
OLR Bill Analysis

sSB 1396

AN ACT CONCERNING EARNED BUT UNPAID WAGE OR SALARY INCOME ADVANCES.

SUMMARY

Subject to certain restrictions, this bill exempts salary advances to Connecticut employees (i.e. “earned but unpaid wage or salary income advances”) from the small loan law’s annual percentage rate (APR) and finance charge requirements. It applies to advances for wage, salary, compensation, or other income on an hourly, project-based, piecework, or other basis that borrowers earn for working for an employer or acting as an independent contractor for someone obligated to pay them for their services.

In doing so, the bill allows for these transactions, though they may exceed the small loan law’s 36% APR cap. However, the bill caps the total finance charge for these income advances at (1) \$5 per advance or (2) \$30 per 30-day period if it is part of a suite of bona fide services as part of a membership or subscription. (Bona fide services are financial benefits, services, or products, for which a borrower could be separately billed and that have provable market value, like identity theft protection, credit monitoring, or budget software.)

The bill obligates providers of these advances to, among other things, give borrowers certain disclosures, verify information, offer ways to receive no-cost advances, and reimburse certain banking fees. It also prohibits the income advance provider from taking certain actions, generally concerning fees or charges, borrower payments, and collection practices.

Lastly, the bill makes minor, technical, and conforming changes, including explicitly exempting a wage that an employer directly pays to an employee before a regular pay day from the small loan lending law’s

scope.

EFFECTIVE DATE: October 1, 2025

EARNED BUT UNPAID WAGE OR SALARY ADVANCE PROVIDERS

The state's small loan lending law generally applies to loans, extensions of credit, or the purchase of, or an advance of money on, a borrower's future source of money (e.g., future pay or salary) of up to \$50,000 and with an APR exceeding 12%. In calculating the APR, it includes charges and fees assessed to a borrower as part of the transaction (e.g., finance charges).

The bill exempts an earned but unpaid wage or salary income advance from the law's provisions on APR and finance charges (e.g., the 36% cap), but imposes advance and subscription caps of \$5 and \$30, as applicable. This applies to an advance to a Connecticut borrower that is (1) less than \$5,000 and (2) made by an earned but unpaid wage or salary income advance provider licensed under the small loan lending law. But the amount advanced cannot exceed the amount of unpaid income the consumer earned in a particular pay period.

Provider Responsibilities

The bill obligates income advance providers to give borrowers certain disclosures, verify borrower income, reimburse overdraft or nonsufficient funds (NSF) fees in certain situations, and schedule payments for income advances or finance charges on a single date within a certain timeframe after the advance.

It requires the providers to develop and implement policies and procedures to quickly respond to questions and complaints from borrowers.

Borrower Disclosures. Under the bill, before offering or providing an income advance to a borrower, the provider must (1) clearly and fully disclose all associated finance charges and (2) inform the borrower of how to submit complaints about the provider to the banking department on the department's website, including giving its link. A provider must also explain its cancellation procedure to borrowers.

And each time a provider solicits, charges, or receives a finance charge claimed to be voluntarily charged, agreed to, or paid, the bill requires it to clearly and conspicuously inform the borrower of the following:

1. the borrower can select a finance charge of zero dollars;
2. the finance charge is voluntary; and
3. the amount and frequency of income advances that a borrower may request or receive is not contingent on paying or agreeing to the voluntary finance charge, or having previously paid a finance charge.

Income Verification. The bill requires providers to verify that a borrower's earned but unpaid income does not exceed the amount of the income advance. They can do this by using one of the following:

1. payroll data from the borrower's employer,
2. electronic payroll data the borrower affirmatively authorizes the provider to access, or
3. another method the banking commissioner approves.

Finance Charges and Fees. The bill requires that providers allow borrowers to cancel an income advance application, service, subscription, or program for free at any time.

It also requires them to (1) offer to all borrowers at least one way per transaction to get the advance at no cost and (2) clearly explain how to use the no-cost option. If the provider charges or receives a finance charge, it must offer an approved borrower an advance that is at least 75% of the borrower's earned but unpaid income for the pay period.

Bank Fee Reimbursement and Payment Scheduling. Under the bill, a provider must reimburse a borrower for any overdraft or NSF fee the borrower is charged by a depository institution that the provider caused by trying to be paid an income advance amount or finance

charge before the date or in a different amount than it told the borrower.

Relatedly, the bill requires providers to schedule payment of an income advance amount or finance charge in a single payment on a date that corresponds with the date of the borrower's next scheduled employer paycheck or direct deposit. However, this date cannot be more than 34 days after the borrower received the income advance.

Prohibited Actions

The bill prohibits certain actions by these income advance providers, generally concerning fees or charges, borrower payments, and collection practices.

For violations of the small loan lending laws, existing law authorizes the banking commissioner to suspend, revoke, or refuse to renew a license; issue cease and desist orders; issue civil penalties; order restitution; or seek an injunction in court. The actions are generally subject to prior notice and a hearing.

Fees or Charges. The bill disallows (1) charging or receiving a total finance charge that exceeds the bill's \$5 or \$30 caps; (2) charging a late or deferral fee, interest, or any other penalty or charge for a borrower's failure to pay for an income advance or finance charge; (3) having a voluntary finance charge of greater than zero as a default option; or (4) seeking a voluntary finance charge before telling the borrower how much he or she is approved to request. It also bars sharing any part of a finance charge with an employer.

Borrower Payments. The bill prohibits (1) requesting payment for an income advance or finance charge from a borrower before the date of the borrower's next scheduled employer paycheck or direct deposit or (2) accepting payment for an income advance or finance charge by a credit or charge card.

Credit Review & Collection Practices. The bill prohibits requiring a credit report or score or other credit-related information to determine a borrower's eligibility for an income advance. It also prohibits reporting any information about a borrower's nonpayment for an

income advance or finance charge to a consumer reporting or consumer collection agency.

Under the bill, the following actions by an income advance provider to compel or try to compel a borrower to pay for an income advance or finance charge are banned:

1. using unsolicited telephone calls,
2. filing a lawsuit against a borrower,
3. using a third party for collection on the provider's behalf, and
4. selling an outstanding amount to a consumer collection agency for collection.

COMMITTEE ACTION

Banking Committee

Joint Favorable

Yea 13 Nay 0 (03/11/2025)