House Bill 1294
Earned Wage Access and Credit Modernization
OPPOSE

The Honorable Pam Beidle, Chair, and Members of this Honorable Committee:

My name is Whitney Barkley Denney, and I am Deputy Director of State Policy and Senior Policy Counsel with the Center for Responsible Lending. The Center for Responsible Lending (CRL) works to ensure a fair, inclusive financial marketplace that creates opportunities for all families and individuals, regardless of their income, because too many hard-working people are deceived by dishonest and harmful practices.[1] I appreciate this opportunity to discuss our concerns about HB 1294, Earned Wage Access and Credit Modernization.

While this bill acknowledges that Earned Wage Advance products are loans, it nevertheless fails to adequately rein in the cost of a product that ensnares thousands of Maryland borrowers in a debt trap. By exempting the charges paid to expedite these loans from Maryland's interest rate caps, HB1294 would subject many borrowers who use Earned Wage Advance products to high costs that are unrestrained Maryland's 33% loan cap.

When discussing the costs of Earned Wage Advance products, it is important to remember three things that contribute to their high cost to borrowers.

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[1] Center for Responsible Lending: About CRL | Center for Responsible Lending

First, the withdrawal amounts allowed by earned wage advance companies per transaction are often low, resulting in borrowers making numerous withdrawals before they are able to meet their need. Earnin, for example, limits borrowers to withdrawing $150 per transaction, and up to $750 per pay period. A borrower needing $750 would have to make five withdrawals – up to $7.50 plus a tip – in order to meet that need.

Second, the average borrower of Earned Wage Advance borrows dozens of times a year. This makes sense. Once a hole in a borrower's paycheck is created by loan product, it becomes necessary to borrow over and over again to fill it. After all, without a material change in circumstances, a worker who takes $750 to make it to payday is unlikely to suddenly have $750 to pay off that debt without reborrowing. This is exactly how the cycle of debt is created.

Data from CRL's collaboration with Saverlife,[2] a money management app, shows this to be the case in Maryland. About one-in-four borrower's take out at least 25 of these loans per year.[3] And, just as with traditional payday lending, the heaviest borrower's drive the business. Maryland borrower's with at least six advances in one month account for about 80% of all advances.[4]

Earned Wage Advance is a product borrower's use over and over again, paying the fees over and over again. It is therefore vital that Marylanders understand their fees as annualized interest. **Policy should be made according to how a product is used, not by how industry characterizes it.**

Third, borrower's take money from more than one Earned Wage Provider at a time. In the Saverlife data, CRL found that a quarter of Maryland workers who use this product use three or more apps at a time, and nearly 50% use at least two apps at a time.[5] Nothing in HB 1294 would limit this stacking of loans,

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[2] Saverlife: [About Saverlife]
[3] Maryland Fact Sheet, updated Oct. 2024: [ewa-states-md-oct2024.pdf]
[4] Id.
[5] Id.

nor would it require that these lenders check to see if the money being pledged to them is also being pledged to someone else.

Unsurprisingly, this stacking often leads to overdraft fees. CRL's research found that, of EWA borrowers who have a history of overdraft, 73% experienced an increase in overdrafts after their first advance.[6]

By acknowledging that Earned Wage Advances are loans, HB 1294 is a step in the right direction. However, by exempting this products fees from Maryland's 33% rate cap, allowing high-per-transaction fees, and failing to rein in stacking, **HB 1294 is ultimately little more than a codification of the practices of Earned Wage Advance providers.**

Thank you for your time and attention to this important matter.

Whitney Barkley-Denney

Center for Responsible Lending

Deputy Director of State Policy

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[6] Id.