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## OLR Bill Analysis

**sSB 1396 (File 291, as amended by Senate "A")\***

### ***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) \$4 per advance or (2) \$30 per month.

The bill obligates providers of these advances to, among other things, give borrowers certain disclosures and previous advance information, verify income, 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.

\*Senate Amendment "A" (1) reduces the maximum possible income advance from \$5,000 to less than \$750; (2) decreases, from \$5 to \$4, the maximum per advance finance charge; (3) applies the \$30 per period

finance charge cap to all income advances, rather than those that are part of a suite of services in a membership or subscription, and makes the time period monthly as opposed to 30-day periods; (4) requires verification that a borrower's unpaid income at least meets the amount of the advance, rather than verifying that the income does not exceed it; (5) requires providers to electronically have certain information about past advances and finance charges available to borrowers; (6) limits income advances to one per pay period and requires providers to develop ways to prevent more than one from being made; (7) requires providers to reschedule repayments under certain conditions, such as at the borrower's request or due to a payroll error; (8) prohibits charging certain fees or penalties for late repayment of an advance or finance charge; and (9) makes minor and technical changes.

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 caps of \$4 per transaction and \$30 per month. This applies to an advance to a Connecticut borrower that is (1) less than \$750 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, prevent more than

one income advance from being made against the same unpaid wage or salary income, and schedule payments for 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 clearly and fully disclose (1) any associated finance charge; (2) the provider's cancellation policy; and (3) how to submit complaints about the provider to the banking department on the department's website, including giving its link.

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 finance charge is voluntary;
2. the borrower can select a finance charge of zero dollars; 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.

Under the bill, providers must electronically have readily available for a borrower the date, amount, and finance charge of each income advance the borrower received during the last 12 months. It must similarly have available the total of all (1) income advances the borrower received for the current pay period, (2) finance charges for the advances, and (3) earned but unpaid wage or salary income for the pay period that has not been advanced to the borrower.

***Income Verification and Advance Limitations.*** The bill requires providers to verify that a borrower's earned but unpaid income at least

equals 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. any similar data or other reasonable method the banking commissioner approves.

The bill requires providers to implement ways to prevent an income advance to a borrower who already received an advance from another provider against the same earned but unpaid wage or salary income. These measures may include (1) policies and procedures requiring a review and analysis of data the provider has or controls on at least a six-month basis to identify an instance or pattern of a borrower receiving more than one advance from more than one provider for a single pay period that exceeds the borrower's earned but unpaid income for that period and (2) any similar measures the banking commissioner requires.

Relatedly, under the bill, providers must require borrowers to (1) attest that they understand that they may not receive more than one income advance from more than one provider against the same earned but unpaid wage or salary income or (2) give a similar attestation 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 (1) an advance that is at least 75% of the borrower's earned but unpaid income for the pay period or (2) not more than one advance 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 repayment 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. The bill also requires the provider to reschedule repayment if (1) the borrower asks to reschedule it, (2) the borrower's paycheck or direct deposit funds are not available, or (3) there is a payroll or similar error. In these cases, the rescheduled repayment must occur (1) over no more than three installments and (2) on a later date or dates that the borrower agrees to when agreeing to 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 \$4 or \$30 caps; (2) charging a late or deferral fee, interest, or any other penalty or charge for a borrower's late repayment of or failure to repay an income advance or finance charge; (3) setting 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 paid by a borrower with an

employer.

***Borrower Repayments.*** The bill prohibits (1) requesting repayment of an income advance or finance charge from a borrower before the date of the borrower’s next scheduled paycheck or direct deposit from the employer or (2) accepting repayment of 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 repay 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)

Appropriations Committee

Joint Favorable  
Yea 35 Nay 13 (05/12/2025)