

OFFICE OF LEGISLATIVE RESEARCH
PUBLIC ACT SUMMARY



PA 25-155—sSB 1396

Banking Committee

Appropriations Committee

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

SUMMARY: Subject to several restrictions, this act exempts certain salary advances under \$750 to Connecticut employees (i.e. “earned but unpaid wage or salary income advances”) from the small loan lending law’s annual percentage rate (APR) and finance charge requirements. In doing so, the act allows for these advances to exceed the law’s 36% APR cap, but it caps the total finance charge for them at (1) \$4 per advance and (2) \$30 per month.

The act specifically 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.

Under the act, providers of these advances must, 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 prohibits them from taking certain actions, generally concerning fees or charges, borrower payments, and collection practices.

Lastly, the act 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 act 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. The act also prohibits people exempt from licensure from receiving payments on, acquiring, or advertising a small loan for a person who must be licensed that violates the act’s provisions on income advances.

Provider Responsibilities

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

Borrower Disclosures. Under the act, before offering or providing an income advance to a borrower, the provider must clearly and fully disclose (1) any associated finance charge; (2) its 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 act 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 act, 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. They 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 act 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 act requires providers to implement ways to prevent an income advance to a borrower who already received one from another provider against the same 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 advances from multiple providers 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.

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Relatedly, under the act, 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 income or (2) give a similar attestation the banking commissioner approves.

Finance Charges and Fees. The act 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 act, a provider must fully reimburse a borrower for any overdraft or NSF fee the borrower is charged by a depository institution that it caused by trying to be paid an income advance repayment amount or finance charge before the date or in a different amount than it told the borrower.

Relatedly, the act 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 act 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 repayment must occur over no more than three installments and on a later date or dates that the borrower agrees to when agreeing to the income advance.

Prohibited Actions

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

By law, for violations of the small loan lending laws, the banking commissioner may 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 and Charges. The act disallows (1) charging or receiving a total finance charge that exceeds the act'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; and (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 act 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 by a credit or charge card.

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Credit Review & Collection Practices. The act 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 act, 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.