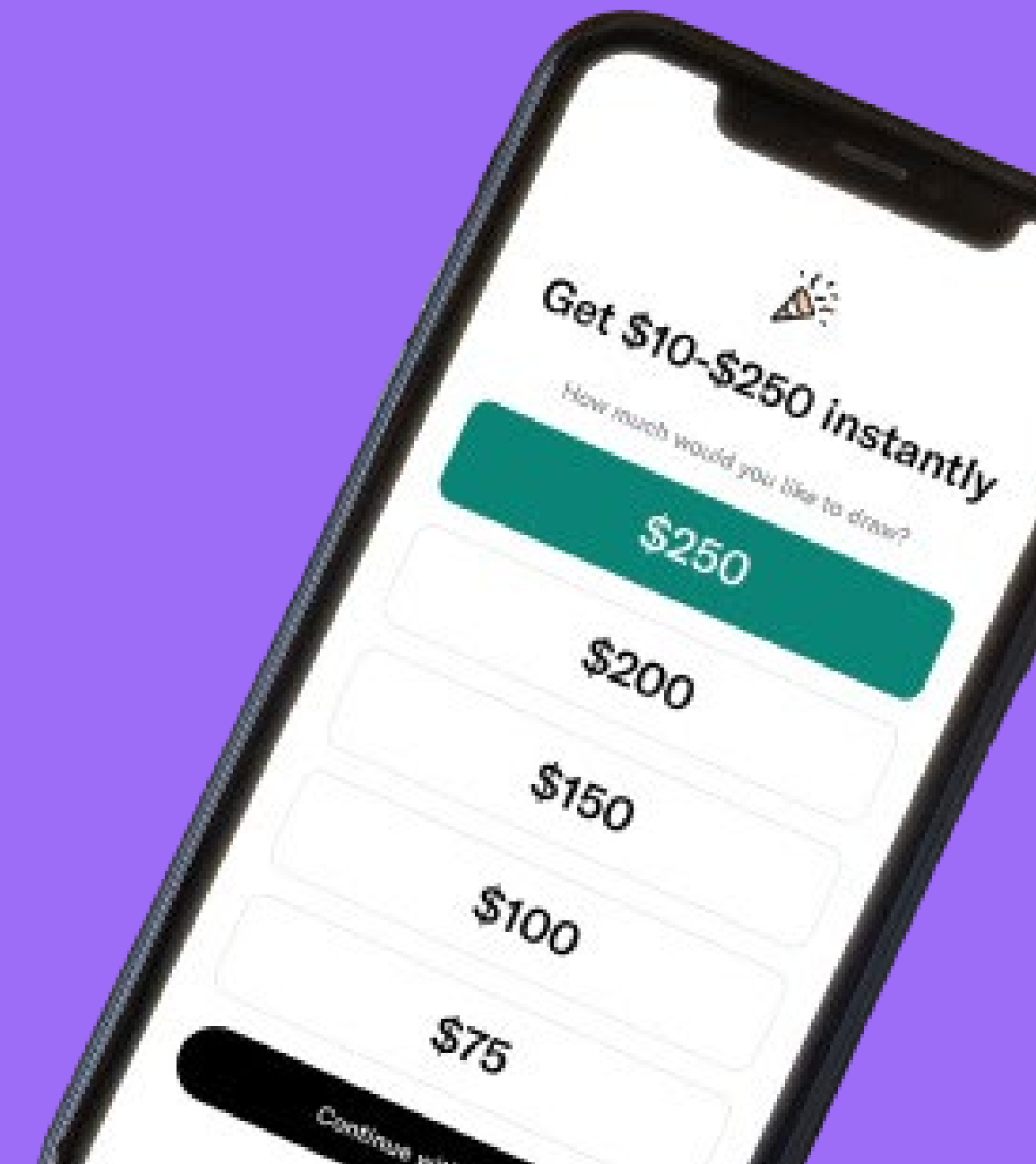
# Advance transactions typically carry one or more of the following fees:

- Transaction fees: Fees charged for each loan transaction.
- Expedite or fast-funding fees: Fees charged to provide instant access to funds that range from \$0.49–\$25.00, depending on the company and the desired speed. The cost of expediting payment for the cash advance company is less than \$.05 per transaction.

# Advance transactions typically carry one or more of the following fees:

- Subscription or membership fees: Monthly fees to access advances range from \$1.00–\$19.99.
- Fees disguised as “tips”: Additional fees the lender prompts the user to pay. Although optional, lenders often set a default amount or percentage at more than \$0. Tips range from \$0–\$14.

# Tips to Navigate Safely and Avoid Fees



Adjust your budget for shorter paycheck next pay period to avoid an endless cycle



Plan Ahead to Avoid “Instant” or “Fast Funding” Fees



Know when funds will be drafted from your account for payment and make sure you have funds



Take the time to adjust the “tip” to \$0



Some apps offer payment extensions - use them if needed



Be mindful of the data-sharing options enabled like location sharing



# Adverse Effects of EWAs

- **Overdrafts** on consumers' checking accounts increased 56% on average after the use of an advance product.
- Consumers are taking out advances repeatedly, and **using multiple lenders is common**. 75% took out at least one advance on the same day or day after making a repayment.
- Consumers taking out small amounts of cash paid a high price. The **average APR** for an advance repaid in 7 to 14 days was 367%, nearly as much as the APR on a typical payday loan (400%).

<https://www.responsiblelending.org/research-publication/not-free-large-hidden-costs-small-dollar-loans-made-through-cash-advance-apps>

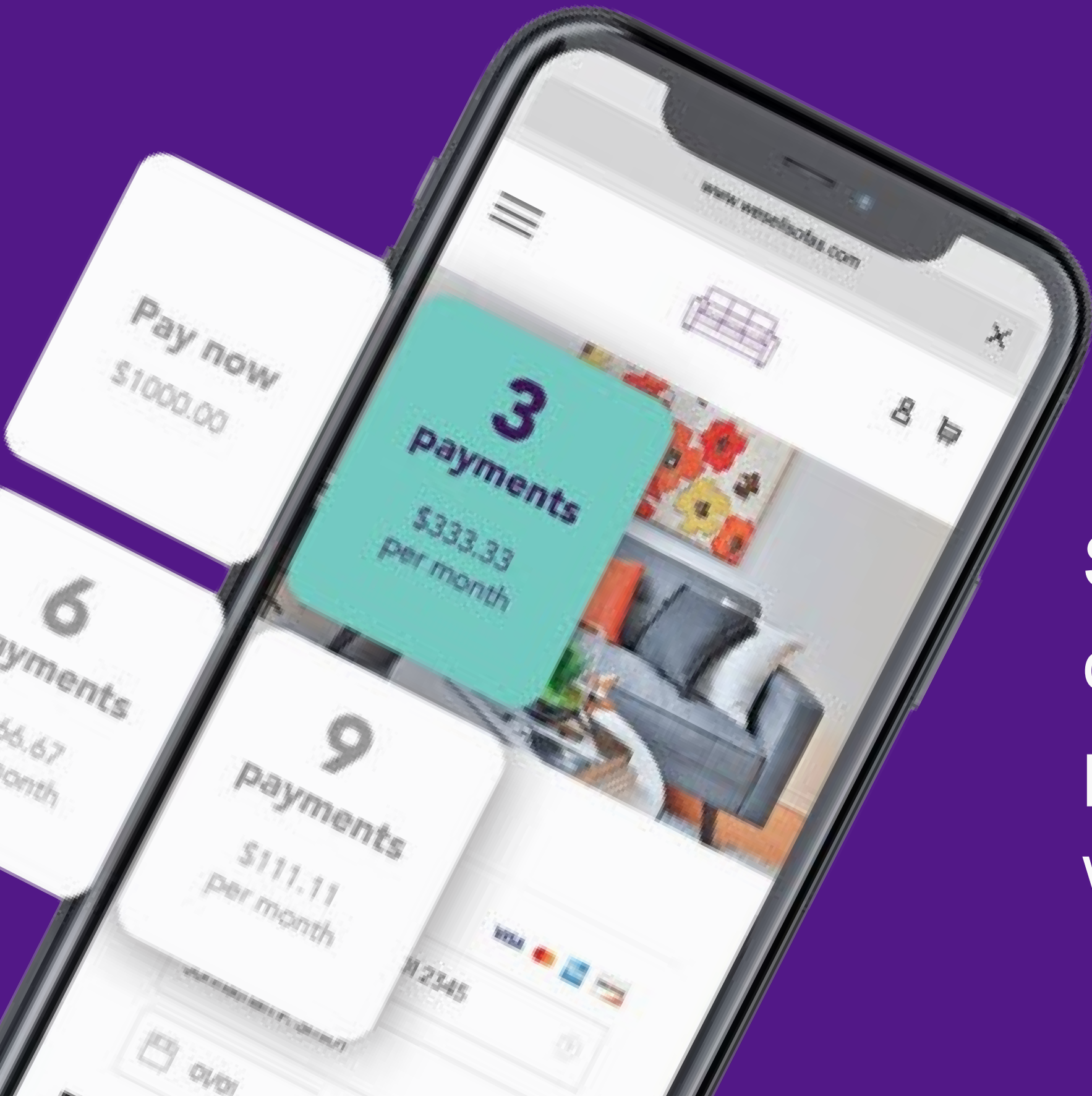
# Unregulated Industries



A representative from Earnin stated that tips make up about 40% of Earnin's revenue, and that their business model would have to change significantly if the practice were regulated.

<https://www.cnbc.com/2024/01/28/why-one-expert-called-earned-wage-access-payday-lending-on-steroids.html>





# What is Buy Now, Pay Later (BNPL)?

Short-term financing that allows consumers to make purchases and pay over time, typically in four bi-weekly installments.

One type of BNPL product is offered directly to consumers by “financial technology” (fintech) companies before a purchase is made.

Another type of BNPL is offered during a purchase through a merchant who partners with a fintech or financial institution.

# It's Appealing!



**Table 1: BNPL Is Generally the Least Expensive among the Three Loan/Installment Products**

Duration	Product	APR	Upfront payment	Amount of each payment	Finance charge	Total payment
6 weeks	BNPL	0%	\$125.00	\$125.00	\$0.00	\$500.00
	Credit card	17%	\$0.00	\$168.84	\$5.03	\$505.03
	Layaway	N/A	\$55.00	\$150.00	\$5.00	\$505.00
3 months	BNPL	0%	\$0.00	\$166.67	\$0.00	\$500.00
	Credit card	17%	\$0.00	\$171.32	\$13.97	\$513.97
	Layaway	N/A	\$60.00	\$231.00	\$10.00	\$510.00
12 months	BNPL	15%	\$0.00	\$45.01	\$40.07	\$540.07
	Credit card	17%	\$0.00	\$45.45	\$45.41	\$545.41

<https://www.kansascityfed.org/research/payments-system-research-briefings/the-appeal-and-proliferation-of-buy-now-pay-later-consumer-and-merchant-perspectives/>

# What You Need to Know



- While many BNPL loans don't charge interest, most do **charge late fees** for missed payments.
- BNPL loans **don't offer the same dispute protections** as credit cards if the item you purchase is faulty or a scam.
- While they do not report to credit bureaus for positive payments, if you miss a payment, they can **report to a credit reporting agency** which can damage your credit score

Manage your budget as payments are tied to pay cycles



Be mindful of “product stacking” - it can add up *quickly* if you are using multiple BNPL options at once



Some apps offer payment extensions - use them if needed



# Adverse Effects of BNPL



A report from the CFPB in 2023, found that nearly 43% of pay-later users had overdrawn a bank account in the previous 12 months, compared with 17% of nonusers.

[https://files.consumerfinance.gov/f/documents/cfpb\\_overdraft-nsf-report\\_2023-12.pdf](https://files.consumerfinance.gov/f/documents/cfpb_overdraft-nsf-report_2023-12.pdf)

# Unregulated Industries



The Truth in Lending Act of 1968 requires credit card companies and other lenders to disclose interest rates and fees and provides borrowers with various protections, including the ability to dispute charges.

But the act applies only to loans with more than four payment installments, **effectively excluding many pay-later loans.**

<https://www.nytimes.com/2023/12/20/business/economy/pay-later-credit-debt.html>

# Unregulated Industries



Many BNPL transactions also **aren't** being reported to credit agencies. As a result, consumers could have multiple loans with Klarna, Afterpay, and Affirm without the companies knowing about the other debts.



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<https://www.cnbc.com/2024/01/28/why-one-expert-called-earned-wage-access-payday-lending-on-steroids.html>