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MARK CAVE, individually and as a representative of the Class,)	PHILADELPHIA COUNTY COURT OF
	)	COMMON PLEAS
Plaintiff,	)	TRIAL DIVISION
)	
v.	)	CLASS ACTION
)	
KLOVER HOLDINGS INC.,	)	Case No.
)	
Defendant.	)	JURY TRIAL DEMANDED

COMPLAINT – CLASS ACTION

NOTICE

You have been sued in court. If you wish to defend against the claims set forth in the following pages, you must take action within twenty (20) days after the complaint and notice are served by entering a written appearance personally or by attorney, and by filing in writing with the court your defenses or objections to the claims set forth against you. You are warned that if you fail to do so the case may proceed without you and a judgment may be entered against you by the court without further notice for any money claimed in the complaint or for any other claim or relief requested by the plaintiff. You may lose money or property or other rights important to you.

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AVISO

Le han demandado a usted en la corte. Si usted quiere defenderse de estas demandas expuestas en las paginas siguientes, usted tiene veinte (20) días de plazo al partir de la fecha de la demanda y la notificacion. Hace falta asentar una comparencia escrita o en persona o con un abogado y entregar a la corte en forma escrita sus defensas o sus objecciones a las demandas en contra de su persona. Sea avisado que si usted no se defiende la corte tomara medidas y puede continuar la demanda en contra suya sin previo aviso o notificacion. Ademas la corte puede decidira favor del demandante y require que usted cumpla con todas las provisiones de esta demanda. Usted puede perder dinero or sus propiedades u otros derechos importantes para usted.

LLEVE ESTA DEMANDA A UN ABOGADO INMEDIATAMENTE SI NO TIENE ABOGADO O SI NO TIENE EL DINERO SUFICIENTE DE PAGAR TAL SERVICIO, VAYA EN PERSONA O LLAME POR TELEFONO LA OFICINA CUYA DIRECCION SE ENCUENTRA ESCRITA ABAJO PARA AVERIGUAR DONDE SE PUEDE.

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Plaintiff Mark Cave (“Plaintiff”), individually and on behalf of all others similarly situated, brings this action against Klover Holdings Inc. (“Defendant”):

I. NATURE OF THE ACTION

1. This action concerns a cash advance product that Defendant offers in Philadelphia.
2. Defendant charges fees to obtain compensation for offering this product.
3. These fees cost the equivalent of a loan with an annual percentage rate (“APR”) of 500%, 1,000%, or more, which makes it difficult for borrowers to pay their bills, and which greatly increases the chance that borrowers will overdraft their bank account.
4. These charges are illegal because they greatly exceed the lawful 6% rate established by Pennsylvania law. 41 P.S. § 201(a); 7 P.S. § 6203.A.
5. Plaintiff brings this action, on behalf of himself and the class defined below, and seeks to recover the unlawful fees that Defendant has charged.

II. JURISDICTION AND VENUE

6. The Court has subject matter jurisdiction under 42 Pa. C.S. § 931.
7. The Court has personal jurisdiction over Defendant under 42 Pa. C.S. § 5301.
8. Venue is proper under Pa. R. Civ. P. 2179 because Defendant regularly conducts business in this County, this is the County where a cause of action arose, and this is the County where a transaction or occurrence took place out of which a cause of action arose.

III. PARTIES

9. Mark Cave is a person residing in Philadelphia County, Pennsylvania.
10. Defendant is a technology company headquartered in Cook County, Illinois.
11. Defendant is not a bank and is not licensed under any Pennsylvania statute.
12. Defendant makes loans or advances to Pennsylvania consumers over the internet.

IV. FACTUAL ALLEGATIONS

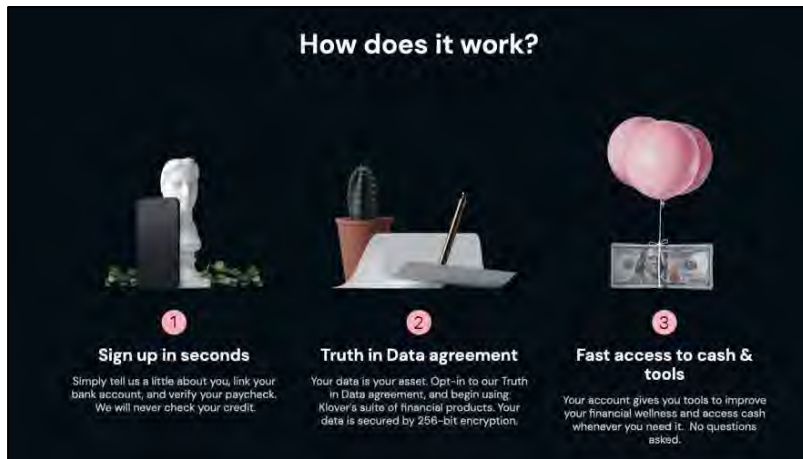
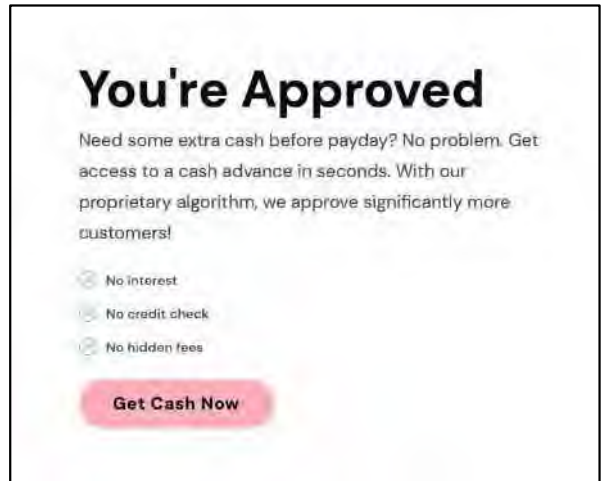
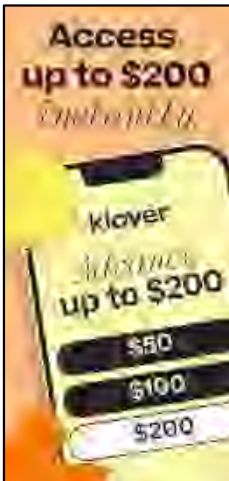
A. *Defendant Offers A Cash Advance Product That Is Advertised As Providing Borrowers With Instant Access To Cash*

13. Defendant offers a cash advance product to Philadelphia residents over the internet through a lending app called “Klover.”

14. This product provides borrowers with up to \$200 in cash advances per pay period.

15. Defendant advertises its product as a solution to borrowers who need quick access to cash to cover surprise expenses or pay time-sensitive obligations.

16. For example, Defendant represents that its product allows borrowers to access cash “instantly,” within “seconds,” or “whenever [they] need it.”



B. *Defendant Expects Borrowers To Pay Money To Obtain Its Cash Advance Product*

17. Defendant’s goal in offering Philadelphia residents cash advances, like every other lender, is to obtain compensation for lending money.

18. Defendant accomplishes this goal in three ways: (i) by charging an express fee to use cash advances for their advertised and intended purpose; (ii) by requesting borrowers to pay a “tip” charge; and (iii) by requiring borrowers to enroll in a paid monthly membership plan in order to begin using the Klover app to obtain cash advances.

19. Defendant expects borrowers to pay its express fees, “tip” charges, and monthly membership fees, and Defendant structured its cash advance product to ensure most borrowers pay these charges.

i. *Defendant’s Express Fee*

20. Defendant ensures borrowers pay its express fee by requiring borrowers to pay this charge to use Defendant’s cash advance product for its advertised and intended purpose—as an instant source of cash.

21. The cost of this charge has ranged from \$1.49 and \$20.78.

22. If a borrower does not pay this charge, they cannot obtain the advertised version of Defendant’s cash advance product, and they cannot use the product for its intended purpose.

23. Instead, such borrowers obtain an inferior version of Defendant’s product, which provides access to cash days after a request is made, and which cannot be used to pay time-sensitive obligations or cover surprise expenses.

24. Defendant’s express fee does not cover the actual cost of providing any service, as it costs little to nothing to advance money instantly; instead, this charge is imposed solely to obtain compensation for lending money.

25. Since the express fee must be paid to use cash advances for their advertised purpose, virtually every borrower pays this charge.

26. Indeed, Pennsylvania’s Attorney General recently signed onto a letter recognizing that the payment of express fees, “in practice, . . . may be unavoidable,” as cash advance borrowers “often need cash quickly.” *See* Andrea Joy Campbell, Attorney General of Massachusetts, Letter to Consumer Financial Protection Bureau (“CFPB”), p. 2 (Aug. 30, 2024) (attached as Exhibit A).

27. That letter also characterized the practice of soliciting express fees as “particularly concerning.” *Id.*

ii. Defendant’s “Tip” Charge

28. Defendant ensures borrowers pay its “tip” charge through deception.

29. Defendant’s “tip” charge, just like the express fee, is solely intended to compensate Defendant for lending money.

30. A charge that is solely intended to compensate a corporation for lending money is commonly understood as an “interest” charge. *See Interest*, Black’s Law Dictionary (3d ed. 1933) (“Interest is the compensation allowed by law or fixed by agreement by the parties for the use . . . of money.”); *Interest*, Black’s Law Dictionary (7th ed. 1999) (defining “interest” as “compensation fixed by agreement or allowed by law for the use . . . of money”).

31. But Defendant does not truthfully label this charge as an “interest” charge; instead, Defendant misleadingly and falsely labels this charge as a “tip,” in a transparent attempt to mislead borrowers into paying this charge.

32. Unlike an actual “tip,” which goes to a delivery driver, a server, or some another hourly worker trying to make ends meet, Defendant’s “tip” compensates a large and well-funded corporation for lending money.

33. Borrowers often pay Defendant’s “tip” charge because they are misled to believe that they are helping needy persons (rather than a large, well-funded corporate lender), or because they are misled to believe that payment is expected or necessary.

34. Defendant’s deceptive labeling tactic works, as many borrowers agree to pay a “tip” charge, even though the charge is allegedly voluntary. *See, e.g.*, California Department of Financial Protection and Innovation, 2021 Earned Wage Access Data Findings, pp. 1, 7 (2023) (attached as Exhibit B) (finding close to 75% of borrowers pay “tips” when cash advance apps request them).

35. Pennsylvania’s Attorney General agrees that the solicitation of “tips” is a “troubling feature” of cash advance apps, and that this practice has a “strong tendency to mislead consumers.” *See* Exhibit A, p. 2.

36. Additionally, Pennsylvania’s Attorney General recently took action against another cash advance provider for soliciting “tips.” *See Commw. of Pa. v. Solo Funds, Inc.*, No. 240700170 (C.P. Phila. 2024) (attached as Exhibit C).

iii. Defendant’s Monthly Membership Fee

37. Like its “tip” charge, Defendant ensures borrowers pay its monthly membership fee through deception.

38. This fee, like Defendant’s express fee and “tip” charge, is intended to compensate Defendant for lending money.

39. As a condition of receiving a cash advance, borrowers are required to enroll, or are automatically enrolled, in a monthly membership plan.

40. Borrowers enrolled in this plan are charged a \$4.99 monthly membership fee.

41. Given this structure, borrowers reasonably believe that this fee is required to obtain a cash advance.

42. And because of that belief, this structure ensures that most borrowers will continue to pay this charge.

C. Defendant Expects Borrowers To Repay Its Cash Advance Product

43. Like every other lender, Defendant expects borrowers to repay its cash advances.

44. To ensure it will obtain repayment, Defendant requires borrowers, as a condition of receiving an advance, to link their bank accounts to the Klover app, and to authorize Defendant to debit the principal amount of a cash advance, with any fees that a borrower agrees to pay, from the borrower's linked bank account on payday.

45. And to ensure that the linked bank account will have sufficient funds to satisfy the automatic account debits that Defendant requires borrowers to agree to as a condition of receiving an advance, Defendant requires borrowers to have employers that pay them regularly, and to link the bank account into which paychecks are deposited to the Klover app.

46. Defendant performs a proprietary credit check on borrower accounts before issuing a cash advance to ensure that the account will have sufficient funds to satisfy the automatic bank account debits that Defendant requires borrowers to authorize Defendant to initiate as a condition of receiving a cash advance.

47. Defendant will not issue advances unless it believes it will be able to automatically deduct the sum of an advance (the loan principal), plus any additional charges (including express fees, tips, and monthly fees), from the linked account as soon as the borrower's employer deposits the borrower's next paycheck.

48. The requirements Defendant imposes on borrowers as a pre-condition to obtaining its cash advance product ensure that Defendant obtains repayment on virtually every cash advance that Defendant issues.

49. Furthermore, borrowers do not agree to pay Defendant's express fee, "tip" charge, or monthly membership fee after they obtain or receive a cash advance; instead, they are required to agree to pay these charges before advances are issued.

50. The agreement to pay these charges is incorporated into the automatic account debit rights Defendant obtains as a condition of issuing an advance, and Defendant debits those amounts on the borrowers' next payday.

51. For example, a borrower that obtains a \$100 cash advance and that agrees to pay a \$10 tip and a \$12 express fee, must also agree, as a condition of receiving the advance, to authorize Defendant to automatically deduct \$122 from their linked bank account immediately after their employer deposits a paycheck on payday.

52. In other words, the borrower basically assigns \$122 of their wages to Defendant in return for a \$100 cash advance.

53. Accordingly, Defendant's cash advance product is nothing more than a loan that is secured by a borrower's wages.

54. This type of credit product is commonly called a "payday loan."

D. Defendant's Cash Advances Violate Pennsylvania Law

55. The term "payday loan" refers to a short-term, high-cost form of lending, requiring consumers to repay small dollar loans on their next payday. *See Dep't of Banking v. NCAS of Del., LLC*, 948 A.2d 752, 754 (Pa. 2008) ("Payday loans are short-term, high-interest-or-fee loans that are generally secured by a post-dated check or a debit authorization executed by the borrower and, subsequently, presented by the lender after a predetermined period, usually set to two weeks to coincide with the borrower's payday.").

56. This form of lending first originated in the late 1800s, with its defining feature being the varying devices that lenders have created to evade the law.

57. Historically, payday lending took the form “wage buying,” where lenders would claim they were buying earned wages, even though they were actually loaning money at excessive rates. *See USA Payday Cash Advance Ctrs. v. Oxendine*, 585 S.E.2d 924, 926 (Ga. Ct. App. 2003) (citing *Gunnels v. Atlanta Bar Assoc.*, 12 S.E.2d 602 (Ga. 1940), and *Hinton v. Mack Purchasing Co.*, 155 S.E. 78 (Ga. Ct. App. 1930)); *see also* F.B. Hubachek, *The Development of Regulatory Small Loan Laws*, 8 LAW & CONTEMP. PROB. 108, 120-21 (1941).

58. Pennsylvania prohibited wage buying at common law. *See* Department of Banking, Report on Small Loan Companies, p. 11 (1937) (attached as Exhibit D).

59. Pennsylvania’s current usury laws also prohibit this device, and subject the practice to usury restrictions. *See* 7 P.S. § 6218.

60. Over the years, payday lending has resurfaced in varying forms—some lenders use banks to issue loans and repurchase the loans for themselves, attempting to hide under the banks’ charter to charge excessive fees, *see, e.g., Ga. Cash Am. v. Greene*, 734 S.E. 2d 67 (Ga. Ct. App. 2012); other lenders describe transactions as “sale/leasebacks,” whereby consumers purportedly sell personal property and lease it back for a fee, *see, e.g., Clay v. Oxendine*, 645 S.E.2d 553 (Ga. Ct. App. 2007); and yet other lenders described transactions as “deferred presentments,” whereby lenders advance cash to borrowers in return for a post-dated check for the amount of the advance and a fee, which the borrower agrees the lender may cash on payday, *see, e.g., Crawford v. Great Am. Cash Advance*, 644 S.E.2d 522 (Ga. Ct. App. 2007).

61. No matter what form payday lending may take, Pennsylvania intends for its usury statutes to apply to and prevent this practice. *See Hartranft v. Uhilinger*, 8 A. 244, 246 (Pa. 1887)

("[I]t is . . . wholly immaterial under what form or pretence usury is concealed, if it can by any means be discovered our courts will refuse to enforce its payment"); *NCAS*, 948 A.2d at 761 n.11 (quoting *Richman v. Watkins*, 103 A.2d 688, 691 (Pa. 1954)) ("[U]sury is generally accompanied by subterfuge of one kind or another to present the color of legality.").

62. Pennsylvania outlaws payday lending (no matter its form) because the excessively high costs associated with this form of lending leave holes in paychecks, which can create a cycle of reborrowing, where borrowers take out new loans to fill the gaps created by old loans. *See, e.g.*, Center for Responsible Lending, *A Loan Shark in Your Pocket: The Perils of Earned Wage Access*, pp. 6-8 (Oct. 2024) (attached as Exhibit E) (analyzing 214,093 cash advance transactions for the Klover app and similar cash advance apps, finding many borrowers fall into reborrowing cycles after using these apps, and finding cash advance app lenders make their money on borrowers that are trapped in reborrowing cycles); Not Free: *The Large Hidden Costs of Small-Dollar Loans Made Through Cash Advance Apps*, pp. 5-12 (April 2024) (attached as Exhibit F) (analyzing 37,826 transactions and making similar findings).¹

¹ *See also* Paulina Cachero, *Popularity of Apps for Early Paydays Masks Added Risks*, Bloomberg (July 29, 2023), <https://www.bloomberg.com/news/articles/2023-06-29/know-the-risks-before-using-cash-advance-apps-like-earnin-dailypay> (interviewing borrower who "found himself trapped in a constant loop of borrowing," and felt he had "completely lost control of the situation, with no way to work it out"); Cyrus Farivar, *Millions use Earnin to get cash before payday. Critics say the app is taking advantage of them*, NBC News (July 26, 2019), <https://www.nbcnews.com/tech/interest/millions-use-earnin-get-cash-payday-critics-say-app-taking-n1034071> (interviewing borrower who described a cash advance app as a "vicious cycle," and who "had no money" after paying tips and fees); Sidney Fussell, *The New Payday Lender Looks a Lot Like the Old Payday Lender*, The Atlantic (Dec. 18, 2019), <https://www.theatlantic.com/technology/archive/2019/12/online-banking-lending-earnin-tip/603304/> (interviewing borrower who fell into a "cycle of get paid and borrow, get paid and borrow").

63. This cycle of reborrowing erodes the paychecks of borrowers, which prevents them from saving money for their families, and prevents the financially vulnerable from improving their situation and moving out of debt.

64. This cycle of reborrowing also makes it more likely that consumers will be subject to additional charges or fees, like bank overdraft fees, which further erodes the financial stability of cash advance app users. *See, e.g.*, Exhibit E, pp. 8-9; Exhibit F, pp. 6-7.

65. To prevent the harms caused by short-term, high-cost loans, Pennsylvania prohibits lenders from receiving any interest, fee, or other charge that exceeds the equivalent of a 6% simple interest loan. *See Cash Am. Net of Nev., LLC v. Dep't of Banking*, 8 A.3d 282, 285-86 (Pa. 2010) (unlicensed entities, such as Klover, are “bound by the 6% cap”); *see also* 7 P.S. § 6203.A; 41 P.S. § 201(a).

66. Defendant’s cash advances far exceed the lawful rate, as the express fees, monthly membership fees, and “tip” charges that Defendant receives uniformly cost the equivalent of a loan with a 100% annual percentage rate (“APR”), and often cost the equivalent of a loan with a 500%, 1,000%, or even higher APR.

67. Further, Defendant’s cash advance product is nothing more than the newest attempt by the payday lending industry to evade usury restrictions.

68. For example, identical to a payday loan, Defendant’s cash advance product is short in term (generally two weeks or less) and high in cost (APRs often cost 100%, 200%, 300%, 400%, or more).

69. Moreover, Defendant’s cash advance product, just like a payday loan, is secured by “a debit authorization executed by the borrower and, subsequently, presented by [Defendant] . . . [on] the borrower’s payday.” *NCAS of Del., LLC*, 948 A.2d at 754.

70. Accordingly, regardless of how Defendant has structured its cash advance product, there is no question that the product is a payday loan, which means the product is plainly unlawful under Pennsylvania law.

E. *Plaintiff's Experience With Cash Advances From Defendant*

71. Plaintiff obtained cash advances from Defendant.

72. Plaintiff used the cash advances for personal, family, and/or household purposes.

73. Plaintiff paid charges on the cash advances that cost the equivalent of loans with an APR in the triple digits.

74. For example, Plaintiff paid a \$9.99 express fee to obtain a \$75.00 advance, which was to be repaid within 7 days, which yielded a 694.54% APR.

75. Plaintiff also paid a \$4.99 monthly fee to access the cash advance service provided on the Klover app.

76. When this charged is included in the APR calculation, the APR of Plaintiff's loan increases to 1,041.47%.

77. Plaintiff downloaded and used the Klover app solely to obtain cash advances.

78. Plaintiff has not used the Klover app for any purpose other than to obtain advances.

79. Plaintiff believed paying the monthly fee was mandatory to obtaining an advance.

V. CLASS ACTION ALLEGATIONS

80. Plaintiff brings this action individually and on behalf of all others similarly situated under Rules 1702, 1708, and 1709 of the Pennsylvania Rules of Civil Procedure.

81. Plaintiff seeks to certify a class of: "All persons who reside in Philadelphia County and obtained an advance or loan from Defendant."

82. Plaintiff reserves the right to expand, narrow, or otherwise modify the class as the litigation continues and discovery proceeds.

83. Pa. R. Civ. P. 1702(1), 1708(a)(2): The class is so numerous that joinder of the class members is impracticable. Since each of the claims of the class members is substantially identical, and the class members request substantially similar relief, centralizing the class members' claims in a single proceeding likely is the most manageable litigation method available.

84. Fed. R. Civ. P. 23(a)(2), (b)(3): Plaintiff and the class members share numerous common questions of law and fact that will drive the resolution of the litigation and predominate over any individual issues. For example, there is a single common answer to whether Defendant's advances qualify as "loans" or "advances" under the relevant laws, and whether the fees Plaintiff paid qualify as "interest" or other amounts under the laws at issue. These common questions, and other common questions of law and fact, will predominate over individual questions, to the extent any individual questions exist.

85. Pa. R. Civ. P. 1702(3): Plaintiff's claims are typical of the claims of the class because the claims of Plaintiff and the class are based on the same legal theories and arise from the same conduct.

86. Pa. R. Civ. P. 1702(4), 1709: Plaintiff is an adequate representative of the class because the interests of Plaintiff and the class members align. Plaintiff will fairly, adequately, and vigorously represent and protect the interests of the class and has no interest antagonistic to the class. Plaintiff retained counsel who are competent and experienced in the prosecution of class action litigation generally and consumer finance and credit litigation specifically.

87. Pa. R. Civ. P. 1708(a)(3), (6), (7): Given the complexity and nature of the issues presented and the relief requested, the expense and time necessary to obtain such relief, and the

anticipated recovery and relief Plaintiff and the class members may obtain, the class action mechanism is by far the preferred and most efficient litigation mechanism to adjudicate the claims of Plaintiff and the class members. Additionally, requiring Plaintiff and the class members to file individual actions would impose a crushing burden on the court system and almost certainly lead to inconsistent judgments. Class treatment presents far fewer management difficulties and provides benefits of a single adjudication and economies of scale.

VI. CAUSES OF ACTION

COUNT I
Violation of the Consumer Discount Company Act
7 P.S. §§ 6201, *et seq.*

88. The CDCA applies to any person engaged “in the business of negotiating or making loans or advances.” 7 P.S. § 6203.A.

89. Defendant clearly engages in this business, as its cash advance product falls within the commonly understood definition of “loan” or “advance.” *See Loan*, Black’s Law Dictionary (3d ed. 1933) (defining “loan” as a “sum of money confided in another”); *Advance*, Black’s Law Dictionary (3d ed. 1933) (defining “advance” as a “loan or gift, or money advanced to be repaid conditionally”).

90. Any person engaged in the business of negotiating or making “loans or advances” may not “charge, collect, contract for or receive interest, discount, bonus, fees, fines, commissions, charges, or other considerations which aggregate in excess of the interest that the lender would otherwise be permitted by law to charge if not licensed under this act on the amount actually loaned or advanced[.]” 7 P.S. § 6203.A.

91. The first clause of this prohibition (“no person shall . . . charge, collect, contract for or receive interest, discount, bonus, fees, fines, commissions, charges, or other considerations”) is called the “subject charge clause.”

92. The second clause of this prohibition (“which aggregate in excess of the interest that the lender would otherwise be permitted by law to charge if not licensed under this act on the amount actually loaned or advanced”) is called the “benchmark clause.”

93. The “subject charge clause” is intended to identify the types of charges subject to the CDCA. *NCAS*, 948 A.2d at 760.

94. Defendant’s express fee, “tip” charge, and monthly membership fee, fall within the types of charges subject to the CDCA because these charges plainly qualify as “interest,” “bonus,” “fees,” and/or “charges.” *See Interest*, Black’s Law Dictionary (3d ed. 1933) (defining “interest” as “compensation . . . fixed by agreement for the use . . . of money”); *Bonus*, Black’s Law Dictionary (3d ed. 1933) (defining “bonus” as something “given in addition to what is ordinarily received by, or strictly due, the recipient,” and recognizing that the “natural import” of “bonus” implies “a gift or gratuity”); *Fee*, Black’s Law Dictionary (3d ed. 1933) (defining “fee” as the “compensation for a particular act or service”); *Charge*, Black’s Law Dictionary (7th ed. 1999) (defining “charge” as “[p]rice, cost, or expense”).

95. The benchmark clause is intended to set a benchmark against which subject charges may be assessed. *NCAS*, 948 A.2d at 760.

96. For an unlicensed entity, like Defendant, the benchmark clause prohibits charging, collecting, contracting for, or receiving any amounts that combine to create a cost greater than the equivalent of a loan with a 6% interest rate. *See Cash Am.*, 8 A.3d at 285-86.

97. Defendant assessed charges well in excess of the benchmark set by the CDCA since Defendant's express fees, "tip" charges, and monthly membership fees created costs equivalent to loans with interest rates of 500%, 1,000%, or more.

98. Finally, to the extent there is any question as to whether the CDCA applies, one of the CDCA's anti-evasion provisions confirms the statute's applicability.

99. "As usury is generally accompanied by subterfuge and circumvention of one kind or another to present the color of legality, it is the duty of the court to examine the substance of the transaction as well as its form" to determine whether a lender is engaged in usurious practices. *Simpson v. Penn Disc. Corp.*, 5 A.2d 796, 798 (Pa. 1939).

100. Courts are required to analyze the substance of a transaction to "protect the citizenry of this Commonwealth from being exploited at the hands of unscrupulous individuals seeking to circumvent the law at the expense of *unsuspecting* borrowers who may have no other avenue to secure financial backing." *NCAS*, 948 at 761 n.11 (quoting *Smith v. Mitchell*, 616 A.2d 17, 20 (Pa. Super. 1992)) (emphasis in original).

101. The CDCA generally incorporates this common law "anti-evasion" doctrine. *See* 7 P.S. §§ 6203.B, 6211.

102. The CDCA goes on to include more targeted provisions that are intended to outlaw specific evasion devices.

103. Section 6218 is relevant to this case, and states:

"The payment of twenty-five thousand dollars (\$25,000) or less, in money, credit, goods or things in action as consideration for any sale or assignment of, or order for, the payment of wages, salary, commissions or other compensation for services, whether earned or to be earned, shall, for the purposes of regulation under this act, be deemed a loan secured by such assignment, and the amount by which such assigned compensation exceeds the amount of such consideration actually paid shall for the purpose of regulation under this act, be deemed interest or charges upon such loan from the date of such payment to the date such compensation is

payable. Such transactions shall be governed by and subject to the provisions of this act.”

Id. § 6218.

104. Defendant’s cash advance product is the exact type of transaction that § 6218 was designed to regulate—Defendant pays money to borrowers as consideration for authorization to automatically debit the borrower’s linked bank account on payday, and that authorization includes the right to debit the principal amount of a cash advance, with any express fees, “tip” charges, or monthly membership fees that a borrower agrees to pay.

105. The excess between the consideration Defendant pays borrowers (*i.e.*, the principal amount of an advance), and the assigned compensation Defendant obtains authorization to debit (*i.e.*, the principal amount of the advance a borrower receives, and any fees a borrower agrees to pay) must be treated as “interest or charges” for purposes of § 6218.

106. And, as explained above, there is no question that Defendant’s “interest or charges” exceed the benchmark 6% rate established by the CDCA.

107. Equitable relief is available to private parties under the CDCA for these types of overcharges. *See Mellish v. CACH, LLC*, No. 19-cv-01217, 2020 U.S. Dist. LEXIS 52383, at *7 (W.D. Pa. Mar. 26, 2020) (“If a private civil litigant seeks enforcement of the CDCA, the available remedy is equitable[.]”).

108. Accordingly, the Court should issue an order: awarding restitution in the amount of any interest, fees, or other amounts that Defendant charged, collected, contracted for, or received in excess of 6%; and awarding attorneys’ fees and costs.

COUNT II
Violation of the Loan Interest and Protection Law
41 P.S. §§ 101, *et seq.*

109. The LIPL allows a person that has paid interest or charges prohibited or in excess of those allowed by law to obtain triple the amount of such interest or charges against the person that collected the interest or charges. *See* 41 P.S. § 502.

110. As described above in Count I, Plaintiff paid interest or charges prohibited or in excess of those allowed by the CDCA. *See* 7 P.S. § 6203.A.

111. Moreover, Plaintiff paid interest or charges prohibited or in excess of the LIPL, as the LIPL only allowed Defendant to collect interest at a rate of 6%. *See* 41 P.S. § 201(a).

112. The LIPL provides for, among other things, damages, declaratory and injunctive relief, and attorneys' fees and costs. *Id.* §§ 501, 502, 503.

113. Accordingly, the Court should issue an order: awarding any excess interest, fees, or other charges collected by Defendant; awarding triple the amount of any excess interest, fees, or other charges collected by Defendant; and awarding attorneys' fees and costs.

VII. JURY TRIAL DEMANDED

Plaintiff requests a jury trial on all claims so triable.

VIII. DISCOVERY

Attached as Exhibit G is Plaintiff's First Set of Interrogatories and Requests for Production of Documents.

IX. PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for the following relief:

- a. An order certifying the proposed class, appointing Plaintiff as representative of the proposed class, and appointing undersigned counsel as counsel for the proposed class;

- b. An order awarding actual, statutory, treble, and all other damages available by law, along with pre- and post-judgment interest;
- c. An order providing Plaintiff and the class members restitution for any interest, fees, or other charges that were paid to Defendant and that aggregated in excess of 6%; and
- d. An order awarding attorneys' fees and costs;

Respectfully Submitted,

Dated: March 11, 2025

By: /s/ Kevin Abramowicz
Kevin Abramowicz
Kevin Tucker
Chandler Steiger
Jessica Liu
East End Trial Group LLC
6901 Lynn Way, Suite 503
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Attorneys for Plaintiff

VERIFICATION

I, Kevin Abramowicz, attorney for Plaintiff, am fully familiar with the facts set forth in this Complaint and am authorized to make this Verification. I verify that the averments contained in this Complaint are true and correct to the best of my knowledge, information, and belief. Plaintiff's verification shall be substituted for this attorney verification upon request. I understand any false statements herein are made subject to the penalties of 18 Pa. C.S § 4904, relating to unsworn falsification to authorities.

Respectfully submitted,

Dated: March 11, 2025

By: /s/ Kevin Abramowicz
Kevin Abramowicz

EXHIBIT A



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE ATTORNEY GENERAL

ONE ASHBURTON PLACE
BOSTON, MASSACHUSETTS 02108

(617) 727-2200
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August 30, 2024

Rohit Chopra
Director
CONSUMER FINANCIAL PROTECTION BUREAU
1700 G Street NW
Washington, DC 20552

RE: “Truth in Lending (Regulation Z); Consumer Credit Offered to Borrowers in Advance of Expected Receipt of Compensation for Work” 12 CFR Part 1026 [Docket No. CFPB-2024-0032]

Dear Director Chopra:

The undersigned Attorneys General of Massachusetts, the District of Columbia, Delaware, Maine, Maryland, Michigan, Minnesota, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania and Rhode Island (“the States”) write in support of the Consumer Financial Protection Bureau’s (“CFPB”) Notice of proposed interpretive rule, “Truth in Lending (Regulation Z); Consumer Credit Offered to Borrowers in Advance of Expected Receipt of Compensation for Work” 12 CFR Part 1026 (“proposed rule”).

We support the CFPB’s conclusion that Earned Wage Advance (“EWA”) products involve the extension of credit and that charges incident to the extension of credit, including the payment of expedited funds delivery fees and so-called “tips”, amount to finance charges. The proposed interpretive rule would reduce the risk that consumers would become confused or misled as to the nature of these products and thereby become locked in debt-traps. The proposed interpretive rule would also complement State laws and regulations, helping ensure that a new generation of technologically savvy predatory payday lenders do not proliferate.

A detailed examination of the EWA industry by the California Department of Financial Protection and Innovation illustrates the importance of the CFPB’s proposed interpretive rule.¹ The examination found that consumers of EWA products that accept either “tips” or expedited funds delivery fees often end up paying effective APRs of over 300%.² Because most EWA products permit consumers to take out multiple loans per pay period, these consumers ultimately dedicate an average of 25% of their total paychecks repaying EWA loans at these usurious interest rates.³ Indeed, some companies permit consumers to borrow up to 50% of their net

¹ Cal. Dep’t of Fin. Prot & Innovation, *2021 Earned Wage Access Data Findings* (2023), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/2021-Earned-Wage-Access-Data-Findings-Cited-in-ISOR.pdf>.

² *Id.* at 6-7.

³ *Id.* at 12-13.

earned wages.⁴ Others may allow consumers to temporarily increase the amount they can borrow by referring new consumers to their app, or by asking other users to “vouch” for them.⁵ The effect of these practices can be disastrous for consumers, as the CFPB’s own data shows that the distribution of consumers’ transaction frequency on employer-partnered EWA products is “U-shaped,” with the largest share of users, 27.6%, at the far end of the “U” taking EWA loans in excess of 25 times per year.⁶ For an employee who is paid biweekly, this essentially amounts to an advance on every paycheck. These findings reflect the risk that borrowers who rely on EWA products to bridge the time between paychecks may get stuck in a cycle of dependency, paying considerable fees numerous times a year.

A particularly concerning aspect of EWA transactions is the solicitation and prevalence of expedited funds delivery fees. EWA providers frequently charge consumers for the option to receive funds through the EWA app same-day or instantaneously as opposed to waiting 1-3 days.⁷ The magnitude of these fees ranges between EWA providers from \$0.99 to \$13.99. Notably, in practice, these fees may be unavoidable for EWA users, who by the very nature of the product they are consuming, often need cash quickly. EWA loans are typically repaid within 9-11 days.⁸ A difference of up to 3 days for the receipt of funds under these circumstances may be material to the consumer’s decision to take such loans in the first place. That may help explain why over 82% of transactions on employer-sponsored EWA plans included some fee, and over 95% of fees paid by users were for expedited delivery of funds.⁹

EWA providers’ reliance on the argument that their products are necessary to meet consumers’ short-term liquidity needs underscores the propriety of including expedited funds delivery fees in any finance charge calculation.¹⁰ Extra care should be given to ensure that consumers are not confused or misled about the full costs of a product that is advertised as being useful for defraying or avoiding costs, such as overdraft fees.¹¹

An additional troubling feature of many EWA products is the solicitation of so-called “tips” that have a strong tendency to mislead consumers. The CFPB identified a large range of practices employed by EWA sellers to solicit tips that have the effect of manipulating or pressuring

⁴ U.S. Gov. Accountability Office, *Financial Technology: Products Have Benefits and Risks to Underserved Consumers, and Regulatory Clarity Is Needed*, GAO-23-105536, at 22 (March 2023), <https://www.gao.gov/assets/820/818014.pdf>.

⁵ *Id.*

⁶ Consumer Fin. Prot. Bureau, *Data Spotlight: Developments in the Paycheck Advance Market* (July 18, 2024), <https://www.consumerfinance.gov/data-research/research-reports/data-spotlight-developments-in-the-paycheck-advance-market/>.

⁷ *Id.*

⁸ Cal. Dep’t of Fin. Prot & Innovation, *supra* note 1.

⁹ Consumer Fin. Prot. Bureau, *supra* note 6.

¹⁰ *See, e.g.*, FTI Consulting, *Direct to Consumer Earned Wage Access User Survey Key Findings* (FTI Consulting, July 7, 2021) (According to a survey touted by the EWA industry, 61% of consumers used EWA for paying bills on time, 52% for avoiding overdraft fees, and 52% for buying groceries).

¹¹ *Id.* at 3.

consumers to make such payments.¹² Some EWA sellers have designed their apps such that a “tip” amount must be selected to complete the transaction, with the default set to a non-zero number or a suggested tip pre-selected.¹³ EWA sellers have also attempted to misleadingly suggest that tips are in some way earmarked to help other consumers, with 38% of respondents of one survey who tipped reporting that they did so to “pay it forward to another user.”¹⁴

Recently, California,¹⁵ Connecticut,¹⁶ Pennsylvania¹⁷ and Washington, D.C.,¹⁸ reached consent orders with SoLo, a peer-to-peer lending platform based on concerns about a similar tip model. SoLo advertised “no interest” loans when, in reality, the vast majority of borrowers paid a tip as part of their transactions.¹⁹ SoLo “urged Borrowers to offer the maximum tip amount” through pop-up messaging and “never advised [Borrowers] that they may renege on their prior commitment to make a tip or donation.”²⁰

The CFPB’s recognition that EWA products entail the extension of credit, and that “tips” and expedite fees associated with these products are charges incident to the extension of credit, would ensure that consumers who use these products—including consumers with poor credit, no credit, or intermittent needs for short term liquidity—have the benefit of critical consumer protections.²¹

The proposed rule is also aligned with state approaches to payday lending issues, which states have grappled with for over a century. Indeed, EWA providers employ similar rhetoric to that

¹² Consumer Fin. Prot. Bureau, *Truth in Lending (Regulation Z); Consumer Credit Offered to Borrowers in Advance of Expected Receipt of Compensation for Work*, 89 FR 61358, 61363 (July 31, 2024), https://files.consumerfinance.gov/f/documents/cfpb_paycheck-advance-marketplace_proposed-interpretive-rule_2024-07.pdf; see also Center for Responsible Lending, *State Recommendations for Earned Wage Advances and Other Fintech Cash Advances* (Oct. 2023), <https://www.nclc.org/resources/state-recommendations-for-earned-wage-advances-and-other-fintech-cash-advances/>.

¹³ *Truth in Lending (Regulation Z); Consumer Credit Offered to Borrowers in Advance of Expected Receipt of Compensation for Work*, 89 FR at 61363.

¹⁴ Center for Responsible Lending, *Survey Summary of Earned Wage Advance and Cash Advance Apps* (Aug. 2023), <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-ewa-research-factsheet-aug2023.pdf>.

¹⁵ Consent Order, *Comm’r of Fin’l Prot’n & Innov. v. SoLo Funds, Inc.*, at 6 (Cal. Dep’t DFPI May 8, 2023), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/05/Consent-Order-SoLo-Funds-Inc.pdf>.

¹⁶ Consent Order, *In re SoLo Funds Inc.*, NMLS # 1909701 (Ct. Banking Comm’r May 16, 2023) <https://portal.ct.gov/-/media/DOB/Enforcement/Consumer-Credit/2023-CC-Orders/SOLO-FUNDS-INC---CO.pdf>.

¹⁷ Assurance of Voluntary Compliance, *Commonwealth of Pennsylvania v. Solo Funds, Inc.*, Case ID: 240700170 (Philadelphia Court of Common Pleas, July 1, 2024), <https://www.attorneygeneral.gov/wp-content/uploads/2024/07/2024-07-02-SoLo-AVC.pdf>.

¹⁸ Consent Judgment and Order, *District of Columbia v. SoLo Funds, Inc.*, No. 2023 CAB 002665 (Sup. Ct. D.C. May 8, 2023), <https://oag.dc.gov/sites/default/files/2023-05/DC%20v.%20Solo%20Funds%2023%20CAB%202665%20Consent%20Order%20%20Final%20Judgment.pdf>

¹⁹ Consent Order, *In re Comm’r of Fin’l Prot’n & Innov. v. SoLo Funds, Inc.*, at 6-7 (Ca. Dep’t Fin. Prot. & Innov. May 8, 2023), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/05/Consent-Order-SoLo-Funds-Inc.pdf>.

²⁰ *Id.* at 7.

²¹ U.S. Gov. Accountability Office, GAO023-105536, at 21, *supra* note 4

historically advanced by the payday lending industry, which argued that payday loan products are not actually loans, but rather deferred check-cashing services.²²

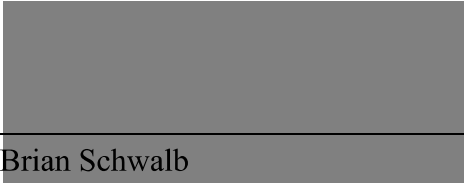
In responding to the tactics used by payday lenders, Massachusetts, for example, recognized that the “[e]nforcement of [pre-20th century] usury laws was largely thwarted by the ingenuity of lenders in exacting from borrowers, in addition to lawful interest, other sums variously described as commissions, fees, charges for services and expenses.”²³ Massachusetts has taken a robust view of interest and expenses, with both the Criminal Usury Statute and the Small Loan Law defining interest and expenses broadly to include sums paid by a borrower for making or securing a loan.²⁴ New York’s Court of Appeals has similarly held that the terms “loan” and “interest” are to be construed broadly when applying its usury laws because the “usurer usually seeks to conceal the usury”; thus “if the court can see that the real transaction was the loan or forbearance of money at usurious interest, its plain and imperative duty is to so declare,” regardless of the name or legal form given by the parties.²⁵ Exempting EWA products from the robust framework of state and federal lending laws designed to protect vulnerable consumers would foster a new wave of predatory payday loans.

Protecting consumers from abuse at the hands of lenders in stronger bargaining positions has long been a priority of our States.²⁶ Usurious EWA products, though presenting themselves as novel financial products, present a risk to vulnerable consumers that is all too familiar to the States that have been combatting predatory lending products for decades. We commend the CFPB for taking this important step in protecting consumers.


Sincerely,



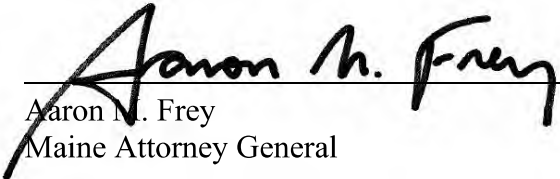
Andrew
Massachusetts Attorney General



Brian Schwalb
District of Columbia Attorney General



Kathleen Jennings
Delaware Attorney General



Aaron M. Frey
Maine Attorney General

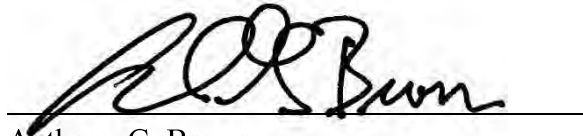
²² Nat’l Consumer Law Ctr., *Testimony in Opposition to Maryland HB 1425/SB 998: Earned Wage Access Services*, House Economic Matters Committee (Mar. 1, 2024), <https://www.nclc.org/wp-content/uploads/2024/03/HB-1425-EWA-Testimony-of-NCLC-UNFAV.pdf>.

²³ *Noteman v. Welch*, 108 F.2d 206, 210 (1st Cir. 1939).

²⁴ Mass. Gen. L. ch 140 § 96 (2023); Mass. Gen. L. ch. 271 § 40 (2023).

²⁵ *Adar Bays, LLC- v. GeneSYS ID, Inc.*, 179 N.E.3d 612, 620 (N.Y. 2021).

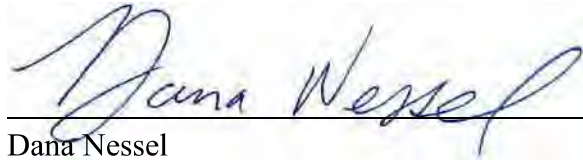
²⁶ *Id.* at 627.



Anthony G. Brown
Maryland Attorney General



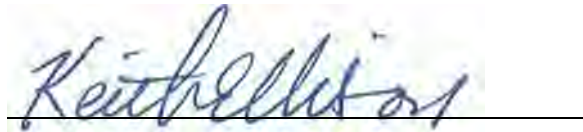
Letitia James
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Dana Nessel
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EXHIBIT B

**California Department of
Financial Protection and Innovation**

2021 Earned Wage Access Data Findings

Analysis completed Q1 2023

EXECUTIVE SUMMARY

This analysis provides an overview of the earned wage access (EWA) industry from data collected in 2021 through Memorandum of Understanding (MOU) Agreements between several EWA companies and the Department of Financial Protection and Innovation (DFPI). These findings focus on amounts advanced, annual percentage rates, days to repay, frequency of use, and other related information to assess impacts to consumers.

In general, the EWA companies considered in this analysis operate via two major fee structures: transactions and subscription fees. A transaction-based company may accept tips, charge fees, and collect optional fees for faster service. EWA companies that accept tips typically maintain that their tips are wholly voluntary and have no effect on their EWA services or availability of future EWA advances. Below are some key highlights of the 2021 Earned Wage Access Data Findings:

There was a total advanced amount of \$765 million reported by responding companies.

- For the 5.8 million transactions completed by tip-based companies, providers received tips 73% of the time.
- The average annual APR was 334% for tip companies and 331% for the non-tip companies.
- Tips generated a total of \$17.55 million in revenue, and optional fees generated \$6.24 million.
- When a tip was provided by the consumer, the average tip amount was \$4.09.
- Most advance amounts (80%) are between \$40 and \$100.
- The average quarterly growth rate for EWA transactions was 17%.
- The average time for consumers to repay was 10 days.
- Among the companies that reported the advanced amount as percent of paycheck, it ranged from 6% to 50% of pay.
- The transaction point of receiving and repaying the funds represented 67% of complaints from EWA customers.

BACKGROUND

The California Consumer Financial Protection Law (CCFPL) became effective in 2021, giving the Department expanded oversight authority to further protect consumers and respond to emerging

innovative financial products and services not previously regulated by DFPI.¹ In 2021, the DFPI entered into 11 MOU agreements with EWA companies, which requested quarterly data addressing advanced payment amounts, transactions, numbers of advance requests per customer, how transactions occur (e.g., through the employer, bank account, debit card), delinquencies, annual percentage rates, and other related information for 2021. A total of seven² EWA companies responded with quarterly summary reports, amounts advanced, charges, complaint information, and key terms.

BUSINESS MODELS & FEE STRUCTURES

Earned wage access companies are broadly based on two types of business models: 1) a business-to-business (B-to-B) model in which the EWA company contracts with employers who then roll the services into benefits for their employees and 2) a direct-to-consumer (D-to-C)³ model in which the EWA company works directly with the employee, eliminating the employer from transactions.

With a business-to-business model, the EWA company typically works with the employers' payroll processing function to gauge advance payment amounts (amounts cannot surpass the amount earned during the pay period) and arranges for repayments when employees are paid. Advances can be funded either by the employer (with the employee's salary deducted by the advance amount at the time of payroll processing) or by the EWA company that is reimbursed by the employer (who debits the employee's account) at the time of payroll processing.

In the direct-to-consumer model, the EWA company usually requests proof of employment or regular income from the consumer at the time of sign-up and requires access to a checking or savings account with direct deposits that will allow the EWA company to recoup the advances when users receive their regular income. The D-to-C model often has features such as integration with the consumer's bank account.⁴

Fee Structures

In general, the earned wage access companies considered in this analysis operate via two major fee structures: transactions and subscription fees.

Transaction-based companies

A transaction-based company may accept tips, charge fees, and collect optional fees for faster service. EWA companies that accept tips typically maintain that their tips are wholly voluntary and have no effect on their EWA services or availability of future EWA advances.

¹Department of Financial Protection & Innovation. (2022, June 1). *Glossary of Financial Terms*. The Department of Financial Protection and Innovation. Retrieved March 16, 2023, from <https://dfpi.ca.gov/ca-consumer-financial-protection-law/>.

² Of the eleven MOUs that were signed, two companies did not submit data, one company canceled their EWA service offering, and one submitted file types that were unusable.

³ Also known as business-to-consumer model.

⁴ Weinberger, Evan (2022, February 3). *Earned-wage access products face fresh scrutiny from CFPB, states*. Bloomberg Law. Retrieved March 16, 2023, from <https://news.bloomberglaw.com/banking-law/earned-wage-access-products-face-fresh-scrutiny-from-cfpb-states>.

A Note on Tips, APRs and Interest Rates.

An Annual Percentage Rate (APR) is the annual cost of credit expressed as a percentage. An APR is different from an interest rate because an APR can include fixed costs that a consumer pays in addition to periodic interest. In the “Annual Percentage Rate” section below, the DFPI includes tips in APR calculations. Stakeholders have various perspectives on how to treat EWA products and optional charges under the federal Truth in Lending Act (TILA). The DFPI takes no position on questions of federal law in this analysis, but includes tips in its APR calculations herein to help compare EWA products to other credit products like payday loans.

Subscription-based companies

A subscription-based company charges a fixed monthly fee and may accept optional charges for faster service.

In this analysis there were five transaction-based companies, of which three had a tip-based model and two had a non-tip-based model. In addition, there were two companies that had a subscription-based model. All seven companies are included in this analysis, except for the APR section. Monthly subscription-fee-based companies were excluded from APR calculations, as discussed further below.

METHODOLOGY & DATA

Data was collected using a standard template that was provided to companies upon signing the MOU. As a result of varying MOU start dates, complete calendar data is unavailable for some companies. The template included a request for summarized quarterly data, transaction level data and complaint data. However, transactional data did not always exactly match summarized quarterly and annual year to date numbers. This analysis uses transaction data when possible and, when necessary, quarterly reported data is utilized. Furthermore, transactional averages are weighted by the number of transactions. Data averages are based on simple non-weighted averages.

This analysis focuses on the following numeric data:

- Advance Payment Amounts
 - Advanced Payment Amounts by Model Type
- Annual Percentage Rates
 - Tip and Non-Tip models
 - Average APR by Advanced Amount
 - Amount Paid by Consumers
- Average Days to Repay
- Frequency of Use
- Number of Missed Payments
- Percent of Paycheck

A qualitative analysis is also carried out to highlight key trends within complaint data provided by

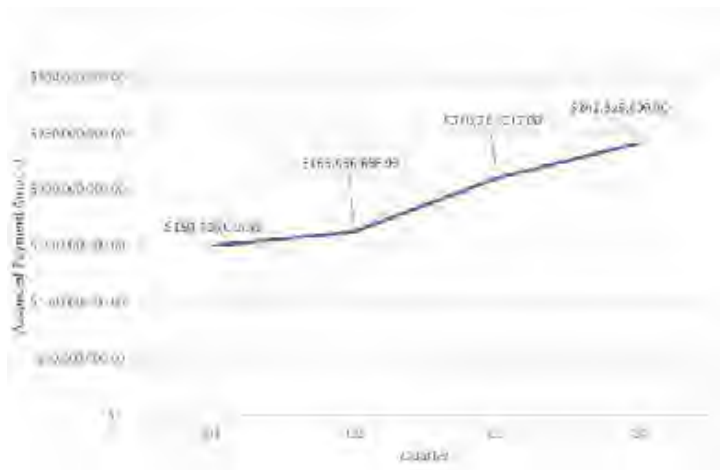
companies, as discussed further below.

NUMERIC DATA KEY FINDINGS

Advance Payment Amounts

In 2021, seven companies⁵ provided a total of approximately \$765 million⁶ in advance payments to California consumers. Across companies, there was a 60% increase in advanced amounts from Quarter 1 to Quarter 4, or approximately \$91 million worth of advanced amounts.

Figure 1: 2021 EWA Advanced Payment Amounts⁷



Advanced Payment Amounts by Model Type

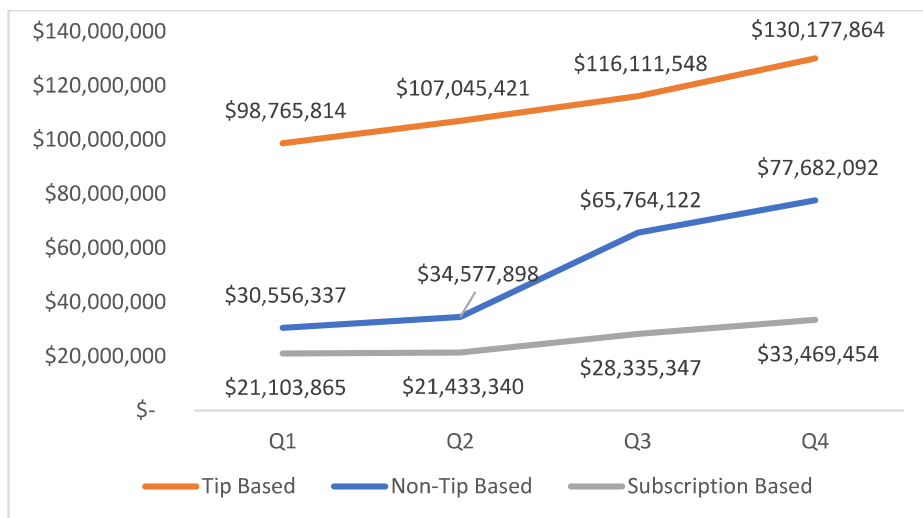
In 2021 companies using transaction fee structures advanced \$660,681,096 in funds to consumers. Of those, companies using tip-based models advanced \$452,100,647 and non-tip models advanced \$208,580,450. Companies with subscription fee structures advanced \$104,342,006 to consumers. For the seven companies combined, the average growth rate in advanced payments across quarters was 17%. The increase in advanced amounts is partially due to a 15% average quarterly increase in the transaction count growth rate.

⁵ Five companies included transactional data for all four quarters. Two of the companies reported transactional data for Quarters 3 and 4 only, but reported summary data for Quarters 1 and 2. For those two companies, the DFPI used their summarized quarterly reports for Quarters 1 and 2 to determine the Advanced Amounts for those quarters because transactional data was not available.

⁶ The numbers in this analysis are rounded to the nearest million, where applicable.

⁷ Based on a total of 8,372,087 number of transactions, of which, 7,818,068 are from all 7 company transaction level data plus Q1 and Q2 EWA Reports for the non-tip companies. Those with zeros or blank number of days to repay were removed for this report.

Figure 2: 2021 EWA Advanced Payment Amounts⁸



Annual Percentage Rates

The Annual Percentage Rate (APR) is the total cost of credit, including interest, fees, and other charges, expressed as an annual rate. The Annual Percentage Rate (APR) is the standard way to compare the annual cost of credit across loan products.⁹ In some cases, APRs can also reflect the interest rate, points, fees, and other charges paid.¹⁰

The DFPI includes mandatory fees, tips, and other optional fees¹¹ in the 2021 Annual Percentage Rate calculations discussed below to aid policy analysis and allow better comparisons with other forms of financing. DFPI applies a single advance, single payment transaction APR formula¹² used for financial products to understand total consumer costs for EWA products.

Both tip and non-tip companies under transaction-based fee structures are analyzed in this section. Subscription-based companies are excluded as further discussed in this document.

The APR formula utilized in this analysis is represented below.

⁸ Based on a total of 8,372,087 number of transactions, of which, 7,818,068 are from all 7 company transaction level data plus Q1 and Q2 EWA Reports for the non-tip companies. Those with zeros or blank number of days to repay were removed.

⁹ Department of Financial Protection & Innovation. (2002, June 1). *Glossary of Financial Terms*. The Department of Financial Protection and Innovation. Retrieved March 16, 2023, from <https://dfpi.ca.gov/glossary-of-financial-terms/>.

¹⁰ Consumer Financial Protection Bureau. (2020, September 4). *What is the difference between a mortgage interest rate and an APR?* Consumer Financial Protection Bureau. Retrieved March 16, 2023, from [https://www.consumerfinance.gov/ask-cfpb/what-is-the-difference-between-a-mortgage-interest-rate-and-an-apr-en-135/#:~:text=An%20annual%20percentage%20rate%20\(APR\)%20is%20a%20broader%20measure%20of,higher%20than%20your%20interest%20rate.](https://www.consumerfinance.gov/ask-cfpb/what-is-the-difference-between-a-mortgage-interest-rate-and-an-apr-en-135/#:~:text=An%20annual%20percentage%20rate%20(APR)%20is%20a%20broader%20measure%20of,higher%20than%20your%20interest%20rate.)

¹¹ Expedited access to advance.

¹² Consumer Financial Protection Bureau. (n.d.). *Appendix J to Part 1026 — Annual Percentage Rate Computations for Closed-End Credit Transactions*. Consumer Financial Protection Bureau. Retrieved March 16, 2023, from <https://www.consumerfinance.gov/rules-policy/regulations/1026/j/>.

Figure 3: APR Formula

$$\text{APR} = \left(\frac{\left[\frac{\text{Tips + Mandatory Fees + Optional Fees}}{\text{Advanced Amount}} \right]}{\text{Number of Days Taken to Repay}} \right) \times 365 \times 100$$

Annual Percentage Rates are calculated for five companies with transaction-based fee structures where they collect mandatory charges based on advance wage access transactions, accept tips, and/or may charge optional fees for faster service. Two of the five companies did not report days to repay for Quarters 1 and 2, and those quarters have been excluded from all APR calculations. Subscription Fee Structures are also excluded from the analysis section, as it is difficult to include subscription fee costs when making APR calculations. For this reason, APR calculations for subscription fee models would have understated the cost of subscription-based EWA programs if those calculations were included in the DFPI's analysis. This issue may warrant further study.

Tip and Non-Tip Models

The figure below identifies APRs for companies with tip-based transactions and those with non-tip transactions. Calculations are weighted based on the total number of transactions across all five companies in which APRs could be calculated. Tip models include three companies that accept tips and optional fees. Non-tip models include two companies that did not accept tips but charged transactional fees.

Below are some key findings:

- In 2021, for the 5,827,120 transactions completed by tip-based companies, providers received tips 73% of the time.
- The average APR for the three tip-based fee structure companies was 334%.¹³
 - The tip-based company APRs ranged between 328% and 348% (weighted quarterly average).
 - Tips generated a total of \$17.55 million in revenue, and optional fees generated \$6.24 million.
 - When a tip was provided by the consumer, the average tip amount was \$4.09.
 - Most advance amounts (80%) are between \$40 and \$100, with 51% between \$80 and \$100.
- The average APR for the two non-tip fee structure companies was 331%.¹⁴
 - Non-tip company APRs for Quarter 3 and Quarter 4 ranged between 315% and 344% (weighted quarterly average).¹⁵

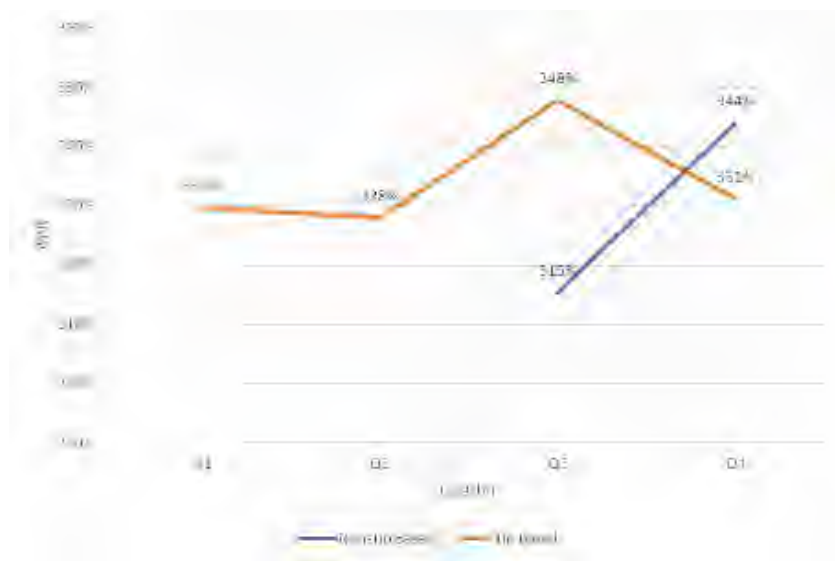
¹³ Based on a total of 5,827,120 transactions, across five companies (3 tip and 2 non-tip companies). Those with zeros or blank number of days to repay were removed for this report.

¹⁴ Does not include non-tip APRs for Q1 and Q2 because appropriate transaction level data was not available.

¹⁵ Fee Based APRs for Quarter 1 and Quarter 2 could not be calculated because transaction level data was not available.

- Fees generated a total of \$4.31 million in revenue.¹⁶

Figure 4: APRs by Model Type¹⁷



The APRs for both tip-based companies and non-tip company advances for EWA services are comparable to the average APRs for licensed payday lenders in California.¹⁸

Average APR by Advanced Amount

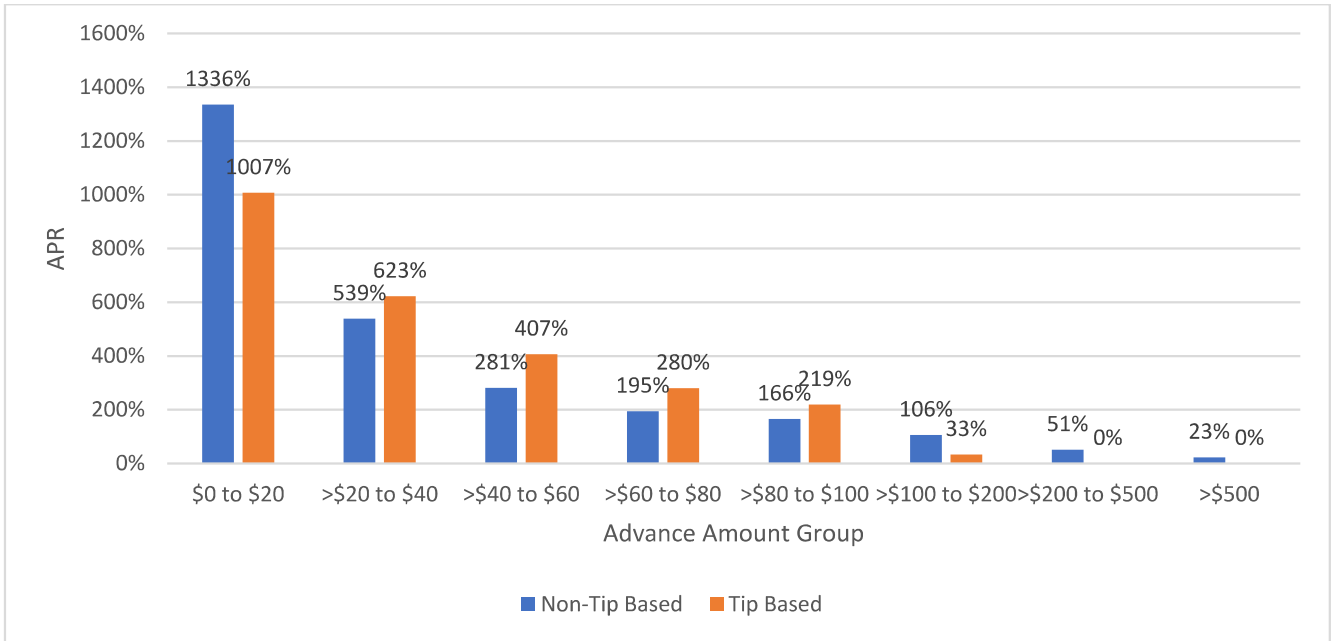
The figure below displays how consumers of both tip-based and non-tip-based companies who receive small advances (\$0-\$20) pay a higher APR than those that receive larger advances. In fact, those with advances larger than \$200 do not pay tips. Only 504 tip-based transactions were over \$200, and none of them tipped or had a fee. There were 167,991 non-tip-based transactions over \$200. However, the fee-to-advanced amount ratio decreases as the amount advanced increases.

¹⁶ Fees generated includes Q1 and Q2 fee amounts for non-tip models reported in the EWA reports plus Q3 and Q4 transactional data.

¹⁷ Based on 7,148,673 transactions across five transaction-based fee structure companies. Tip-based models account for 5,827,120 transactions. Non-tip models account for 1,321,553 transactions that did not include tips but may include other transactional fees. Non-tip company data was unavailable for Q1 and Q2. One company did not report days to repay and as result, APRs could not be calculated. Another did not begin reporting transactional data until Q3.

¹⁸ Department of Financial Protection & Innovation. (2022, July) *Annual Report of Payday Lending Activity Under the California Deferred Deposit Transaction Law*. Department of Financial Protection & Innovation. Retrieved March 16, 2023, from https://dfpi.ca.gov/wp-content/uploads/sites/337/2022/07/DFPI_AnnualReport_CDDTL-2021.pdf.

Figure 5: Tip-based and Non-Tip APRs by Advanced Amount¹⁹



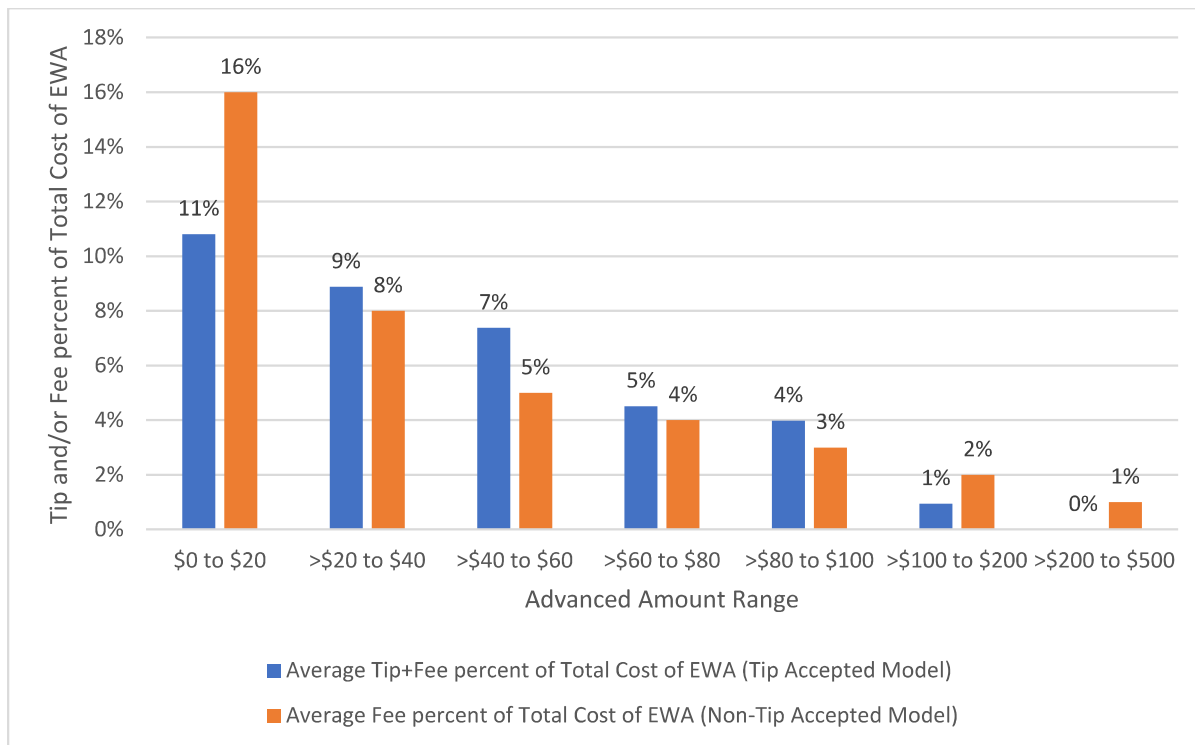
Both tip-based and non-tip-based companies average high APRs for smaller advanced amounts; however, non-tip-based companies average higher APRs on advanced amounts less than \$20 and tip-based companies have significantly higher APRs for ranges between \$20 and \$100. Further information may be required to understand the marketing, operations, and strategic decisions behind these figures.

Amount Paid by Consumers

The figure below displays the average percent paid in tips and fees in relation to the total amount repaid to EWA companies ((Tip + Fees) / (Tip + Fees + Advanced Amount)). Similar to the high average APRs for those consumers receiving smaller advances, as a whole, those with smaller advance amounts (less than \$20) are paying proportionately higher amounts (average tip + fee) across tip and non-tip models.

¹⁹ Based on 7,148,673 transactions across five transaction-based fee structure companies. Tip-based models account for 5,827,120 transactions. Non-tip models account for 1,321,553 transactions that did not include tips but may include other transactional fees. Non-tip company data was unavailable for Q1 and Q2. One company did not report days to repay and as result, APRs could not be calculated. Another did not begin reporting transactional data until Q3.

Figure 6: Amount Paid by Consumers²⁰



Average Days to Repay

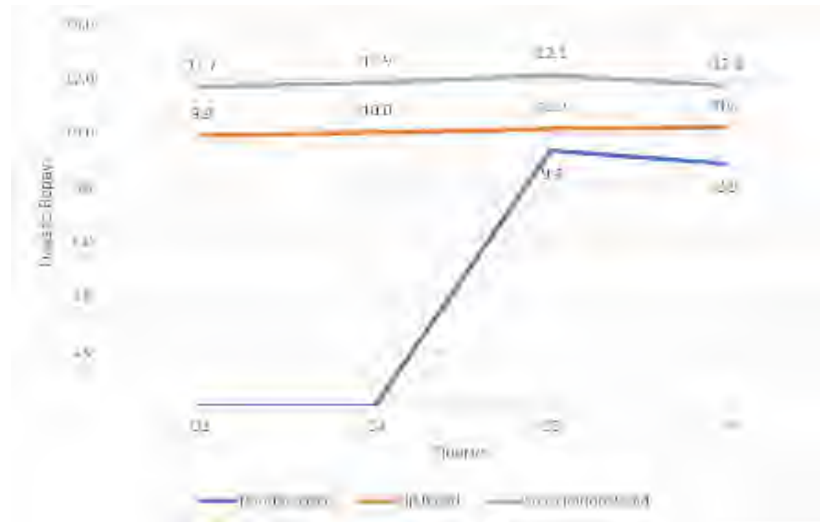
The average days to repay advances²¹ ranged from 8.9 to 12.1 days, with an average of 10.07 days. Average days to repay was based on the average of all transactions reported by companies for each quarter.

Subscription companies' customers averaged 11.9 days to repay, while tip and non-tip companies' customers averaged 10.1 and 9.1 respectively. For tip-based companies, one possible reason for longer repayment numbers may be less ability for these companies to recoup repayments from bank accounts that are not directly linked to payroll systems.

²⁰ Based on 7,148,673 transactions across five transaction-based fee structure companies. Tip-based models account for 5,827,120 transactions. Non-tip models account for 1,321,553 transactions that did not include tips but may include other transactional fees. Non-tip company data was unavailable for Q1 and Q2. One company did not report days to repay and as result, APRs could not be calculated. Another did not begin reporting transactional data until Q3. EWA Costs Percentages are calculated using the Formula $(\text{Tip} + \text{Fee}) / (\text{Tip} + \text{Fee} + \text{Advanced Amount})$. For example if Tip = \$10, Fee = \$10, and Adv Amt = \$100, the calculation would be: $(\$10 + \$10) / (\$10 + \$10 + \$100) = .1666$ or 16.66%.

²¹ The average calculation of all advances reported and repaid throughout the quarter. Or the time from the advance date to the time the EWA company obtained reimbursement.

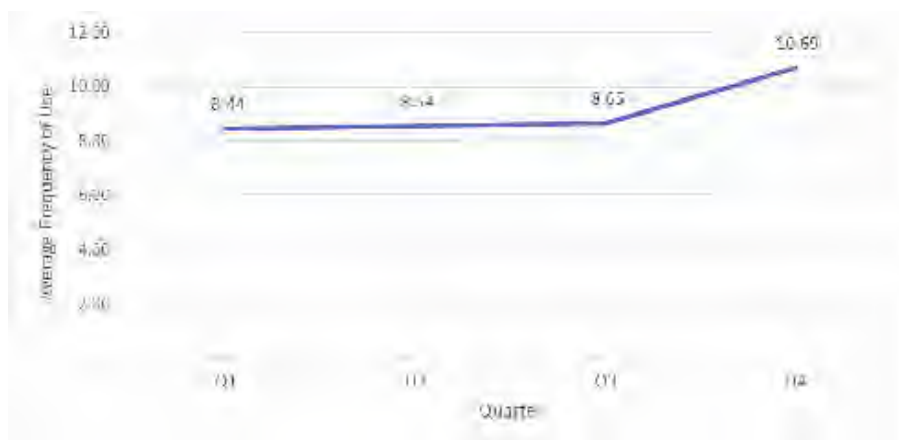
Figure 7: 2021 EWA Average Days to Repay by Tip/Non-Tip/Subscription²²



Frequency of Use

The average number of times a consumer used advances per quarter was nine and ranged from 1 to 25 times. Companies with higher transaction amounts have a higher frequency of use.

Figure 8: 2021 EWA Frequency of Use²³



Two companies had significant increases in consumer use frequency over the course of the year. One company had a two-fold increase, and the second had an eight-fold increase. Additional data and analysis may be required to explain the trends.

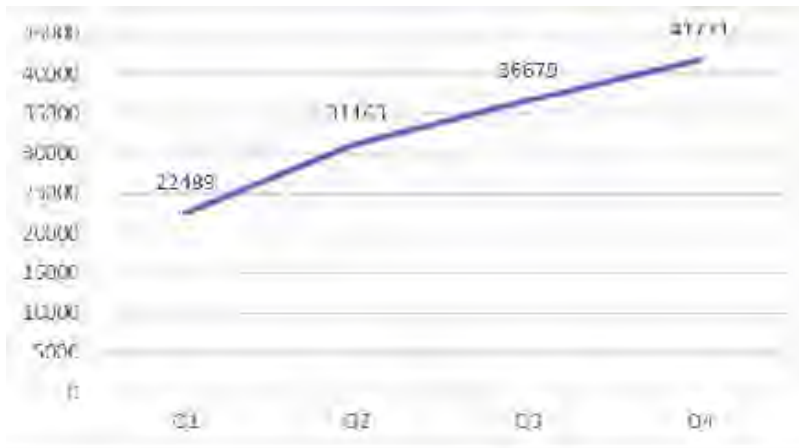
²² Based on 7,818,067 transactions across seven companies. Tip-based models account for 5,827,120 transactions. Non-tip models account for 1,321,553 transactions that did not include tips but may include other transactional fees. Non-tip company data was unavailable for Q1 and Q2. Subscription models account for 669,394 transactions.

²³ Based on company calculated data for six companies. One company did not provide Frequency of Use data.

Number of Missed Payments

The number of missed payments²⁴ ranged from 5 to 16,921 throughout the year, with the average being 5,504 across companies. Three companies had the highest number of missed payments in 2021. This may have been due to their D-to-C business models. The B-to-B model's integration with payroll systems allows companies to be repaid automatically and may more accurately calculate consumers' earned wages.

Figure 9: 2021 EWA Number of Missed Payments²⁵



Percent of Paycheck

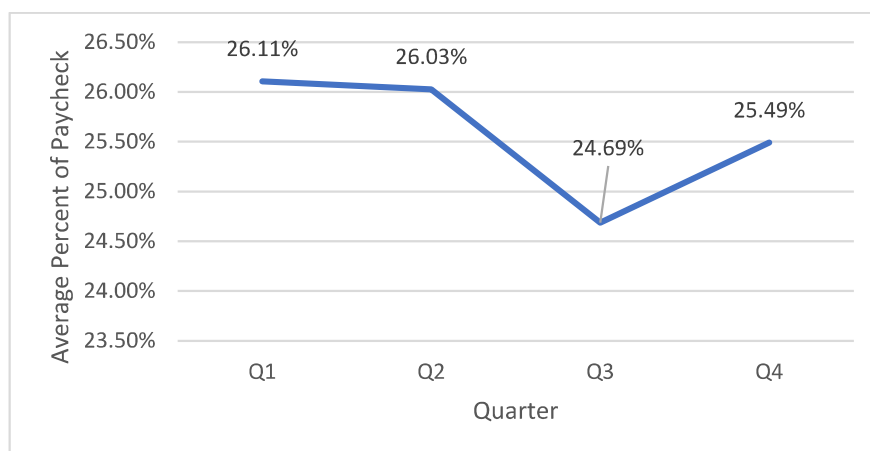
This metric, intended as a ratio, was described on the EWA template as “Money Advanced from Paycheck.”²⁶ The seven companies reviewed had various ways of reporting this metric. Three companies reported this metric as a percentage, while four companies reported this metric as a dollar amount. Percent of Paycheck among the three companies that reported this data point as a ratio ranged from 6% to nearly 50%.

²⁴ Missed payments refers to times when the provider does not collect a payment on the date originally scheduled for collection. Includes company-reported delinquent, default, and no payments.

²⁵ Based on company calculated data for six companies. One company did not provide Missed Payment data.

²⁶ One of the companies has a limit on the amount of money that can be advanced, \$250.

Figure 10: 2021 EWA Percent of Paycheck²⁷



COMPLAINT DATA

As part of the MOUs, companies were asked to provide information regarding complaints received and their resolutions. Reporting companies may have had different criteria for what they classified as a complaint. For this reason, the information reported below may not reflect a complete picture of the issues or concerns raised by EWA customers during the reporting period. In this section, a total of 345 complaints across six companies that responded to the requested MOU information were analyzed for trends.

Companies' consumer complaints occasionally entailed more than one issue. Issues were interlinked and not mutually exclusive. For example, an advance problem where a customer did not receive an advance could also be classified as a settlement problem when the customer experienced a reduction in their direct deposit because of the missing advance. In those cases, DFPI assigned the most appropriate or prominent category to the complaint or inquiry – or in this case, it would be coded as an advance issue.

Complaint/Inquiry Data Key Findings

Fund Transactions

The transaction point of receiving and repaying funds accounted for 67% of complaints and inquiries from those who used the service. Approximately 34% of complaints concerned settlement issues including claims that a consumer was overcharged for a repayment or the payment amount exceeded the advance amount.

Advance²⁸ payment issues accounted for 33% of claims that the advance was never issued, that a consumer was unable to receive a requested advance due to reaching their advance limit, or that the consumer was unable to access the advance request due to a technical or password problem.

²⁷ The above chart only displays companies that presented the metric, "Money Advanced from Paycheck" as listed in their quarterly EWA Summary as a ratio.

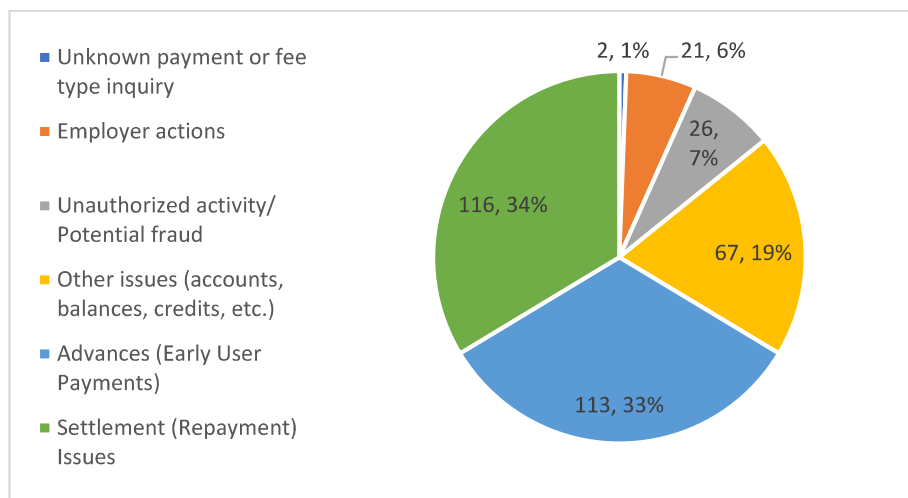
²⁸ Advances to workers or consumers prior to their normal pay cycle.

Other issues accounted for 19% of complaints and included incidents surrounding company-specific products, rewards, and EWA services, such as referral bonuses or bonuses to link a new account to the company’s advance payment application. In the case of one company, the EWA feature is part of a suite of products that may be directly or indirectly impacted by an EWA transaction.

Unauthorized activity and potential fraud accounted for 7% of consumer complaints or inquiries. Customers claimed to have unauthorized advance requests on their statements or that they did not set up an account. The DFPI review of both the claims and resolutions indicates that most of these customer claims were valid and the companies reimbursed repayments for fraudulent advances or closed accounts. In a few cases, the EWA company worked with customers to verify transactions, and the customers withdrew the fraud allegations. Further reporting may be required to clearly distinguish between unauthorized activity and potential fraud (for security risk).

Employer-related issues accounted for 6% of consumer inquiries. Complaints included employer actions such as notifying the EWA company of an employee’s leave, yet not informing the employee that they would no longer be able to use the advanced access feature of the EWA application. Another example would be if the employer neglected to inform an EWA company of a changed payroll date initiating settlement prior to a user’s payroll deposit, thus resulting in an overdraft. All the employer-related complaints occurred in companies with B-to-B business models. Problems for low-wage workers who work variable hours or may have extensive periods of leave warrant additional research.

Figure 11: 2021 EWA Complaint or Inquiry Types²⁹

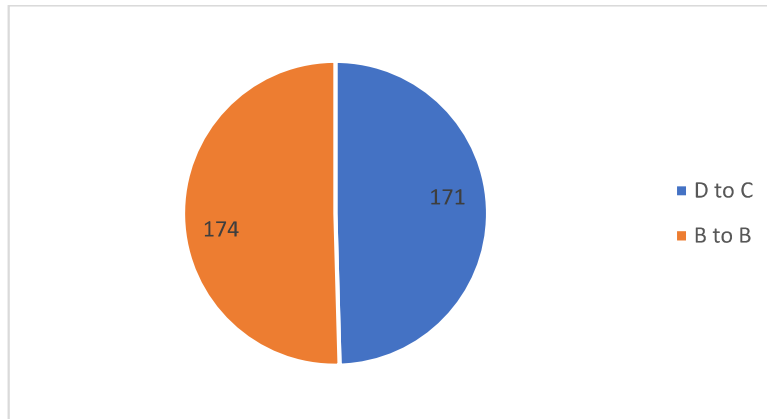


²⁹ Based on 345 complaints reported by six companies.

Complaints or Inquiries by Business Model

Complaints were nearly evenly split between B-to-B models (174) and D-to-C (171) models.

Figure 12: 2021 EWA Provider Complaints or Inquiries



CONCLUSION

These findings highlight early trends of earned wage access company practices in California based on data from several prominent market actors. However, further study is needed to understand full impacts to consumers. Additional consumer-level data on out-of-pocket costs, motivations for increased frequency of use, and the consumer demographics in EWA use (i.e., age, race, income, credit score, geography, etc.) would help the DFPI assess trends and risks.

EXHIBIT C

IN THE PHILADELPHIA COURT OF COMMON PLEAS
FIRST JUDICIAL DISTRICT OF PENNSYLVANIA
CIVIL TRIAL DIVISION

Filed and Attested by the
Office of Judicial Records
01 JUL 2024 04:02 pm
G. IMPERATO

COMMONWEALTH OF PENNSYLVANIA,
By Attorney General Michelle A. Henry,

Petitioner,

v.

SOLO FUNDS, INC.,

Respondent.

June Term, 2024

No. _____

ASSURANCE OF VOLUNTARY COMPLIANCE

AND NOW, comes the Commonwealth of Pennsylvania, acting by Attorney General Michelle A. Henry, (hereinafter “Commonwealth” or “Petitioner”), which investigated the business practices of SoLo Funds, Inc. (hereinafter “Respondent” or “SoLo”), pursuant to the provisions of the Pennsylvania *Unfair Trade Practices and Consumer Protection Law*, 73 P.S. § 201-1, *et seq.* (hereinafter “*Consumer Protection Law*”), the *Loan Interest and Protection Law* (“LIPL”), 41 P.S. § 101, *et seq.*, the *Consumer Discount Company Act* (“CDCA”), 7 P.S. §§ 6201-6219, and the *Fair Credit Extension Uniformity Act* (“FCEUA”), 73 P.S. § 2270.1, *et. seq.*, and states the following:

DEFINITIONS

WHEREAS, for purposes of this Agreement, the following definitions shall apply:

A. “Effective Date” of this Assurance of Voluntary Compliance shall be the day it is filed with the Court of Common Pleas of Philadelphia County, Pennsylvania.

B. “SoLo Platform” shall mean the website and mobile application operated by Respondent through which it facilitates small-dollar loans between individual consumer borrowers and lenders.

C. “SoLo Loan” shall mean a loan agreement between a consumer borrower and a lender made on the SoLo Platform.

D. “Pennsylvania Borrower” shall mean any individual borrower with a mailing address located in Pennsylvania.

E. “Pennsylvania Lender” shall mean any individual or other entity with a mailing address located in Pennsylvania who funds a SoLo Loan on the SoLo Platform.

PARTIES

WHEREAS, Petitioner is the Commonwealth of Pennsylvania by the Office of Attorney General, with offices located at 1600 Arch Street, 3rd Floor, Philadelphia, PA 19103.

WHEREAS, Respondent is a Delaware Corporation that maintains a principal place of business located at 555 West 5th Street, 35th Floor, Los Angeles, CA 90013.

BACKGROUND

WHEREAS, Respondent has engaged in trade and commerce within Pennsylvania by facilitating, negotiating, and processing small dollar SoLo Loans through the SoLo Platform to both Pennsylvania Borrowers and Pennsylvania Lenders.

WHEREAS, Respondent owns and operates the SoLo Platform, on which it facilitates small dollar SoLo Loans between lenders and borrowers of thirty-five days or less in duration.

WHEREAS, SoLo Loans typically involve payment of a “tip” to the lender and/or “donation” to Respondent in addition to repayment of the loan principal. SoLo Loan borrowers pay the tip and/or donation at the same time as they repay the SoLo Loan principal.

WHEREAS, under Section 201 of the *Loan Interest and Protection Law* (“*LIPL*”), 41 P.S. § 201, the maximum lawful rate of interest for the loan and use of money in an amount less than \$50,000 is six percent per year. The six-percent interest cap applies to all consumer lenders except those lenders who are licensed under the *CDCA*, and who make loans in accordance with the limitations and requirements of that statute. *See Pa. Dept. of Banking v. NCAS of Del., LLC*, 948 A.2d 752 (Pa. 2008).

WHEREAS, the *CDCA* prohibits persons from engaging in the “business of negotiating or making loans or advances of money on credit” in the amounts of \$25,000 or less and “charge, collect, contract for or receive interest, discount, bonus, fees, fines, commissions, charges, or other considerations which aggregate in excess of the interest that the lender would otherwise be permitted by law to charge” *See* 7 P.S. 6203.A. The Pennsylvania Supreme Court has established that “the effect of these two statutes [*CDCA* and *LIPL*] is that if a lender is licensed by the Department [of Banking] in accord with the *CDCA*, it can charge between 6–24% on loans under \$25,000. If it is not licensed, it is bound by the 6% cap imposed by the *LIPL*.” *Cash Am. Net of Nev., LLC v. Com., Dep’t of Banking*, 607 Pa. 432, 437–38, 8 A.3d 282, 285–86 (2010).

WHEREAS, the interest rate caps under the *LIPL* and *CDCA* apply to all credit-related charges, whether they are labeled interest or not. In interpreting the *CDCA*, the Pennsylvania Supreme Court has concluded that the statute “prohibits unlicensed lenders of under \$25,000 from charging interest and any type of other or additional charge or charges that aggregate in excess of six percent.” *See NCAS of Del.*, 948 A.2d at 653.

WHEREAS, based upon its investigation, the Commonwealth alleges the Respondent has engaged in conduct which violates the *Consumer Protection Law* as more fully set forth below:

1. The Commonwealth alleges that Respondent negotiated and facilitated SoLo Loans through the SoLo Platform involving Pennsylvania Borrowers and/or Pennsylvania Lenders where the finance charges of the loan exceeded that allowed under *LIPL* and *CDCA*, due to the Commonwealth's view that tips and donations should be included in the maximum interest rate.

2. The Commonwealth alleges that Respondent engaged in deceptive practices with regard to SoLo Loans involving Pennsylvania Borrowers and/or Pennsylvania Lenders that included a tip and/or donation by issuing disclosures that failed to include the tip and/or donation in the finance charges.

3. The Commonwealth alleges that Respondent engaged in deceptive practices by advertising to Pennsylvania consumers that SoLo Loans are "0% APR" with "no finance charge" when the loans included a tip and/or donation.

4. The Commonwealth alleges that Respondent engaged in unlawful practices in violation of Pennsylvania's *Fair Credit Extension Uniformity Act*, 73 P.S. § 2270.1, *et. seq.* and the *Consumer Protection Law*, by directing collections notices to Pennsylvania Borrowers stating that delinquent accounts would be reported to credit reporting agencies and would have a negative impact upon consumer credit scores, when in fact SoLo did not report account information to credit reporting agencies.

5. The Commonwealth alleges that Respondent caused a likelihood of confusion or misunderstanding by misrepresenting, explicitly or implicitly, that it was legal for Respondent to offer SoLo Loans on the SoLo Platform in excess of the rates permitted under Pennsylvania law. The Commonwealth alleges that these loans were void *ab initio* and are therefore uncollectible due to its view that tips and donations constituted finance charges exceeding the maximum rate of interest.

WHEREAS, the Commonwealth alleges that the aforesaid acts and practices constitute “unfair methods of competition” and/or “unfair or deceptive acts or practices,” as prohibited by Section 201-3 of the *Consumer Protection Law*, as defined by Section 201-2(4)(ii), (iii), (v), and (xxi) as follows:

1. Causing likelihood of confusion or of misunderstanding as to the source, sponsorship, approval, or certification of goods or services, 73 P.S. § 201-2(4)(ii);
2. Causing likelihood of confusion or of misunderstanding as to affiliation, connection or association with, or certification by, another, 73 P.S. § 201-2(4)(iii);
3. Representing that goods or services have sponsorship, approval, characteristics, ingredients, uses, benefits, or quantities that they do not have or that a person has sponsorship, approval, status, affiliation, or connection that he does not have, 73 P.S. § 201-2(4)(v); and
4. Engaging in any other fraudulent or deceptive conduct which creates a likelihood of confusion or of misunderstanding, 73 P.S. § 201-2(4)(xxi).

WHEREAS, Respondent agrees to cease and desist from engaging in the acts and practices alleged above and shall not violate the *Consumer Protection Law*, the *LIPL*, the *CDCA*, and/or the *FCEUA*.

WHEREAS, Respondent denies the Commonwealth’s allegations and denies that it has violated any law.

WHEREAS, this Assurance of Voluntary Compliance (“AVC”) is accepted by the Commonwealth pursuant to Section 201-5 of the *Consumer Protection Law*, in lieu of commencing statutory proceedings provided under Sections 201-4 of the *Consumer Protection Law* and shall not be considered an admission of a violation, 73 P.S. §§ 201-4 and 201-5.

SETTLEMENT TERMS

NOW THEREFORE, having conducted trade and commerce within the Commonwealth, Respondent agrees for itself, its successors, assigns, agents, employees, and all other persons acting on its behalf, directly or through any corporate or other business device, to the following:

I. Injunctive and Affirmative Relief

A. Respondent shall comply with any and all provisions of the *Consumer Protection Law* and any amendments thereto; and, is permanently enjoined from any violation thereof.

B. Respondent is enjoined and prohibited from violating the *LIPL*.

C. Respondent is enjoined and prohibited from violating the *CDCA*.

D. Respondent is enjoined and prohibited from violating the *FCEUA*.

E. Respondent may not direct any advertising or marketing to Pennsylvania consumers that uses the terms: “no interest”, “interest-free”, “no finance charge”, “0% APR”, or any other phrase that could lead a consumer to believe there is no interest associated with loans on the SoLo platform. Respondent has represented to the Commonwealth that it has discontinued any such practices and will not resume such in the future.

F. The SoLo Platform will be modified to prevent Pennsylvania Borrowers from submitting any loan request where the combined tip and donation exceed the interest rates permitted under *LIPL* and *CDCA*.

G. The SoLo Platform will be modified to prevent Pennsylvania Lenders from funding any loan request where the combined tip and donation exceed the interest rates permitted under Pennsylvania’s *LIPL* and *CDCA*.

H. For any SoLo Loan involving a Pennsylvania Borrower and/or Pennsylvania Lender, SoLo shall include any tip and/or donation in the disclosed finance charge. This may be

provided on a Pennsylvania specific disclosure to the extent it differs from the requirements of federal law or any other applicable law.

I. Respondent shall refrain from making statements to Pennsylvania consumers suggesting that delinquent loans SoLo Loans will be reported to Credit Reporting Agencies where SoLo makes no reporting of accounts on its platform to Credit Reporting Agencies. Respondent has represented to the Commonwealth that it has discontinued any such practices and will not resume such in the future.

J. On or before the Effective Date, Respondent shall immediately cease and desist from taking action to collect on any SoLo Loans, including any further payments of principal or interest, where (1) the borrower is a Pennsylvania Borrower and/or the lender is a Pennsylvania Lender, and (2) the combined tip and donation exceed six percent.

K. On or before sixty (60) days after the Effective Date, Respondent shall remove all information concerning any balance on a SoLo Loan from the online SoLo wallet account of any Pennsylvania Borrower.

L. If any Pennsylvania Borrower initiates a payment on a SoLo Loan after the Effective Date of this Agreement, Respondent shall refund to the Pennsylvania Borrower any tip and/or donation included in said payment. On or before one hundred thirty-five (135) days after the Effective Date, Respondent shall generate and provide the Commonwealth with a written report identifying any payments made by Pennsylvania Borrowers between the Effective Date and one hundred twenty (120) days after the Effective Date, along with the amount of tip and/or donation, if any, Respondent refunded for each.

M. Respondent represents that it has not furnished information concerning SoLo Loans to Consumer Reporting Agencies. Respondent shall refrain from furnishing negative credit

information concerning any SoLo Loan to a Pennsylvania Borrower or made by a Pennsylvania Lender prior to the Effective Date of this agreement to any Consumer Reporting Agency.

N. Respondent shall not refer or sell to a debt collector or other third party any SoLo Loan either made to a Pennsylvania Borrower or made by a Pennsylvania Lender prior to the Effective Date. If Respondent has already sold or referred any such SoLo Loan to a debt collector or other third party, Respondent shall make commercially reasonable efforts to call back or buy back such debt, and provide written proof that it has done so to the Commonwealth, within thirty (30) days of the Effective Date.

II. Monetary Relief

A. Respondent agrees to pay the sum of Two Hundred Eight Thousand One Hundred Seventy-One and 51/100 dollars (\$208,171.51)(hereinafter “Required Payment”), which shall be allocated as follows:

1. **Restitution** to borrowers in the amount of One Hundred Fifty-Eight Thousand Dollars (\$158,000), representing a portion of the tips, donations, and other fees and charges Pennsylvania Borrowers paid for SoLo Loans prior to the Effective Date that were originated at an interest rate in excess of 6% (“Restitution Amount”);
2. **Civil Penalties** in the amount of Twenty-Five Thousand Dollars (\$25,000) shall be distributed to the Commonwealth of Pennsylvania, Department of Treasury; and
3. **Costs of Investigation** in the amount of Twenty-five Thousand One Hundred Seventy-One and 51/100 Dollars (\$25,171.51) shall be distributed to the Commonwealth of Pennsylvania, Office of Attorney General, to reimburse part

of the costs incurred in its investigation, and shall be deposited in an interest-bearing account from which both principal and interest shall be expended for future public protection and education purposes.

B. Suspended Restitution and Suspended Civil Penalty

1. Additional restitution pursuant to Section 201-4.1 of the Consumer Protection Law is assessed against Defendants and in favor of the Commonwealth in the amount of Two Million Six Hundred Forty-One Thousand One Hundred Fifty-One and 79/100 Dollars (\$2,641,151.79) and shall be suspended at this time (herein referred to as the “Suspended Restitution”).

2. An additional civil penalty pursuant to Section 201-8(b) of the Consumer Protection Law is assessed against Defendants and in favor of the Commonwealth in the amount of Eight Hundred Sixty-Six Thousand Seven Hundred Twenty-Five Dollars (\$866,725) and shall be suspended at this time (herein referred to as the “Suspended Civil Penalty”).

3. The suspension of the Suspended Restitution and Suspended Civil Penalty are subject to the following:

a. Upon the issuance of a final order by the Court of Common Pleas of Philadelphia County or any court of competent jurisdiction finding that Respondent is in default of any of the terms and conditions of this Assurance of Voluntary Compliance, the Suspended Restitution, Suspended Civil Penalty, and any other relief ordered by the Court, including any further restitution pursuant to Section 201-4.1 of the *Consumer Protection Law* or further civil penalties pursuant to Section 201-8(a) of the *Consumer Protection Law*, shall become immediately due and payable by the Respondent and a judgment shall be entered by the Court of Common Pleas of Philadelphia County or such court of competent jurisdiction against

Respondent and in favor of the Commonwealth, in the full amount of the Suspended Restitution, Suspended Civil Penalty, and any other relief ordered by the Court.

b. A default by Respondent shall include, but not be limited to, Respondent defaulting on, failing to comply with, or in any way breaching or violating any of the terms, representations, conditions, agreements, or requirements of this Assurance of Voluntary Compliance.

III. Payment Terms

A. Consumer Refunds

1. The Commonwealth shall use the funds paid by Respondent as restitution: (a) to distribute funds to borrowers as the Commonwealth directs, and (b) to pay for costs and expenses of any settlement administrator. After the Commonwealth or its settlement administrator has completed the distribution of restitution funds to borrowers, including making reasonable attempts to contact payees of uncashed check and waiting a reasonable period of time of not less than ninety (90) calendar days, all uncashed checks may be voided. Once such uncashed checks have been voided, any remaining funds in the restitution account (including any accrued interest) will be distributed to the Commonwealth to be deposited in an interest-bearing account from which both principal and interest shall be expended for public protection and education purposes.

2. The Commonwealth shall have sole discretion concerning the distribution of restitution funds which may include determining the Pennsylvania Borrowers who made loans on the SoLo Platform, the nature and amount of borrower payments, and directing a settlement administrator to make payments to those borrowers.

3. Respondent shall promptly comply with all requests from the Commonwealth for information in Respondent's possession concerning Pennsylvania Borrowers that is required to distribute restitution payments including but not limited to, borrower names, mailing addresses, phone numbers, and e-mail addresses. At the Commonwealth's request, Respondent shall also provide social security numbers for any Pennsylvania Borrower(s) for whom the Commonwealth or its settlement administrator will need to perform a skip trace.

3. After Respondent has made the Required Payment, Respondent shall no longer have any property right, title, interest, or other legal claim to the funds held in escrow.

B. Payment to the Commonwealth

1. Respondent shall pay the sum total of the Civil Penalties and Costs of Investigation (the "Monetary Payment") of \$50,171.51 on or before the Effective Date.
2. Respondent shall pay the Restitution Amount of \$158,000.00 on or before forty-five (45) days after the Effective Date.
3. Respondent shall submit the Restitution Amount and the Monetary Payment by wire transfer or by certified check, cashier's check, or money order, made payable to the Commonwealth of Pennsylvania, Office of Attorney General, and forwarded to the attention of: Debra Djupman Warring, Esq., Pennsylvania Office of Attorney General, 1600 Arch Street, Suite 300, Philadelphia, PA 19103.

III. Miscellaneous Terms

A. The Philadelphia Court of Common Pleas shall maintain jurisdiction over the subject matter of this AVC and over the Respondent for purpose of enforcement of the terms of this AVC.

B. Time shall be of the essence with regards to Respondent's obligations hereunder.

C. Any failure of the Commonwealth to exercise any of its rights under this AVC shall not constitute a waiver of its rights hereunder.

D. Travis Holoway, CEO of SoLo Funds, Inc., hereby states that he is authorized to enter into and execute this AVC on behalf of SoLo Funds, Inc.

E. Respondent is and has been represented by legal counsel and has been advised by their legal counsel of the meaning and effect of this AVC.

F. Respondent shall not, directly or indirectly, form a separate entity or corporation for the purpose of engaging in acts prohibited by this AVC or for the purpose of circumventing this AVC. This prohibition does not in any way limit the respondent from applying for and obtaining a Consumer Discount Company Act license, or creating a separate entity or corporation to apply for and operate in compliance with the Consumer Discount Company Act, as determined by the Pennsylvania Department of Banking, or operating pursuant to other Pennsylvania statutes.

G. Respondent further agrees to execute and deliver all authorizations, documents, and instruments which are necessary to carry out the terms and conditions of this AVC, whether required prior to, contemporaneous with, or subsequent to the Effective Date, as defined herein.

H. Nothing contained in this AVC shall be construed to waive or limit any individual right of action by any consumer, person, or entity, or by any local, state, federal, or other governmental entity.

I. Respondent agrees by the signing of this AVC that Respondent shall abide by each of the aforementioned provisions and that the breach of any one of these terms shall be sufficient warrant for the Commonwealth of Pennsylvania to seek penalties provided for under Section 201-8(a) of the *Consumer Protection Law*, 73 P.S. § 201-8(a), and to seek any other equitable relief which the Court deems necessary or proper, up to and including forfeiture of the right to engage in trade or commerce within the Commonwealth of Pennsylvania.

J. This AVC may be executed in any number of counterparts and by different signatories on separate counterparts, each of which shall constitute an original counterpart hereof and all of which together shall constitute one and the same document. One or more counterparts of this AVC may be delivered by facsimile or electronic transmission with the intent that it or they shall constitute an original counterpart hereof.

K. Respondent understands and agrees that if it has made any false statement in or related to this AVC, that such statement is made pursuant to and under penalty of 18 Pa. C.S. § 4904 relating to unsworn falsifications to authorities.

L. This AVC sets forth all of the promises, covenants, agreements, conditions, and understandings between the parties, and supersedes all prior and contemporaneous agreements, understandings, inducements, or conditions, express or implied. There are no representations, arrangements, or understandings, oral or written, between the parties relating to the subject matter of this AVC that are not fully expressed herein or attached hereto. Each party specifically warrants that this AVC is executed without reliance upon any statement or representation by any other party hereto, except as expressly stated herein.

M. If any clause, provision, or section of this AVC shall, for any reason, be held illegal, invalid, or unenforceable, such illegality, invalidity, or unenforceability shall not affect any other

clause, provision, or section of this AVC and this AVC shall be construed and enforced as if such illegal, invalid, or unenforceable clause, section, or other provision had not been contained herein.

N. Neither Petitioner nor Respondent shall be considered the drafter of this AVC or any of its provisions for the purpose of any statute, case law, or rule of interpretation or construction that would or might cause any provision to be construed against the drafter of this AVC.

O. All references to time periods herein refer to calendar days, not business days.

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WHEREFORE, intending to be legally bound, the parties have hereto set their hands and seals.

For the Petitioner:
COMMONWEALTH OF PENNSYLVANIA

MICHELLE A. HENRY
Attorney General

Date: April 1, 2024

By: 

Debra Dujman Warring
Senior Deputy Attorney General
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For the Respondent Corp.:
SOLO FUNDS, INC.

Date: _____

By: 

Travis Haloway
Chief Executive Officer
555 W. 5th Street, 35th Floor
Los Angeles, CA 90011

COMMONWEALTH OF PENNSYLVANIA
BY Attorney General MICHELLE HENRY,

Petitioner,

June Term 2024

v.

No. _____

SOLO FUNDS, INC.,

Respondent.

CERTIFICATE OF SERVICE

Undersigned counsel does hereby certify that a true and correct copy of the foregoing Assurance of Voluntary Compliance was served on the following via U.S. Mail, postage prepaid and electronic mail on the date noted below:

Collin Schwartz, Esquire
Solo Funds, Inc.
155 W. 5th Street, 35th Floor
Los Angeles, CA 90015

Date: 7/12/2024

By: Debra D. Waring
Debra D. Waring
Senior Deputy Attorney General
Counsel for Petitioner

EXHIBIT D

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REPORT ON SMALL LOAN COMPANIES

Findings and Recommendations by
Department of Banking

(As Per HOUSE RESOLUTION NO. 180 Adopted June 21, 1933)

Case ID: 250301441



Original from
UNIVERSITY OF MICHIGAN



Case ID: 250301441



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MESSAGE TO HOUSE

February 9, 1937

Hon. Roy E. Furman
Speaker of the House of [redacted]
Harrisburg, Pennsylvania

My dear Mr. Speaker:

I have the honor to submit the attached report covering the activities of small loan companies operating within the Commonwealth of Pennsylvania and elsewhere as requested by the House of Representatives in a resolution adopted June 21, 1935.

In addition to exploring the methods and ~~activities of small loan~~ companies the Department of Banking has endeavored to give the members of your Honorable Body a complete picture of the field of consumer credit as it exists within our borders today.

For many years our nation has been expanding its productive agencies, increasing the scope of agencies designed to lend for productive purposes. As a result production has outstripped consumption, a ~~factor which has~~ undoubtedly ~~increased~~ the depth of the depression through which we have just passed. We must now turn our attention to the expansion of consumer credit.

It is my ~~firm conviction that~~ nothing the Legislature can do will contribute more substantially to recovery than bringing credit within the grasp of the man or woman of limited means. Not only must small loan companies be ~~properly regulated~~ and their rates of interest kept within proper bounds but we must, if we are to serve the public fully, regulate the important business of pawnbroking, ~~and~~ and provide agencies to lend between the \$300 limit imposed on the small loan companies and the \$1000 ~~character loan which the average bank in our industrial and commercial centers sometimes find difficult to lend.~~

Consequently in the conclusion appended to this report you will find ~~recommendations~~ of the Department of Banking pertaining not only to small loan companies but also to pawnbrokers and a new type of agency which we have termed "consumer discount companies." Bills have already been presented to the House of Representatives designed to regulate and license pawnbrokers, foster the growth of credit unions and provide for the incorporation of consumer discount companies.

We have also prepared a bill embodying ~~our recommendations~~ on small loan companies which will be in your hands today for study. I am happy to be able to say that ~~these measures~~ have the full approval of ~~the Administration.~~

I hope that the report, which is ~~herewith~~ respectfully submitted, will receive careful study from the members of your Honorable Body ~~and that measures~~ designed to carry out the ~~recommendations~~ of the report will be incorporated into law.

Very truly yours,

LUTHER A. HARR,
Secretary of Banking.

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RESOLUTION

To the Honorable Members of the
House of Representatives of the
Commonwealth of Pennsylvania.

BE IT ~~ENACTED~~, That on the twenty-first day of June, 1935, the House of ~~Representatives~~ of Pennsylvania adopted the following resolution sponsored by Messrs. ~~McClintock and G. C. ...~~:

Whereas, Many bills were introduced at this Session of the General Assembly ~~seeking~~ the amend the law governing companies authorized to make small loans; and

Whereas, Notwithstanding the apparent need, therefor, the Legislature has failed to enact any legislation on this subject; therefore be it

Resolved, That the Department of Banking be directed to make a study of the conditions and law under which small loan companies are operating in this and other states and countries, and make report thereon to the next regular session of the House of Representatives, together with such draft of legislation as is deemed necessary to correct deficiencies and inequities in the present law;

Resolved, That a copy of this resolution be ~~transmitted to the~~ Department of Banking by the Chief Clerk of this House.

In accordance with the above resolution the Secretary of Banking has undertaken an extensive study of the business of lending money in Pennsylvania in sums of \$800, or less, as well as other forms of consumer credit.

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FOREWORD

The problem of legislating on the subject of interest rates is not new to Pennsylvania nor is it confined to this State. Volumes have been written in condemnation and in defense of the taking of interest. The problem is as old as history of mankind. It has been a constant controversy between the lender having capital and the borrower desiring the use of such capital. It has been only recently that the distinction between loans for production and consumption was recognized. In this study we are concerned only with the latter type of loan.

Under the classification of loans for consumption are included personal loans by small loan act licensees, pawnbroker's loans, financing of installment sales, financing the payment of insurance premiums, merchant's open credit accounts, credit union loans and banking institution personal loans. A consumption loan may be defined as one in which the proceeds are used by the borrower to purchase some article of ~~personal use~~ or to pay some personal obligation. It is distinguished from a production loan in that it is not used to create or enlarge capital.

Legislation on the subject of consumer ~~loans~~ if it is ~~merely prohibitive~~. Capital ~~is~~ this phase of financing by reason of the existence of a very definite economic demand. This demand arises from human necessities and requirements. Legislation governing and regulating ~~consumer credit~~ must permit the flow of ~~available~~ capital into these channels to meet the existing demand if it is to be successful.

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HISTORICAL

Statistics show that 85% of the people of this country have no bank credit. Prior to the passage of special legislation restricting and governing the lending of money in small amounts for consumption purposes the members of this class were compelled, as their only recourse, to borrow from lenders operating outside the law. These lenders were commonly referred to as "loan sharks." The rates charged by the "loan sharks" varied greatly. The minimum average rate charged by these lenders was 120% per year. There seems to have been no limit to the maximum which a borrower might be required to pay. In the investigation of specific cases rates of 1000% per year were not uncommon. These conditions attending the business of lending money in small amounts throughout Pennsylvania received the serious attention of police officials, charitable agencies and finally of the legislature.

In Pennsylvania the legislature first attempted to regulate the small loans business by the Act No. 90 approved May 11, 1909, P. L. 518. This act was held unconstitutional in the application of the Jefferson Credit Company July 20, 1909, 18 Dist. R. 634. The Court in this case based its decision on the contention that the act constituted special legislation and attempted to legalize wage assignments which was contrary to the established policy of the Commonwealth.

In 1911 the Legislature passed House Bill No. 632. This bill made it unlawful to lend money on personal property unless such property was delivered to the possession of the lender who in turn was authorized to make a "reasonable charge" for storage. This bill also attempted to legalize assignment of wages. This bill was vetoed by Governor Tener on the grounds that it encroached upon the constitutional rights of the individual in prohibiting loans on unpledged personal property.

The next attempt to legislate on the subject was the Act No. 285 approved June 5, 1913, P. L. 429. This act authorized an interest charge of 6% per year plus an additional charge of one-tenth of the amount loaned but did not restrict the amount of the loan on which these charges could be collected. On loans of \$50.00 or less a charge of \$1.00 could be exacted in addition to the above. This act was declared unconstitutional by the Supreme Court of Pennsylvania on March 15, 1915 in the case Young v. Young, 248 Pa. St. 458. Here again the courts held that the act constituted special legislation in that it provided for an unreasonable classification of lenders.

The first act to amend the law of Young v. Young was the Act No. 432 approved June 17, 1915, P. L. 1012. This act permitted licensed lenders to make loans in sums of \$300 or less to individuals pressed by lack of funds to meet immediate necessities. The rates fixed by this statute were 3% per month on loans of \$100 or less and 2% per month on loans from \$100 or \$300. In addition an examination charge of \$1.00 was four months on loans up to \$50.00 and a \$2.00 charge on loans in excess of \$50.00. The Supreme Court of Pennsylvania held this act constitutional on

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April 22, 1919 in the case Commonwealth vs. Puder 261 Pa. St. 129. The court held that the limitation of the amount of the loans to \$300 was a valid basis for classification for the business of lending money in small amounts, with or without security.

In 1919 the Legislature by the Act No. 189, approved June 4, 1919, P. L. 375 amended the Act of 1915. By this amendment the interest rate on all loans of \$300 or less was fixed at 3½% per month and all fees or other charges were prohibited.

Since 1919 there has been no change or amendment in the Statute. At every session of the legislature acts were introduced to amend this act by reduction of the rate of interest permitted, but in every instance the acts failed to pass.

OPERATION OF THE SMALL LOAN BUSINESS

The licenses under the Small Loans Act of Pennsylvania are issued by the Secretary of Banking. The licenses are issued only after a careful investigation has been made of the character and reputation of the applicants. At least once each year the Secretary of [redacted] his representatives makes an examination of the affairs of every licensed lender. The scope of this examination covers not only the legal aspects of the business but takes into consideration also the moral obligation of the lender to the borrowing public and society in general. The Department will not permit a lender to use harsh [redacted] collection methods on delinquent borrowers who are unable to pay by reason of unfortunate circumstances. On the other hand, the Department cannot protect the borrower who is able to pay his just obligation but resists every attempt of the lender to collect.

Loans are made under the small loans act with or without security. The greater portion of the business is, of course, comprised of loans made on the security of household furniture. Co-maker loans, real estate loans and loans on the security of automobiles are next in point of volume. There are also loans on the security of personal property such as diamonds and watches, loans on insurance policies, loans on stocks and bonds, and, of comparatively recent origin, loans made on the security of a single name note to school teachers and others having a permanent income.

The household furniture loans are probably the most hazardous. They are made on the security of household furniture owned and used by the borrower. The borrower is deprived of the use of this furniture during the term of the loan. A source of considerable loss in this type of loan is the case where a borrower moves his furniture without the knowledge of the lender and becomes a "skip." In the larger cities it is a difficult task to locate the "skip" account. If the account becomes delinquent the furniture constituting the security is of little or no value to the lender. It is not customary for [redacted] a writ and have the furniture seized and sold for default in the payment of the account. If the lender does seize the security on a loan the proceeds realized from its sale are seldom sufficient to pay the account. Cases in which the borrower is [redacted] of his furniture are rare. In no

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cases coming to the attention of this Department has a borrower been deprived of his household possessions if he making ~~any effort to~~ pay and had defaulted by reason of circumstances beyond his control. There are ~~several instances~~ under which the borrower voluntarily relinquishes possession of the furniture. Statistics in the Department of Banking show that during the year 1935 in 22 cases of a total of 211,243 accounts the borrower was compelled to relinquish household furniture given as security for a loan and in 103 cases the borrower voluntarily ~~surrendered household~~ possessions given as security on a loan. In connection with loans made on the security of household furniture a small percentage of licensees request the borrower to furnish life insurance which will protect the lender in case of death of the borrower to the extent that the loan balance will be ~~liquidated by~~ payment of the insurance policy. The cost of this policy, when obtained for the borrower by the licensee, is generally at the rate of \$1.00 per \$100 of the face amount of the loan when the liability of the insurance company is limited to the unpaid principal balance and \$2.00 per \$100 ~~when the insurance~~ company becomes liable for an amount equal to the original amount of the loan.

The co-maker loans are specialized in by the ~~industrial loan~~ companies ~~otherwise referred to as~~ imitation Morris Plan companies. The security on these loans is the endorsement or guarantee by one or more persons having an income independent of that of the borrower. In many cases a borrower ~~involuntarily~~ goods from a merchant applies for a loan for the purpose of paying such goods and the merchant endorses or guarantees the note. On many loans in this classification the notes are entered of record against the borrower and ~~the~~ co-makers. The cost of this entry and ~~satisfaction is borne~~ by the borrower and constitutes a cost in addition to the interest charge. In ~~numerous instances~~ the borrower is required to furnish life insurance for the protection of the lender and the endorsers in case of death of the borrower. The cost of this insurance when obtained by the licensee for the borrower compares with that of similar ~~loans~~ in connection with household furniture loans.

Licensees granting loans on the security of real estate insist that either the borrower or an endorser has an equity in real property sufficient to protect the loan. The notes on loans of this type are generally recorded and the costs of recording and ~~the~~ paid by the borrower as a charge in addition to the interest. In a small percentage of these loans the borrower is required to furnish life insurance as ~~previously explained~~ for the protection of the lender and endorser.

There are a number of licensees specializing in loans on the security of automobiles. Recently licensees who formerly confined their business to household furniture loans have entered the field of ~~loans~~. In a loan of this type it is the general practice for the lender to have a lien recorded ~~on the title to the car~~. The cost of recording such lien is \$2.50 ~~including notary~~ fees if the lender holds ~~a~~ and \$4.50 ~~including notary~~ fees if

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the lender does not hold a dealer's license. This cost is paid by the borrower in addition to the interest. The majority of licensees lending on the security of automobiles require the borrower to furnish insurance protecting the lender. In some cases only fire and theft and single interest collision insurance is required. In other instances conversion and other forms of protection are demanded of the borrower. The cost of this insurance varies considerably, the minimum charge being an average of \$5.00. The cost of this insurance is paid by the borrower and is in addition to the interest charge.

Loans on the security of jewelry are exceptional. In these cases the lender takes the security in his possession. A description of the security is written into the collateral form of note. The borrower has no cost on these loans other than the interest charged.

Loans having as security the cash surrender value of life insurance policies or the short rate accumulation value of other types of insurance are infrequent. A description of the policy is written in the note obligation and an assignment thereof is taken as security. The only cost to the borrower on this type of loan is the interest charge.

Since the average bank will grant loans on the security of stocks and bonds, this type of collateral is not generally obtained by the small loans act licensees. The stocks or bonds which are pledged with licensees are generally unlisted or local securities which do not have a ready market. A collateral form of note is obtained in which the description of the securities is written and an assignment is required when the security is a stock certificate. The interest charged is the only cost to the borrower on this type of loan.

Until quite recently licensees refused to grant loans to unmarried persons on a single signature. The first departure from this custom was the granting of loans to school teachers who in many cases were unmarried. Many licensees will today grant loans to individuals on their own signatures, whether married or unmarried, regardless of any security. The only assurance which the lender has for the repayment of this type of loan is the character of the borrower. These loans require a very careful credit analysis of the applicant for a loan. As in the household furniture loans and the co-maker loans, many licensees require the borrower to furnish life insurance in connection with this type of loan.

The charges for recording and satisfaction of judgments of record, for placing an encumbrance on the title of an automobile, and for the premium on life insurance and automobile insurance are collected by licensees as a charge in addition to the interest by authority of opinions written by various Attorneys General. In each instance the Attorney General writing such an opinion has held that such charges are not within the prohibition contained in Section 2 of the Small Loans Act in spite of this very definite prohibition that "no fees, fines, or other charges, either in addition to or as a part of the above specified interest, shall be charged or collected under any pretext whatsoever."

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RATES CHARGED IN PENNSYLVANIA UNDER

The Small Loans Act as now in force permits a maximum interest charge of $3\frac{1}{2}\%$ per month calculated on ~~unpaid~~ ~~of~~ ~~total~~ balances. This rate is not the contract rate being charged in Pennsylvania today on all loans. Since the passage of the Small Loans Act the Department has fostered competition in this business on the theory that unrestricted competition will reduce the price of money.

A study of statistics showing the rate charged in Pennsylvania today by licensees operating under the Small Loans Act reveals that 48.18% of the total loans granted in Pennsylvania during the year 1935 carried a contract rate of less ~~than the maximum~~ ~~permitted~~ ~~under~~ ~~the~~ ~~statute~~. The accompanying table has been prepared to show to what extent competition has affected a reduction in the rate of interest charged by licensees operating under the Small Loans Act.

TABLE I

TABULATION OF LOANS GRANTED BY SMALL LOAN ACT LICENSEES IN PENNA.
IN YEAR 1935

Contract rate of int.	No. of loans	Amount of loans	% to total loans
1%	2,097	314,922.65	.58
$1\frac{1}{2}\%$	7,594	983,140.97	1.82
2%	55,366	7,436,347.14	13.77
$2\frac{1}{2}\%$	43,639	6,153,615.46	11.39
3%	11,475	1,508,466.05	2.79
$3\frac{1}{2}\%$	230,507	27,992,681.18	51.82
$3\frac{1}{2}\%$ - $2\frac{1}{2}\%$	480	123,975.00	.23
$3\frac{1}{2}\%$ -2%	35,925	7,981,197.59	14.78
3%-2%	6,881	1,523,466.00	2.82
Totals	393,964	54,017,802.04	100.00

The year 1935 marks the beginning of the era of rate reductions in ~~the small loan business~~ in Pennsylvania. While many licensees are still carrying on their books loans which will eventually be total losses, in the majority of cases licensees have re-adjusted their statements and charged off the loans which proved to be uncollectible. It ~~is~~ ~~the~~ ~~case~~ ~~of~~ ~~persons~~ ~~who~~ ~~are~~ ~~compelled~~ ~~to~~ ~~borrow~~ ~~from~~ ~~this~~ ~~type~~ ~~of~~ ~~lender~~ ~~embody~~ ~~that~~ ~~class~~ ~~of~~ ~~society~~ ~~wherein~~ ~~the~~ ~~effects~~ ~~of~~ ~~the~~ ~~depression~~ ~~were~~ ~~most~~ ~~keenly~~ ~~felt~~. It is inevitable under the circumstances that, in a period of economic ~~distress~~ ~~of~~ ~~such~~ ~~as~~ ~~the~~ ~~country~~ ~~experienced~~ ~~during~~ ~~the~~ ~~last~~ ~~several~~ ~~years~~, the organizations which had extended credit to this group would ~~suffer~~ ~~losses~~ ~~by~~ ~~reason~~ ~~of~~ ~~the~~ ~~absence~~ ~~of~~ ~~earning~~ ~~power~~ ~~of~~ ~~borrowers~~.

Until the beginning of the year 1935 practically all lenders were compelled to maintain ~~the~~ ~~maximum~~ ~~rate~~ ~~on~~ ~~loans~~ ~~in~~ ~~order~~ ~~to~~ ~~recoup~~ ~~the~~ ~~extraordinary~~ ~~losses~~ ~~suffered~~ ~~during~~ ~~the~~ ~~depression~~. Since then, however, there has been a marked tendency to voluntarily ~~lower~~ ~~the~~ ~~interest~~ ~~rates~~. As in any other business, the initiative in the reduction of interest rates has been taken by the larger organizations. The smaller lenders are compelled to meet

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the reductions in order to survive. The borrowing public has become rate conscious. Today the client of the small loan lender "shops around" for lower interest rates in the same manner in which he "shops around" when buying merchandise.

Statistics for the year 1936 are not available at this time. Reports of examinations made by the Department of Banking show that interest rates have during this year been further reduced. One of the larger organizations in this field has during the year reduced its rate on household furniture and unsecured loans to an aggregate rate of 3% on balances to \$100.00 and 2% over. Here is further evidence that competition and abundant capital are bringing lower interest rates to this class of borrowers.

RATES CHARGED IN OTHER STATES

In addition to Pennsylvania there are twenty-seven states in the United States which have enacted a special statute, in the nature of the Small Loans Act in Pennsylvania, regulating the business of lending money in small sums. The rates charged under these acts vary greatly. As an example, in Alabama the rate is 8% per year of ~~loans~~ loans of \$100. or less. Georgia reduced its rate from 3½% to 1½% per month in 1935. New Hampshire has a rate of 2% per month. Under a flat rate or an aggregate rate there are ~~three states~~ which have fixed 2½% per month as a maximum, ten states which have fixed 3% per month as ~~an~~ eleven states which have fixed 3½% per month as a maximum.

In Pennsylvania lenders do not enjoy the convenience of a chattel mortgage law. In twenty-two of the twenty-seven states having a form of small loan act a chattel mortgage law has been passed.

It has been contrary to the policy of ~~the Commonwealth~~ to permit the assignment of wages in Pennsylvania. Lenders operating under the Small Loans Act do not, therefore, have the benefit of this very ~~valuable~~ of collection. In twenty-five of ~~the~~ having small loan acts the assignment of wages is permitted. In the majority of these states the wage assignment can be used effectively by lenders operating under the various small loan acts.

In a questionnaire addressed by this Department to the various states having small loan acts each state was requested to advise if the passage of the small loan act had effectively eliminated so-called "loan sharks" charging exorbitant rates. It is significant that Alabama having a rate of less than 1½% per month reports that its act has not eliminated the "loan sharks." Georgia with its 1½% likewise reports that the "loan sharks" have not been eliminated and to the Superintendent of Banks, Robert E. Gormley is attributed a statement, after the reduction of the interest rate from 3½% to 1½% in 1935, that the "licensed and regulated companies are withdrawing * * * leaving the necessitous borrower to the mercies of the unregulated loan firm."

It is perhaps better that we confine our study of rates in other states to those states bordering Pennsylvania and perhaps a few

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others having large centers of industrial population similar to Pennsylvania.

In New Jersey ~~the small loan law~~ has had a rather hectic career. Prior to 1929 the maximum rate permitted was 3% per month. In 1929 the rate was reduced to 1½% per month. It remained at this figure until 1932 at which time it was increased to 2½% per month. It is interesting to note the effect which the reduction in rates in 1929 had upon ~~the small loan business~~ in New Jersey. Prior to 1929 loans outstanding in New Jersey exceeded twenty millions, two years ~~later the volume had~~ dropped to less than six millions. In other words, practically all lenders had or were retiring from business in New Jersey. Many of the organizations licensed to do business in New Jersey prior to 1929 removed their offices to Morrisville, Pennsylvania, which is just across the Delaware from New Jersey's capital, Trenton, and to Philadelphia, where on the other side of the Delaware are Camden and many other ~~smaller~~ cities and towns in South Jersey. New Jersey borrowers came from points within a radius of fifty miles to obtain loans from Pennsylvania offices at 3½% per month for the reason that there were no facilities in New Jersey where these loans could be obtained at the then legal rate of 1½% per month.

Even though New Jersey did increase its rate to 2½% per month in 1932, residents of that state still continued to come to Pennsylvania in order to obtain loans. It is estimated that during the year 1936 more than 9,000 residents of New Jersey crossed the Delaware to obtain loans from Pennsylvania licensees totaling one million four hundred thousand dollars.

It is an open question whether 2½% per month is inadequate to induce companies to expand their lending facilities in New Jersey, or whether the continued influx of borrowers into Pennsylvania results from the fact that a large number of New Jersey companies moved into Pennsylvania following the rate reduction to 1½% in 1929 and have retained their Pennsylvania location or merged with Pennsylvania companies and have held their New Jersey clientele.

A ~~similar~~ similar situation developed in West Virginia when the rate was cut in 1929 from 3½% per month to 2% per month. In 1931 the Better Business Bureau of Huntington, West Virginia issued a bulletin from which we quote "The high rate lenders have flourished in West Virginia since 1929, when our State Legislature reduced the maximum rate that could be ~~charged~~ from 3½% to 2% per month on the unpaid balance on loans up to \$300. This change in the laws virtually forced the legitimate lenders out of business and served as ~~a stimulus to the~~ high rate operators." In March, 1933 the Legislature of West Virginia increased the maximum rate to 3½% per month on sums of \$150. or less and 2½% on balances in excess of \$150. but not exceeding \$300.

A ~~law~~ law passed in Missouri in 1927 permitting an interest charge of 3½% per month. Two years later in 1929 the act was amended reducing ~~the rate of interest to~~ 2½% per month.

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The 1927 act had not been in operation for a sufficient length of time to determine the effect of the rate reduction on the basis of outstanding loans. As an indication of the effect of this rate reduction, it is noted that the number of licensed lenders from 174 prior to the rate reduction to 95 in 1931. Those licensed lenders who remained in business practically eliminated loans of \$100, or less than the borrower having need for loans in amounts less than \$100, was deprived of the legitimate source of credit and compelled to resort to the higher rate lenders operating outside the law.

In New York State a law was passed in 1932 permitting an interest charge of 3% per month on loan balances to \$150, and 2½% per month on balances from \$150. to \$300. Statistics are not available to indicate the effect of this act on the relative volume or character of small loans in that state.

It is noteworthy that these experiments in substantial rate reduction were made either at the end of the boom period of 1929 or in the early years of the depression, before recovery and a growing abundance of capital brought about in other lending fields.

In Ohio the rate of interest permitted is 3% per month and in addition an inspection fee of \$1.00 may be charged every four months on loans of \$50.00 or less.

In the State of Maryland the rate permitted is 3½% per month.

In the State of Pennsylvania a statute which attempts to regulate the business of lending money in sums up to \$500. This act has not, however, proved satisfactory, nor has it provided credit for the borrower in need of small amounts. This is evidenced by the fact that residents of the State of Pennsylvania are aware of licensees operating under the Pennsylvania Small Loans Act located in Chester and Philadelphia and also of licensees operating under the Maryland Small Loans Act.

RATES ON OTHER FORMS OF CONSUMER CREDIT

In addition to the Small Loans Act licensee there are many other agencies in the Commonwealth supplying consumer credit. These others may be divided into two groups. The one group makes direct loans and includes pawn-brokers, credit unions and banking institutions with personal loan departments. The other group specializes in extension of credit in connection with the sale of merchandise and services. This group includes the automobile finance company, the household appliance finance company, merchants financing their own sales and insurance premium finance companies.

In the group making direct loans only the credit union is subject to supervisory legislation concerning the rate of charge on loans. The pawn-broker and the banking institution with the personal loan department are subject to the Usury Statute of 1858 which fixed the legal rate of interest at 6% per annum in Pennsylvania, but make other charges against the borrower, or provide a method of repayment which increases the cost to the borrower.

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The second group of consumer credit agencies contend that their business has no relation whatsoever to that of lending money. In the final analysis, however, the lending of money is comparable to the extension of credit. These agencies extend credit for the purpose of purchasing specific personal property. Those identified with this type of financing contend that the charges for such [redacted] in the selling price of the article to be financed and rely on the legal principle that sellers are entirely free to contract with buyers as to the terms and conditions of sales. The courts have upheld this contention and for that reason the business of financing sales of merchandise has expanded without restriction as to rates charged for this type of credit.

The pawn-broker operates in Pennsylvania under a municipal license in first, second and third class cities. This license is primarily a taxing license and provides a means of enabling the police officials of the various communities to check with the pawn-broker for stolen property. Only in the city of Philadelphia does the licensing ordinance restrict the rates to be charged by pawn-brokers. In that city the pawn-broker is permitted to charge an interest rate of 6% per year and in addition a "storage charge" not exceeding 5% per month. These charges when reduced to a monthly rate are equivalent to 5½% per month on the amount owed. In other communities where the licensing ordinance does not restrict the rates the pawn-broker is limited to the "storage charge" only by the dictates of his own conscience. No attempt is made by the municipal authorities to maintain [redacted] of the rates charged by pawn-brokers.

The Credit Union Act in Pennsylvania was passed on May 26, 1933. This statute permits organizations incorporated under its provisions to charge a discount of 6% per year on loans repayable in installments. This rate is approximately equal to 1% per month calculated on unpaid balances. Credit Unions are cooperative organizations which allow their shares to the members whereby a fund is accumulated for the purpose of making loans to members. Credit Unions are generally organized among groups of persons employed in the same factory, school teachers, postal employees and others having a common bond of association or a community of interest based on employment, fraternal or religious association. The time and services of its officers are [redacted]. Quarters for operating the business are usually obtained gratis, they are exempt from taxation and the investigation of loans and collection of loans is simplified by reason of the close association of its membership. This form of consumer credit is an excellent source of credit for those to whom it is available. Since the passage of the Act in 1933 fifty-nine organizations have been incorporated under its provisions. The total outstanding loan balances of the credit unions operating under the Pennsylvania Credit Union Act as of December 31, 1935 was \$403,525.18. It is readily seen that this form of credit is at this time available only to a small percentage of the population having need for loans in this classification.

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Some banking institutions have established personal loan departments during the last two years. It is difficult to ascertain if this should be attributed to a desire by the banks to furnish a source of credit at a lower rate of interest to borrowers; loans of this type or if it is the result of the bankers' attempts to find an investment for excessive cash reserves. Banks who have entered this field grant loans generally on the security of two endorsers or on real estate equity. The interest on the loan is discounted at the rate of 6% per annum and deducted from the face amount of the loan at the time the loan is granted. Periodic payments are required which are not credited directly to the loan account, but are credited to a deposit account. The balance in this deposit account is hypothecated as security for the loan and the theory is that at the end of the term of the loan the balance in the deposit account is sufficient to pay off the loan.

The charge made by banks in the personal loan departments is generally 6% discounted. As the banks as a rule do not pay interest on the pledged deposit accounts, the net cost to the borrower is equivalent to .982% per month or approximately 1% per month. Some institutions, in addition to the 6% per month discount, charge an additional fee for investigation of the application or for some other similar purpose. This additional charge varies but is most often fixed at \$2.00 per \$100. of the principal amount of the loan. This additional charge increases the monthly rate considerably. When the additional charge plus the discount is \$8.00 per \$100. it is equivalent to a simple interest rate of $1\frac{1}{8}\%$ per month on unpaid balances.

There are three primary factors in distinguishing the lending of money in personal loan departments of banks from the money lending business conducted under the small loans act. Banks are not restricted in the amount which may be loaned; whereas licensees operating under the small loans act are limited to \$300. Banks lend depositors' funds, whereas act licensees are not permitted to take deposits and can lend only their own funds or capital raised by the sale of stock or securities. Banks lend on the security of real estate or on the signature of two or more individuals in addition to the borrower; whereas the largest percentage of the loans granted under the small loans act have no security other than household furniture or only the signature of the borrower.

The automobile finance business stripped of its camouflage is simply a loan to the purchaser of an automobile which enables this purchaser to obtain the use of the car in spite of the fact that he does not have in cash the full purchase price. Those engaged in this business do not admit the logic of this interpretation. It is their contention that since the buyer does not have the purchase price in cash, the dealer arranges to lease the automobile to him at a stipulated monthly rental for a definite time. Upon the completion of this rental contract the purchaser then obtains ownership of the car by payment of a nominal sum usually \$1.00. The finance company purchases the rental contract from the dealer

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upon discount terms mutually agreeable, but of no interest to the purchaser. As previously noted the courts have sustained the fiction of this procedure for extending credit.

The terms of the contract for financing an automobile are not readily understood by the average individual. The car has a fixed delivered cash price. When a sale of the car is to be financed the dealer adds to this price charges which he knows in advance he will be required to pay for discounting the paper with the finance company. He also adds an amount to cover the cost of insurance on the car. In some instances this insurance is limited to fire and theft and single interest collision. Double interest collision, conversion, confiscation, tornado, flood and other remote hazards are covered by the insurance policy required in some cases.

Certain licensees under the small loans act lend money on the security of automobiles and do not require the borrower to have insurance on the car. When purchasing a car through a finance company on a time payment contract the buyer is required to have insurance whether he wants it or not. Our comparison of rates is based on the total charges for financing which include the insurance cost. For ~~unpaid~~ balances on automobiles it was found that the charge reduced to simple interest calculated on unpaid balances varied considerably in the various companies. A few illustrations are in order.

Financing a balance of \$200. on a used truck in one company is equivalent to a rate of $4\frac{1}{2}\%$ per month. Financing a \$200. balance on a new passenger car in the same company costs the buyer 3.81% per month. Financing a \$200. balance on a used passenger car costs the buyer 4.20% per month. In another company the cost of financing a \$200. balance is equivalent to 3.76% per month. The cost of financing a \$250. balance on a new car in a third company is 3.23%. These rates are those of the larger nationally known companies. The rates on smaller balances are higher and the rates on larger balances are lower. The rates charged by the small local independent companies are generally higher than those of the national companies. The examples given are taken from the rate sheets of finance companies which advertise the so-called "6% plan." These calculations have all been based on a twelve month contract.

In no case do these charges include the "dealers rebate." A practice which has grown up with the automobile finance business is that whereby the dealer is paid a sum of money for sending his business to a specific finance company. In the trade this item is known by various names including dealers rebate, dealers reserve, dealers pack. The amount paid varies but is rarely less than \$5.00 on a contract. This sum is added to the finance charges by the dealer or in some cases the charge is included in the difference between the O. B. price and the delivered price of the car. In either case it increases the cost of financing to the purchaser.

There is no consistency in the rates charged for financing sales of household appliances. Investigation of specific cases by the De-

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partment of Banking discloses the financing of an electric refrigerator cost \$15. for an unpaid balance of \$210 over a period of twelve months which is equivalent to a monthly rate of 1.025% when calculated on the unpaid balances. The financing of a radio cost \$10. for an unpaid balance of \$125. over a period of twelve months which is equivalent to a monthly rate of 1.23% when calculated on the unpaid balances. The financing of air conditioning equipment cost \$25.60 for an unpaid balance of \$300. for a period of twelve months which is equivalent to a monthly rate of 1.31% when calculated on the unpaid balances. The rate chart of the same concern showed the financing of a balance of \$50. would cost \$5.02 for a period of 6 months which is equivalent to a monthly rate of 2.868%. The financing of a nationally known tire cost \$2.05 for an unpaid balance of \$11.90 over a period of 16 weeks which is equivalent to a monthly rate of 8.777% when calculated on the unpaid balances.

In a report on installment credit costs by Le Baron R. Foster of the Federal Foundation for Economic Research appearing in the Journal of Business of the University of Chicago rates charged for financing certain commodities take a wide range. The following schedule shows the minimum and maximum rates found to be charged for this type of financing. These rates are based on variations in the amount of unpaid balances financed and the term of repayment. The rates have been reduced to a monthly percentage basis on unpaid principal balances.

Commodity	Monthly Rate	
	Minimum	Maximum
Refrigerators .....	.691%	4.316%
Furniture .....	.5%	4.625%
Radios .....	.958%	8.175%
Auto Tires	2.8%	8.841%
Stoves	0%	5.716%
Mail Order Goods.....	1.083%	5.5%
Miscellaneous Commodities.....	0%	6.65%

While in some cases merchants who finance their own sales of merchandise make no additional charge for financing, in the majority of cases the rates for financing the sale of merchandise, when carried by the merchant, compares with the rates charged by established finance companies. Few merchants are in a financial position to carry all installment sales with their own capital. A merchant is required for competitive reasons to sell goods on the installment plan and since he is not in a position to do his own financing he arranges with one or more finance organizations to purchase his paper.

In recent years the financing of the payment of insurance premiums has grown rapidly. The insurance companies have made practically no provision for the payment of insurance premiums (other than life insurance premiums) on installment plans. Hence certain agencies have undertaken to lend the policy holder a certain percentage of the amount of the premium which he can repay by a period of time depending upon the expiration date of the policy. The security on a loan of this type is

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limited to an assignment to the finance company of the return premium on a ~~short rate cancellation~~ basis. The rate of charge for this type of financing varies similarly to other types of financing dependent upon the amount of the premium financed and the length of time permitted for repayment. One company specializing in this type of financing determined its charge by the following formula. Six per cent is added to the total premium, from this sum is deducted 25% which represents the down payment, the balance is divided into 8 equal monthly payments, which charge when reduced to a rate based on the ~~balance~~ balance is equivalent to 1.814% per month. This may be considered as the average rate.

ADVERTISING BY LICENSEES

A careful survey has been made of the contents of the advertisements of licensees operating under the Small Loans Act. The Small Loans Act is entirely silent on the question of advertising. In a strict legal sense the Secretary of Banking has, under the present Act, no authority to regulate or restrict advertising by licensees operating under this Statute.

The principal methods of advertising are newspapers, either classified or display advertisements and circulars either mailed or distributed from door to door. A few licensees have adopted Radio advertising. The licensees lending on automobiles in some cases distribute ~~advertisements~~, cards or hand bills by attaching them to cars on the streets or parking lots. Display signs at the offices of licensees or on bill boards are used in many cases.

In some few cases ~~advertisements have~~ been found to be objectionable. It has been the aim of the Department of Banking to raise the standard of the advertising matter used by small loan act licensees. In pursuance of this policy ~~advertisements which~~ were false, misleading, deceptive or which encouraged borrowing for improper purposes were criticised by this Department. In the vast majority of cases the licensees have cooperated with the Department in maintaining a high standard in their ~~advertisements~~. In a small minority of cases licensees objected to the Department's assumption of authority in this respect and refused to cooperate.

Probably the most undesirable feature in the advertising of licensees is the stress placed upon the ease of repayment of a loan. Little effort is required to borrow money but the repayment of a loan is never "easy." Advertisements which feature "easy" payments or "repayment on easy installments" should be abandoned by licensees. They can properly be classified under the heading of misleading advertisements.

SOURCE OF OPPOSITION TO SMALL LOANS ACT

A search of the files of the Department will disclose complaints to the Secretary of Banking by borrowers. The Department makes a special investigation of ~~complaints~~ received from a borrower. An ~~investigation~~ report of these investigations will

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show that there are two types of borrowers represented by these complaints.

The one type represents a thoroughly honest individual who has obtained a loan in good faith but through misfortune is unable to repay his obligation. This individual, in looking about to find a plausible excuse for his failure to meet the terms of the obligation, decides that the high rate of interest permitted under the Small Loans Act is responsible. This is not, however, supported by the facts in the case. When it is found that a borrower's delinquency is the result of misfortune and other circumstances beyond his control, the Department recommends to the lender that the account be settled by waiver of accrued interest and payment of the principal balance only. The licensees have cooperated to the utmost degree and have invariably accepted the Department's recommendation on these cases. The payment of the principal balance only has been found to be a burden to this type of borrower and eventually the loan is written off as a loss.

The other type represents borrowers who file complaints with the Department of Banking in the hope of receiving assistance in their efforts to avoid the payment of a just obligation. These borrowers are capable of paying but feel that by attacking the rates of interest permitted under the Act they can escape fulfillment of their contracts. In these cases the lender cannot be asked or compelled to abrogate the terms of the contract. The borrower has, however, at all times the privilege of termination of the contract and avoiding the payment of the interest rate which he condemns, by paying off the entire obligation.

It has been found that the vast majority of borrowers obtaining loans from licensed lenders do so with the full understanding of the charges which they will be required to pay. Most licensees make a special effort to explain to prospective borrowers the terms of the contract so as to avoid misunderstanding and controversy in the payment of the account. Rarely has a borrower complained that he did not understand the amount which he was to pay for the use of the money.

There are in Pennsylvania in excess of 360,000 persons who have borrowed from licensees operating under the Small Loans Act. During the period of one year from July 1, 1935 to July 1, 1936 the Department of Banking received a total of 36 complaints. This represents one complaint for every ten thousand borrowers.

ANALYSIS OF COMPLAINTS BY LICENSEES

Reports were obtained from licensees operating under the Small Loans Act for the fiscal year ending December 31, 1935. These reports were obtained from licensees operating 479 offices in the state. A tabulation of these reports shows information which is submitted in the following tables:

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TABLE II

Loans receivable outstanding—	
balances due 1-1-35.....	\$37,301,987.69
Loans receivable outstanding—	
balances due 12-31-35.....	37,484,553.13
Average loans receivable outstanding during 1935..	37,393,270.41

Comparing these figures with those of previous years we find that loans receivable outstanding have decreased approximately sixteen million dollars since December 31, 1931. This is due to three causes. First, the depression curtailed demand for loans to purchase commodities. Secondly, a considerable part of the demand for loans was by persons whose ~~financial condition~~ during the depression was such that there was no reasonable expectation that they would be able to repay the loan, and the companies denied the applications. Thirdly, ~~the establishment~~ of personal loan departments by banks may have taken from the small loan licensees some of the better types of loans.

The maximum rate permitted under the Small Loans Act in Pennsylvania is $3\frac{1}{2}\%$ per month. Statistics show, however, that the average rate charged in Pennsylvania is 2.89% per month. In Table I of this report it was shown that slightly more than half of the loans receivable outstanding were being charged a flat rate of $3\frac{1}{2}\%$ per month. More specifically 48.18% of the loans receivable outstanding were made at a contract rate of less than $3\frac{1}{2}\%$ per month. This shows that competition in this business or other economic factors is effecting a reduction in the interest rates in Pennsylvania.

Previously in this report it was pointed out that in many cases licensees are compelled to waive interest on accounts entirely. ~~When interest is~~ charged to profit and loss there is a loss to the lender not only of the principal balance due but also of the interest accrued. Failure to collect the accrued interest on the profit and loss accounts and on the accounts wherein a part or all of ~~the interest is waived~~ reduces the collection rate of interest considerably below the contract rate. In 1935 the average collection rate of licensees operating under the small loans act was 2.36% per month. In other words while the act permits licensees to charge a maximum rate of $3\frac{1}{2}\%$ per month the average rate actually collected is less than $2\frac{1}{2}\%$ per month.

When stated in other terms, licensees in Pennsylvania during the year 1935 actually collected 67.43% of the maximum rate permitted under the Act. The gross interest collected was found to be 81.66% of the interest ~~waived~~ under the average contract rate of 2.89% per month.

To determine the net earnings of licensees various methods may be adopted. Owing to the fact that some organizations are operated by individuals wherein the capital fluctuates with the demands of the business, and other organizations are operated as branch offices of national chains it is impossible to determine accurately the actual capital employed in the business. For this reason we have adopted the method used in determining earnings

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of public utilities. This procedure [redacted] assets invested less reserves which we have ascertained are \$43,697,274.12 and the net earnings, before interest and dividends, amounting to \$2,989,916.98. Under this system of computation the average net earnings of licensees in Pennsylvania for the year 1935 were found to be 6.84%. It will be noted that the loans receivable outstanding amounting to \$37,484,553.13 represent 85.78% of the total assets used in the computation to determine net earnings. Thus the items of cash on hand, office building owned, equipment, deferred charges and miscellaneous other assets represent less than 15% of the total assets used in the computation of net earnings.

The following table has been prepared to show the net earnings of licensees when classified according to the rates of interest charged. Note is made of the fact that in a great many cases a licensee will [redacted] books at varying rates. In such cases the classification was determined by the rate charged on the greatest percentage of loans outstanding. For example in the [redacted] those licensees wherein the predominating rate of charge is three and one-half percent per month the total of loans outstanding is \$11,750,440.32. Of this [redacted] loans at rates less than three and one-half percent per month which total over one million dollars.

The [redacted] 105 offices charging "aggregate rates" embodies those offices which have voluntarily reduced their rates. In this group varying aggregate rates are charged as well as flat rates of 2½% and 3½%. Aggregate rates are those wherein a portion of a loan balance carries one rate and the remainder of the balance carries a different rate. The aggregate rates in effect in this group were 3½% to \$150, 2½% over; 3½% to \$100, 2½% over; 3½% to \$150, 2% over; 3½% to \$100, 2% over; 3% to \$150, 2% over, and 3% to \$100, 2% over. Of the total loans outstanding in these offices \$1,300,000.00 carries a flat rate of 2½% per month; \$3,500,000.00 carries a rate of 3½% on the first \$100.00 and 2% on the excess; \$1,400,000.00 carries a rate of 3% on the first \$100.00 and 2% on the excess. A total of \$10,200,000.00 carries the flat rate of 3½%. The tabulations cover the fiscal year ending December 31, 1935. As stated previously the year 1935 marked the beginning of the reduction in interest rates the full effect of which cannot be determined until the reports for the year 1936 are tabulated. These are not available at this time.

TABLE III

Interest Charged	No. of Offices	Loans Outstanding	Percentage Net Earnings
1%	7	\$8,067.70	Less 2.01%
1½%	12	795,287.88	0.20%
2%	77	4,346,212.76	2.69%
2½%	64	2,272,827.67	3.69%
3%	9	477,773.85	7.32%
3½%	223	11,750,440.32	8.50%
Aggregate	105	37,322,887.28	11.22%
Totals.....	479	37,484,549.63	6.84

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We have been able to obtain the percentage of net earnings in some of the other states for purposes of comparison. In Table IV we furnish the rate of earnings as reported by certain other states having ~~an not similar to the~~ Pennsylvania Small Loans Act. In some states the rate of interest charged ~~is~~ of Pennsylvania.

TABLE IV

State	Monthly interest permitted	Rate of earnings
Connecticut	2%	8.08
Illinois	1 1/2%	7.90
Indiana	1 1/2%	7.9
Iowa	2 1/2%	8.6
Massachusetts	3%	7.15
Missouri	2 1/2%	6.77
Rhode Island	3 1/2%	6.7
Virginia	3 1/2%	7.67
Wisconsin	2 1/2% - 2% - 1%	8.4
Michigan	3 1/2%	8.9

It will be seen ~~that~~ the rate of interest permitted does ~~not~~ earnings of licensees. In those states in which the maximum rates permitted are lower than in Pennsylvania, the licensees restrict their business accordingly. In states in which 2 1/2% is the maximum rate lenders will make practically no loans of less than \$100.00. By a system of cost accounting it has been determined that loans of less than \$100.00 are unprofitable. ~~Where the maximum rate of interest permitted has been reduced to a point where the earnings on the larger loans does not afford sufficient margin of profit to carry~~ the borrower desiring a loan of \$100.00 or less is deprived of the right to obtain a loan.

In Pennsylvania during 1935 a total of 393,964 loans were granted to borrowers. By dividing the total loans granted into the expenses it is found that the average cost for each loan for the year is \$20.01. A loan of \$100, payable in twelve equal monthly ~~installments~~ ~~costs~~ \$18.79 at the average contract rate in Pennsylvania. Thus it will be seen that a licensee would lose money if the average amount of all loans made were \$100, or less. Table V will show the classification of loans granted as to amounts and percentages.

TABLE V

Loan classification	Loans granted		Loans granted	
	No. of accts.	% to total	Amount	% to total
\$ 50.00 or less	71,533	18.16	2,966,173.95	5.49
\$ 50.01 to \$100.00	112,829	28.64	8,517,410.04	17.82
\$100.01 to \$150.00	72,893	18.50	8,612,740.01	15.94
\$150.01 to \$300.00	136,709	34.70	32,921,478.04	60.95
Totals.....	393,964		54,017,802.04	

The total number of accounts granted in sums of \$100, or less comprises nearly 50% of the total number of loans granted during the year. By way of contrast the volume of loans in this classification comprises less than 25% of ~~the~~ of the loans

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granted. The interest paid on loans may be compared to the "fare" on a transportation system. The amount of the loan compares with the amount of the load and the time compares with the distance traveled. At a fixed rate the interest is determined by the amount of the loan and the time involved. Likewise at a fixed rate the fare is determined by the amount of the load and the distance. It has been estimated that a railroad loses money on short hauls but since the train is required to stop at all stations the additional fare obtained on the short hauls adds just that much to the revenues. Likewise the additional interest obtained by a lender on loans of less than \$100. adds just that much to his revenues even though on a strict cost accounting basis he loses money on loans in this classification. If the revenue on the larger loans is not sufficient to carry the overhead on the smaller loans then the lender must eliminate the smaller unprofitable loans.

The loans granted during the year shown in Table VI have been classified to show the security upon which the loans were made. The percentage of each classification to the total loans granted has been furnished for comparison. It will be noted that those loans wherein the lender has practically no security whatsoever, which are made up of the household furniture loans and the unsecured note loans, comprise nearly two-thirds of the total of the loans granted.

TABLE VI

Security	Loans granted		Loans granted	
	No of accts.	% to total	Amount	% to total
Household Furniture . . .	214,254	54.38	31,463,738.54	58.24
Unsecured Notes	27,928	7.09	3,818,539.93	7.07
Real Estate	32,840	8.34	4,748,253.98	8.79
Co-Maker, Endorser	59,354	15.06	7,508,470.41	13.90
Automobiles	40,458	10.27	5,237,356.20	9.70
Miscellaneous	19,130	4.86	1,241,442.98	2.30
Totals	393,964		54,017,802.04	

To determine the extent to which licensees operating under the Small Loans Act foreclose on accounts which are delinquent Table VII has been prepared. This table will show the number of accounts and the balances due in which the lender acquired possession of the collateral during 1935. In some cases the borrower voluntarily surrendered the collateral when he found himself unable to keep up the payments of an account. In other cases it was necessary for the lender to institute proceedings to obtain possession of the collateral. In the accompanying table we have separated those accounts in which the collateral was voluntarily surrendered (indicated by V), and those in which the borrower was compelled to surrender the collateral (indicated by C). The percentages given represent the ratio of the loans in each classification to the total loans outstanding in that classification at the end of the year.

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TABLE VII

Collateral surrendered	Loans granted		Loans granted	
	No of Accts.	% to total	Amount	% to total
V-Household Furniture	117	.0553	22,401.04	.0969
V-Real Estate	13	.0371	7,726.86	.2068
V-Automobiles	819	3.1111	123,107.13	4.7860
V-Miscellaneous	99	1.0771	9,580.64	1.6147
C-Household Furniture	23	.0108	5,756.17	.0249
C-Real Estate	30	.0858	32,938.52	.8818
C-Automobiles	540	2.0512	75,071.68	2.9185
C-Miscellaneous	15	.1632	1,334.42	.3260
Totals	1,656		278,516.46	

The percentages shown in this table may be more readily comprehended if they are stated in a different manner. For example twenty-three accounts in which borrowers were compelled to surrender furniture represent a ratio of one account in every nine thousand accounts outstanding in which the collateral was furniture. The one hundred accounts in which borrowers voluntarily surrendered his furniture upon default represent a ratio of one account in every eighteen hundred accounts. The accounts in which automobiles were voluntarily surrendered amounting to eight accounts represent a ratio of one account in every thirty-two accounts outstanding. The five hundred forty cases in which the automobile was voluntarily surrendered a ratio of one account in every forty-eight accounts. This comparison readily shows that for residential purposes household furniture has no value whatsoever as collateral on a loan. On the other hand the automobile which is moveable, of which possession can be easily obtained and which is readily salable, provides a desirable security for a loan.

It is rare that a licensee is able to avoid loss by replevin and sale of collateral on a loan. Table VIII has been prepared to show the amount and ratio of the proceeds realized from the sale of collateral in the various classifications. It will be noted that in no instance does the average amount recovered through the sale of collateral equal the full amount of the obligation.

TABLE VIII

Collateral	Amount due	Proceeds of sale	Ratio
Household furniture	26,166.03	7,935.26	30.33
Real Estate	14,328.75	6,637.50	46.32
Automobiles	176,580.09	114,538.44	64.86
Miscellaneous	12,826.69	10,003.25	77.99

There is much difference of opinion as to the amount of loss entailed in the small loans business. In Table IX are shown the loans outstanding and the loss on loans charged off in the last five years. The ratio in the table represents the percentage of the losses charged off to the loans outstanding.

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TABLE IX

Year ending	Loans receivable outstanding	Loans charged off	Ratio
December 31, 1931.....	53,201,185.69	1,391,239.38	2.62
December 31, 1932.....	45,622,107.58	2,103,237.76	4.61
December 31, 1933.....	39,357,089.98	2,114,225.49	5.37
December 31, 1934.....	38,340,512.55	1,621,290.88	4.23
December 31, 1935.....	37,484,549.63	1,927,134.20	5.14

It was found that many licensees pursue a very conservative policy in charging off uncollectible accounts. This is done so as to show a favorable statement to the board of directors and stockholders. An analysis of delinquent accounts shows that there are many loans now carried as assets which must eventually be charged off as loss. In Table X are shown delinquent loans classified into two groups namely those which are delinquent ten to ninety days and those which are delinquent in excess of ninety days. The ratio shown represents the percentage of the total delinquent loans to the total loans outstanding in the respective classification.

TABLE X

Collateral	Delinquent 10 to 90 days	Delinquent over 90 days	Ratio
Household furniture	1,975,571.35	5,060,787.61	30.47
Unsecured Notes	376,751.68	315,927.63	27.85
Real Estate	448,307.85	1,247,346.54	45.40
Co-maker, Endorser	512,936.86	1,236,335.33	34.97
Automobiles	401,666.28	147,913.07	21.37
Miscellaneous	81,697.18	110,169.85	32.34
Totals.....	3,796,931.20	8,118,480.53	31.79

In order to ascertain the purposes for which borrowers obtained loans from lenders operating under the Pennsylvania Small Loan Act, licensees were requested to furnish the Department with a special report showing the purposes of borrowing. These reports covered a period of nine months beginning November 1, 1935 and ending July 31, 1936. In Table XI are shown the classifications of purposes of borrowing used in the said report and rather than indicate the amount loaned [redacted] ratio which it bears to the total amount loaned during the period covered by the report.

TABLE XI

Purposes of borrowing	Ratio
1. Food	1.70
2. Clothing	6.58
3. Medical, dental and hospital bills.....	11.05
4. Funeral expenses .....	.86
5. Fuel	4.35
6. Furniture	3.51
7. Mortgage and interest	2.75
8. Taxes	5.67
9. Rent	1.96
10. Repairs to real estate owned.....	3.96
11. Moving expense	1.31

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12. Vacation and travel.....	3.62
13. Education	1.85
14. Assist relatives	2.44
15. Insurance	2.81
16. Purchase Live stock .....	.50
17. Business needs	7.00
18. Pay off other Small Loan Act licensees.....	1.06
19. Pay off unlicensed lenders or balances due finance companies.....	1.88
20. Pay off miscellaneous creditors.....	12.51
21. Accounts renewed for balances.....	2.43
22. Investments .....	.96
23. Automobile purchased	8.80
24. Miscellaneous	9.44

A survey has also been made to determine the occupation of the borrowers. The occupations have been classified into general groups as indicated in Table XII. In this table we have also eliminated the amount of the loans and have substituted the ratio in each classification to the total amount loaned during the period covered by the report.

TABLE XII

Occupation	Ratio
1. Executives	6.09
2. Office and Clerical.....	14.88
3. Teachers	4.81
4. Sales Persons	5.08
5. Domestics	10.02
6. Skilled Mechanics	22.13
7. Unskilled laborers	13.14
8. Professional	2.50
9. Commission agents and salesmen.....	3.15
10. Retail Merchants	7.37
11. Farmers	2.10
12. Miscellaneous	8.73

CONCLUSION

For generations the United States has been building up the greatest productive machine the world has ever seen. To make available and to capitalize the inventive genius of our people, the immense wealth of natural resources, the intelligence, industry and ability of the working people, huge credit agencies have been organized, financing the expansion and ~~productive~~ productive mechanism.

Consumption has been neglected. Through maldistribution of income and a lack of credit facilities, the ~~productive power~~ of ~~consumers~~ has failed to keep pace with the ever expanding production of commodities. This is, no doubt, one of the maladjustments of our economic organization that contributes to the recurring periods of deflation. The country is now emerging from the worst depression in its history, and wisdom and common sense demand that every effort be made to support and enlarge the general purchasing power of the consumer to prevent underconsumption from retarding recovery and perhaps bringing about another deflation.

Under the leadership of the President ~~productive power~~ is

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being protected through the Social Security Act of the Federal Government and related acts of the various states, through maximum wage laws, the increase of workmen's compensation benefits, the elimination of child labor and the sweatshop. But *all of these measures*, vital and beneficial as they are, cannot alone accomplish the desired end.

Consumers must occasionally borrow to meet unexpected emergencies and to acquire goods and services that can be paid for by low income groups only in instalments over a period of time. To that end, consumer credit agencies, lending at reasonable rates of interest, must be developed and expanded.

It is estimated that 85 per cent of the population cannot obtain credit from commercial banks, not because of any lack of honesty or good faith, but because their economic status prevents them from furnishing either the collateral or financial statement of the type required by , as a basis or security for loans.

Most of this 85 per cent should be able to obtain credit to improve their homes, to purchase necessary goods, to pay physicians' bills and , or to meet any of the thousand and one emergencies which constantly confront the average family.

The Legislature, in seeking to provide adequate consumer credit, should be guided by two basic rules: the must be protected against extortionate interest charges and the rates allowed must be sufficient to permit a fair return on his invested capital.

Experience has shown that it is impossible to apply the first rule without also employing the second. The Legislature when it enacted the Small Loans Act of Pennsylvania in 1915, as evidenced by the preamble to that statute, realized the futility of attempting merely to prohibit the lending of money at the exorbitant rates charged borrowers prior to the passage of that act.

In order to put a stop to the lending of money at excessive rates it was necessary to invite legitimate capital into the business of lending money to supply the demand which then existed. To attract it is necessary to offer a fair return on such capital commensurate with the risk involved. It was only through the establishment of legally operated small loans companies that the "loan shark" was gradually eliminated. After the borrowers learned that they could obtain loans at a lower rate of interest from legitimate lenders, the "loan shark" was finally forced to withdraw from the state.

Under the Small Loans Act now in force in Pennsylvania licensed lenders are permitted to charge up to 8½ per cent per month on unpaid balances. This figure was adopted by numerous states of the union on the basis of the recommendation of the Russell Sage Foundation many years ago.

At the time such recommendation was made, the situation was entirely different. Bond holders were receiving 6 and sometimes 8 per cent on their holdings. Government—federal, state and local—had to pay up to 4 and 5 per cent to obtain loans. Money was scarce and to pay dearly for it.

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Today that situation does not exist. Borrowers for productive purposes are obtaining funds from the banks and the general public at extremely low rates of interest. Government obligations are selling at a premium and paying the lowest interest rates in history.

It is time that the interest rates on loans for consumption be reduced in accordance with the trend in the money market. With the gradual return to prosperity and the accompanying greater security of employment and income, the risks of lending and the resultant losses should decrease. Finally, the growing experience and better organization in the small loan field should reduce costs and ~~therefore~~ possible additional concessions to the borrower.

That such a reduction can be made in the maximum interest rate permitted small loan companies is evidenced by the statistics given in the body of this report. The average rate being charged in Pennsylvania at the time the survey by the Department was made, 1935, was 2.89 per cent per month on unpaid balances. (Pre-~~vious~~ received indicate that during 1936 this average will be even lower.) Of the loans outstanding in 1935, 48.18 per cent were made at a contract rate of less than 3½ per cent per month.

Based on its survey of the small loan field, the Department of Banking recommends to the Legislature that the maximum contract interest rate be lowered. Mindful of the experience of such states as West Virginia, Missouri, Georgia and New Jersey, which lowered too drastically their rates and drove the legitimate lenders out of their jurisdictions, the Department urges that the Legislature move cautiously in making reduction.

Specifically the Department recommends that the Small Loans Act be amended to fix a maximum rate of 3 per cent per month on that part of the unpaid principal balances not in excess of \$100, and 2 per cent per month on any remainder of such unpaid principal balances. The Department's investigation indicates that legitimate capital can operate successfully at this rate.

To show the savings which will be effected for borrowers under the proposed schedule the following table has been prepared. The figures shown are the actual charges, calculated on loans for various amounts to be repaid in 12 monthly installments.

	\$25	\$50	\$100	\$150	\$200	\$250	\$300
At 3½ per cent.	\$5.69	\$11.38	\$22.75	\$34.13	\$45.50	\$56.88	\$68.25
At 3-2 per cent.	4.83	9.75	19.50	28.00	35.50	42.58	49.50
Saving	0.81	1.63	3.25	6.13	10.00	14.30	18.75

Under the present act, a rate of 3½ per cent per month on unpaid balances amounts to 22.75 per cent per year on the face value of the loan, if the loan is repaid in monthly instalments, and not 42 per cent as commonly believed. A man borrowing \$100 for a year and repaying it in monthly instalments, pays \$22.75 in interest and not \$42. To show how the interest rates on the face value of the loan will compare under the schedule as compared with the present law, the following table is appended. (Calculations are on

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the basis of a 12-month loan repaid in equal monthly instalments.)

	\$25	\$50	\$100	\$150	\$200	\$250	\$300
At 3½%	22.75%	22.75%	22.75%	22.75%	22.75%	22.75%	22.75%
At 3-2%	19.5%	19.5%	19.5%	18.67%	17.75%	17.0%	16.5%

It is urged that the Legislature ~~adopt~~ the suggested rate schedule at this session and empower the Department to continue its study of the ~~consumer credit~~ ~~problem~~. It will be far better for the ~~borrowing public~~ if the Legislature errs at this time on the side of conservatism, rather than to risk the possibility of forcing out of the Commonwealth the legitimate lender to the consumer.

The Department is aware of the fact that the "loan shark" is only too eager to have the legislature set a ~~rate of interest~~ at which the legitimate lender cannot operate. Such action by the Legislature would deprive our people of adequate sources of credit and throw them into the hands of the unprincipled lender.

If the continued study of the problem by the Department shows that the 3-2% rate suggested is still too high, the Department will recommend to the next Legislature a further lowering of the maximum rate permitted.

The Department further asks for authority to issue rules and regulations governing advertising by licensees—a power now exerted only by ~~licensees~~ and without legislative sanction; to issue rules and regulations governing the period of loan contracts and repayment schedules, acceptance of security for loans, seizure and disposal of collateral in case of default, computation of interest charges, records and accounts to be maintained by licensees, and the ~~operation~~ of the business.

A bill embodying ~~these recommendations~~ will be submitted.

The ~~small loan business~~ by its very nature can cover only a portion of the field of ~~business~~. Another important source of consumer credit is the pawnbroker—the "poor man's bank." Pawnbrokers in Pennsylvania now operate under the restrictions of the Usury Act of 1858 which ~~limits interest charges~~ to 6 per cent per annum. But through storage and other fees levied on the helpless borrowers, some pawnbrokers are obtaining interest in excess of 66 per cent per annum.

It is essential for the protection of the public and to foster the operation of the legitimate pawnbroking business that these agencies be brought under the supervision of the state.

The Department of Banking recommends to the legislature that all pawnbrokers be required to obtain licenses from the Secretary of Banking, that ~~maximum interest rates and storage charges~~ be established by law, and that the ~~conduct~~ of the business generally be subjected to such rules and regulations as the Department of Banking may deem necessary for the protection of the borrowing public.

The Department recommends that interest charges on all types of collateral pledged with the pawnbroker shall be limited to 6 per cent per annum or one half of one per cent per month. The only other charges which shall be permitted are ~~such as~~ ~~charges~~ which shall be as follows:

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A. 1% per month on jewelry, watches, gems, etc.

B. 2½% per month on other types of collateral.

A minimum [redacted] of 25 cents is to be allowed on any loan.

The differing rates on jewelry and other types of collateral are recommended because jewelry has a ~~more constant~~ value, is more readily [redacted] easily stored. Consequently the risk to the pawnbroker lending on jewelry is less than on loans made on clothing, musical instruments or other types of goods commonly pledged.

The Department also recommends adequate protection for the borrower against arbitrary sale of his property, insurance to protect pledged goods against loss through fire or theft, and a requirement that if pledged goods are sold the borrower shall receive any [redacted] from the sale above the amount of the loan plus interest and storage charges due.

A bill embodying these [redacted] will be submitted.

Adoption of the legislation recommended above will provide adequate credit facilities for borrowers in the lowest brackets but there is still a gap in the consumer credit set-up. The borrower who needs funds up to \$300 can obtain them from either the small loan company or the pawnbroker. But few commercial banks in industrial areas will make loans for less than \$1000.

To provide a credit agency for loans up to \$1000, the Department recommends to the Legislature the authorization of companies to be known as Consumer Discount Companies. Such organizations shall be licensed by the Secretary of Banking and supervised by him according to rules and regulations prescribed by the Department.

In order to obtain a license the applicants [redacted] capital in a [redacted] of \$25,000 and shall pay an annual license fee of \$100.

No limitation shall be set on the type of security which such companies shall require for loans, but the interest rate permitted shall be limited to 8 per cent per annum discounted. This is the equivalent of 1 1/3 per cent per month on unpaid balances.

The Department believes that the establishment of such agencies in Pennsylvania will serve a useful purpose and meet a real need. They should enable prospective purchasers of automobiles and the more expensive types of household furnishings to obtain credit for such purchases at a standardized rate of interest far lower than that generally prevailing throughout the Commonwealth today.

A bill embodying this [redacted] will be submitted to the Legislature.

Continuance of recovery in the state and nation is to a large extent now dependent upon the fostering and maintenance of purchasing power. The Legislature of Pennsylvania will contribute greatly to recovery if it will adopt legislation along the lines recommended by the Department.

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If the measures enacted are moderate - if they provide adequate protection for the public against unfair interest charges and at the same time make it possible for holders of capital to obtain a fair return upon their investment in _____ agencies we shall see a healthy expansion in this type of business within our borders.

And nothing the Legislature can do for the people of the Commonwealth will be of more lasting benefit than making it possible for the wage and salary worker to obtain adequate credit for legitimate purposes.

Respectfully submitted,

LUTHER A. HARR.

Secretary of Banking

February 3, 1957

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EXHIBIT E

A LOAN SHARK IN YOUR POCKET:

The Perils of Earned Wage Advance

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www.responsiblelending.org

About The Center for Responsible Lending (CRL)

The Center for Responsible Lending (CRL) is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gap. CRL's expertise gives it trusted insight to evaluate the impact of financial products and policies on the wealth and economic stability of families of color, rural, women, military, low-wage, low-wealth, and early-career workers and communities. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. We work in partnership with national and local consumer, faith, and civil rights organizations.

About the Authors

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Executive Summary

Online lenders offering earned wage and cash advances primarily through cell phone apps have proliferated in the past decade, with companies claiming that existing credit laws do not apply to their products. As a result, consumers have not been made aware of the true costs and potential harms of advances. Research by CRL and others has demonstrated using these fintech cash advances leaves many consumers worse off—paying high fees for small loans, increasing their risk of overdraft, and having to reborrow paycheck after paycheck. Usage patterns, associated harms, and revenue generation models of earned wage advance (EWA) are similar to those of traditional payday lending, but EWA borrowers can be even more easily ensnared in a debt trap when taking out loans with a few taps on their cell phones.

In 2024, regulators and legislators across the country have been barraged with lobbying from the fintech advance industry aiming to create loopholes for their high-cost loan product. While some banking regulators have recognized fintech cash advances as credit products subject to their laws, state legislatures have been flooded with industry-backed bills that claim that these products are not loans and should not be subject to state credit laws. With the release of a new proposed interpretive rule, the Consumer Financial Protection Bureau (CFPB) clarified that EWA advances are consumer loans subject to the Truth in Lending Act (TILA), which allows customers to compare options by requiring lenders to disclose the cost and fees. Going into a new year with this guidance, state legislators and regulators should strengthen and enforce their own lending laws to protect consumers.

This research report provides an update to the Center for Responsible Lending's recent publications on earned wage and cash advance, [Paying to Be Paid](#) and [Not Free](#). It offers new research insights and explains recent regulatory developments at the federal and state level.

Key Findings Include:

- 1 Many EWA borrowers are trapped in a debt cycle and the heaviest users drive the business model.** Repeat use of advances is common, and high-frequency users accounted for 38% of users and 86% of advances.
- 2 Earned wage advance use is associated with increased overdraft fees and payday loan use.** For EWA users with overdraft fees or payday loans, the majority saw the number of times they used these high-cost products increase after taking out an advance for the first time.
- 3 Consumers across states are experiencing similar harms.** The 18 states we analyzed had similar patterns of repeat borrowing, loan stacking, and overdraft use.

Current Policy Landscape

Federal Level

In July 2024, the CFPB issued a proposed interpretive rule confirming that paycheck advance products are subject to the federal Truth in Lending Act (TILA). The proposed rule affirms that paycheck advance loans, regardless of their characterization by lenders, are credit products subject to TILA disclosure requirements, and that tips and expedite fees are finance charges. The proposed interpretive rule rescinded a 2020 advisory opinion published by the CFPB, which exempted a very narrow class of EWA loans from the scope of TILA. This earlier advisory opinion was misused by EWA lenders to mislead state legislatures into believing that the CFPB had determined that EWA loans are not extensions of credit subject to credit laws. The substance of the interpretive rule was supported by a robust analysis of millions of transactions furnished to the CFPB by eight companies that issue EWA loans.

This rule provides much needed clarity around the regulation of these credit products and gives consumers the transparency in costs that they are entitled to but have been deprived of to date. The proposed interpretive rule and findings provide expert, well-reasoned analysis and guidance for state regulators and lawmakers grappling with how to apply existing credit laws to EWA. During the open comment period, CRL submitted a joint letter with the National Consumer Law Center praising the CFPB, providing suggestions to strengthen the rule, and highlighting anticipated evasions that may require additional rulemaking and enforcement action.¹ Over 160 consumer, labor, civil rights, faith-based, and community organizations also submitted a letter in support of the rule.² The attempt by EWA lenders to claim their advances are not loans mirrors that of the payday lenders, who long argued that they were only making advances, not loans. The Federal Reserve summarily dismissed that charade, holding that payday lenders were making loans, and these were subject to TILA and other credit laws.

In addition, industry has backed a bill in the House of Representatives that would exempt EWA loans from TILA. That bill has not advanced to a floor vote.

State Level

Our 2023 policy brief *Paying to be Paid: Consumer Protections Needed for Earned Wage Advances and Other Fintech Cash Advances* offered a detailed update of the state regulatory landscape on fintech cash advances. Since that time, industry has continued its efforts to gain exceptions to lending laws in states through legislative advocacy as regulators and lawmakers have considered how to regulate these lenders under their state credit laws.

This year, several states with strong consumer protection laws took steps to clarify, enforce, and maintain their lending laws in the face of industry pressure to create loopholes for their predatory product. In 2023, Connecticut confirmed that its credit laws apply to EWA products through both regulatory guidance and passage of a credit code modernization law, and Maryland issued regulatory guidance confirming that some EWA products are covered by its consumer laws.³ Connecticut's new law went into effect on January 1, 2024, resulting in a shift in the marketplace there, with lenders offering only products that comply with the rate cap for all small dollar loans in the state.⁴ In July 2024, Maryland opened an investigation into EWA and requested data from several EWA companies on their operations; the stated aim of the inquiry is to enforce existing state laws. California continued consideration of its proposed regulations that clarified that EWA and other fintech cash advance products are loans.

The 2024 legislative season also saw industry-backed bills introduced in states across the country, and three additional states passing industry-backed EWA bills, joining Nevada and Missouri. South Carolina and Kansas codified the high-cost business model, permitting various fees, subscription charges, and tips—with no cost limitations—and adopting the legal fiction that EWA is not a loan. Wisconsin also passed an EWA bill, authorizing limitless fees and tips without declaring whether EWA is a loan under its laws. Like Nevada and Missouri, these three states still allow traditional payday loans with triple digit APRs and have generally weak consumer protection laws. Thus, the bills simply add another triple-digit APR loan product to the payday loans currently permitted, and therefore do not undermine real-world consumer protections for borrowers under the law of these states. Lenders in these states must still comply with TILA disclosure requirements per the CFPB proposed interpretive rule discussed above.

Additional details on the state regulatory landscape can be found in the updated policy brief *Paying to be Paid: Consumer Protections Needed for Earned Wage Advances and Other Fintech Cash Advances* (October 2024).

Methodology

In a previous report on earned wage and cash advance, *Not Free: The Large Costs of Small-Dollar Loans Made Through Cash Advance Apps*, CRL used a mixed-methods approach to examine the costs, usage patterns, and impact of taking out cash advances. We analyzed financial transactions data from a panel of low- to-moderate income consumers affiliated with SaverLife, a nonprofit that uses technology to improve financial health. Additionally, we did a three-week qualitative study in which 14 participants used an online discussion forum to answer questions about their experiences. Our findings showed that consumers using direct-to-consumer EWA experienced more overdraft fees; took out advances repeatedly, with many taking out an advance on the same day or day after making a repayment; and paid an average APR of 367% for small loans.⁵

The analysis in this research report builds on CRL’s previous research on EWA. Our previous research was limited to a subset of consumers within the panel and focused on five direct-to-consumer lenders. In this research update, we use the same financial transactions data but expand our analysis to include a larger sample of consumers using both direct-to-consumer and employer-based EWA, and more companies, across a longer timeframe from January 2021 through June 2024. EWA users were identified by creating filters for deposits containing company names for 10 direct-to-consumer lenders and 10 employer-integrated lenders.⁶

Table 1. Total Advances and Users by EWA Type

	Total	Direct-to-Consumer	Employer-Integrated
Number of Advances	214,093	171,002	43,091
Number of Users	5,848	5,414	1,066

Note: 632 users used both direct-to consumer and employer-integrated EWA.

This latest research corroborates findings around repeat borrowing, loan stacking, and overdraft fees while providing novel insights into concurrent use of EWA and payday loans. Additionally, we look at 18 states that had at least 50 SaverLife members using EWA to understand impacts at the state level. We also examine the fees and tips users incurred with one direct-to-consumer lender that uses a tip-based model, EarnIn.

Findings

Many EWA borrowers are trapped in a debt cycle and the heaviest users drive the business model

For many workers, earned wage advance fails to solve their short-term liquidity problems, but rather traps them in a cycle of debt. Consistent with the CFPB's recent data report, we found that a substantial share of users took out advances every pay period, with 27% of users taking out 25 or more advances per year.⁷ For one in three (33%) EWA

users, 80% or more of the advances they took out were followed by reborrowing within two weeks. As many workers are paid on a bi-weekly basis, this suggests that receiving a reduced paycheck because of EWA necessitated taking out more advances in the next pay period. This is how payday loans work, with the initial loan being rolled over or renewed multiple times.⁸



**1 in 3 users
reborrowed within
2 weeks at least
80% of the time.**

The success of EWA companies is predicated on the fees collected with frequent and repeat advances that create a debt trap for borrowers. Although business models vary slightly, lenders earn money through a variety of fees including transaction fees, expedite fees, and subscription fees to access services. Most companies charge a fee to transfer money instantly—ranging from \$0.99 to \$25 depending on the size of the advance—which capitalizes on most borrowers' immediate need for cash. Several companies (Dave, EarnIn, and MoneyLion) also solicit tips from users of up to \$13 per advance.⁹ Previous research from the California Department of Financial Protection and Innovation found that tip-based EWA providers received tips for 73% of all transactions.¹⁰ By imposing limitations on how much can be borrowed in a single advance, while allowing more than one advance per pay period, lenders force borrowers to take out multiple advances—and pay multiple fees—to access more money. The business model capitalizes on most borrowers' financial precarity, and the user interface of these products makes paying a fee or leaving a tip difficult to avoid.

High-frequency users accounted for the majority of transactions; users with at least six advances in one or more months accounted for 38% of all users and 86% of all advances. Trapping these consumers in a cycle of debt is a key strategy for generating revenue through fees and tips, like that of the payday loan industry. According to Dave's presentation to investors, each advance generates \$9.20 in revenue on average.¹¹ Public filings from Dave, one of the only publicly traded EWA companies, show that 81% of their revenue in 2023 came from fees and tips associated with cash advances. Specifically, Dave reported \$259.1 million in revenue, earning \$152.5 million in fees (59% of revenue) and \$59.9 million in tips (22% of revenue).¹² Although not publicly traded, EarnIn has said in public testimony that 40% of its revenue comes from tips alone.¹³ CRL's analysis of EarnIn transactions in the SaverLife panel shows that the amount of fees and tips paid was highly correlated with the number of advances: Consumers who took out more advances paid more in fees and tips. Moreover, the heaviest EarnIn users—those who took out six or more advances per month—accounted for 22% of all users but paid 62% of expedite fees and tips.



**Users with 6+
transactions in 1 or
more months account
for 38% of all users
and 86% of all
EWA advances.**

A Closer Look at EarnIn

High-Frequency Borrowers Are Paying the Majority of Fees and Tips



To better understand expedite fees and tips, which are clarified as finance charges in CFPB's new interpretive rule, we conducted additional analysis focused on direct-to-consumer EWA provider EarnIn, whose primary sources of revenue are expedite fees and tips.¹⁴ EarnIn consumers in this sample paid expedite fees and tips totaling \$230,785 for 45,123 advances.¹⁵ Consistent with findings in our previous report, the average cost per advance for EarnIn was around \$5 for an average advance of \$80 for nine days. EarnIn users who took out more advances paid more in expedite fees and tips. We found that 286 out of 1,312 EarnIn users took out an average of six or more advances per month from EarnIn alone. Even though these high-frequency EarnIn users accounted for only 22% of all EarnIn users in the sample, they accounted for 61% of all EarnIn advances and paid 62% of the expedite fees and tips. These findings parallel established consensus about the business model of the payday loan industry, where most of the revenue comes from a small number of high-frequency borrowers caught in a cycle of debt.

Taking advances from multiple companies within the same month was also prevalent and is cause for concern. Loan stacking increases the costs of advances and compounds borrowers' risk of overextending themselves. In our sample, nearly half of all EWA borrowers had used multiple companies in the same month; 22% of EWA users had used two apps in the same month, while 27% had used three or more in the same month. In the most extreme case, one worker used eight different EWA apps in the same month. Using multiple apps leaves workers with less money on payday, making it harder to meet expenses.

Neither EWA lenders nor employers have protections in place to ensure the same wages are not pledged to multiple lenders. Roughly two in five employer-integrated EWA users (39%) also took out advances from direct-to-consumer EWA providers during the same month, while 11% did so for at least half the months they used employer-integrated EWA. Concurrent use of multiple EWA apps means borrowers are paying more in fees to take out amounts that may be unsustainable and are risking further financial distress when multiple loans become due at the end of the pay cycle.



39% of employer-integrated EWA users also used direct-to-consumer EWA in the same month.

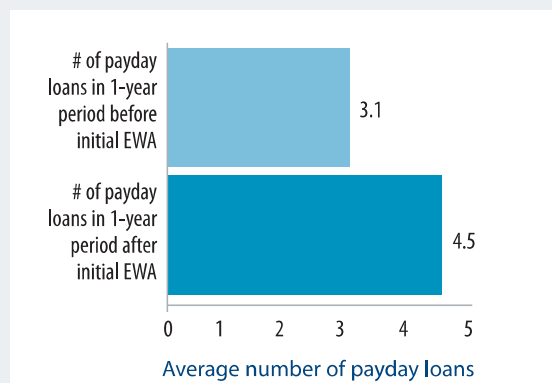
Earned Wage Advance Use Is Associated with Increased Overdraft Fees and Payday Loan Use

EWA providers tout their products as “overdraft fee eliminators” and “payday loan killers.”¹⁶ However, our research found evidence of the opposite. In line with findings from CRL's previous research, we found that overdrafts on consumers' checking accounts increased on average following use of an advance product. Our previous report found that the number of overdrafts increased 56% on average after use of an advance product.¹⁷ In the updated larger sample, we found that out of EWA users who experienced overdrafts, 67% saw their overdrafts increase after initial advance use. In the most extreme case, one user incurred no overdrafts in the three months leading up to their initial EWA advance, and experienced 58 overdrafts in the three months following their initial EWA use. These overdrafts cost the borrower \$1,740 in total fees.

To date, 20 states and the District of Columbia have passed laws to cap payday lending rates around 36% APR, including fees, or requiring other measures to ensure that payday lenders do not impose interest rates and financing terms that create a long-term debt trap for consumers.¹⁸ Because of these important policy measures, many consumers are protected from predatory payday lenders. In states without strong consumer protections, payday loans and similar small loans with triple-digit APR continue to drain nearly \$3 billion in fees annually.¹⁹

Even though only a small share of EWA users in our sample had used payday loans, those who did turned to payday lenders more often after they started to use advance products.²⁰ Of EWA users in states without rate caps who also used payday lenders, 58% took out more payday loans in the year following their initial EWA advance. Many of them had not previously used payday loans but then started to take out payday loans after starting to use EWA. One new EWA and payday loan user took out 15 payday loans and paid \$439.79 in fees. For EWA borrowers who also used payday loans, the average number of payday loans increased from 3.1 in the year leading up to their initial advance use to 4.5 in the year following advance use. This means that EWA users who also used payday loans did not reduce their reliance on payday loans. In the most extreme case, one individual in California saw the number of payday loans increase from six in the year before their initial EWA advance to 52 in the year following initial EWA use, which drained an additional \$1,996.61 in fees from their bank account.

Figure 1. Counts of Average Number of Payday Loans Preceding and Following Advance Use



Source: CRL analysis of SaverLife data.

Consumers Across States Are Experiencing Similar Harms

We looked at repeat borrowing, loan stacking, and overdraft use for consumers in 18 states in the dataset.²¹ Across the states, we found results that were consistent with national trends. First, consumers across 18 states took out advances repeatedly. The percentage of users with 25 or more advances in a year ranged from 21% in Minnesota to 36% in New York. Second, using multiple EWA apps concurrently was common. The percentage of users who had borrowed from multiple EWA companies in the same month ranged from 43% in Michigan to 57% in Massachusetts. The fees and potential harms associated with taking out multiple advances simultaneously impact consumers across different states. Lastly, in all 18 states, EWA users who experienced overdrafts did not decrease the average number of overdrafts during the three-month period after their initial advance compared to the three-month period before their initial advance. In 17 states there was an increase in the average number of overdrafts, and in one state, Virginia, there was no change. The payday loan analysis was not feasible at the state level due to the overall low incidence of payday loan use in our sample, as most of the states analyzed have rate caps of 36% or less, which protect consumers from predatory payday loans.

Conclusion

Borrowing money that is repaid on payday is not an innovation; it is a loan. As earned wage and cash advance products have become more popular, the parallels to payday lending are striking. Like payday loans, earned wage advance can trap users in a cycle of reborrowing that increases their financial distress, while generating revenue for companies.

Our analysis shows that many users are taking advances every pay cycle and relying on multiple apps every month. The more advances a worker takes out, the more their paycheck is eroded by fees and tips. Companies' business models are predicated on consumers' need for immediate access to cash and the shortfall created by taking out an advance. For example, we found that EarnIn derived most of its revenue from fees and tips paid by a small number of high-frequency users. Furthermore, earned wage and cash advance are exacerbating borrowers' financial distress. For those users who also are incurring overdraft fees or have taken out payday loans, earned wage advance does not decrease their reliance on these high-cost products like companies claim. Instead, the majority of these users see the incidence of overdraft fees and payday loans increase.

Actions taken by the CFPB and state regulators help ensure that consumers understand the costs of these loans and can compare their options. Requiring lenders to disclose an accurate interest rate that includes fees and tips as finance charges is an important step in protecting consumers from the erosion of their hard-earned paychecks.

Endnotes

¹ See Comment from Center for Responsible Lending (<https://www.responsiblelending.org/research-publication/comment-paycheck-advance-loans-are-credit-products-and-should-be-subject>)

² See Comment from Americans for Financial Reform Education Fund and 164 Organizations (<https://www.responsiblelending.org/research-publication/165-consumer-advocacy-faith-based-racial-justice-community-advocacy-groups>)

³ For more on these changes, please see *Paying to be Paid: Consumer Protections Needed for Earned Wage Advances and Other Fintech Cash Advances*, [Paying to be Paid: Consumer Protections Needed for Earned Wage Advances and Other Fintech Cash Advances | Center for Responsible Lending](#)

⁴ Data collected since January 2024 show that at least one company, Dave, is still offering loans with APRs that exceed the Connecticut interest rate cap by structuring its product as an overdraft service, rather than EWA.

⁵ [Not Free: The Large Hidden Costs of Small-Dollar Loans Made Through Cash Advance Apps | Center for Responsible Lending](#)

⁶ In addition to the five direct-to-consumer companies Brigit, Cleo, Dave, EarnIn, and FloatMe included in the previous report, we additionally identified advances from Albert Instant, Empower, Klover, Varo Advance, MoneyLion, and employer-integrated companies Branch, DailyPay, One@Work (formerly Even), PayActiv, Rain, Tapcheck, Immediate, Instant Financial, Wagestream, and ZayZoon.

⁷ [Data Spotlight: Developments in the Paycheck Advance Market | Consumer Financial Protection Bureau \(consumerfinance.gov\)](#)

⁸ [CFPB data point: Payday lending | Consumer Financial Protection Bureau \(consumerfinance.gov\)](#)

⁹ [What Is Earned Wage Access? - NerdWallet](#)

¹⁰ California Department of Financial Protection and Innovation, [2021 Earned Wage Access Data Findings \(ca.gov\)](#)

¹¹ [Dave Q2 2024 Earnings Presentation](#), slide 9. Average advance amount is \$166, typical loan term is 1–2 weeks.

¹² Dave Inc, (2024, March 3). Form 10-K. Retrieved from <http://www.sec.gov/edgar.shtml>.

¹³ Vt. House Comm. on Com. and Econ. (2023, February 14), *supra* note 3 at 2:16:45, available at https://www.youtube.com/clip/Ugkx7fEU-NXc2ZqgurJSRZTHXm_rpCNHzVcU

¹⁴ EarnIn website [How does EarnIn make money? – EarnIn Help Center](#) accessed 9/18/2024

¹⁵ We matched EarnIn advances to repayments using the transaction date, assuming that advances precede repayments and that the total amount repaid on each payday is equal to or slightly more than the total amount advanced during that pay period. If the total amount repaid on payday exceeded the total amount advanced during a pay period, the excess amount accounts for expedite fees and tips paid by the consumer. Following this method, we matched 45,123 advances from 1,312 SaverLife members. Twenty-five percent of EarnIn advances could not be matched to a repayment.

¹⁶ DailyPay. (2024, April 13). Earned Wage Access. NCOIL Spring Meeting. <https://ncoil.org/wp-content/uploads/2024/04/EWA-NCOIL-.pdf>

¹⁷ [Not Free: The Large Hidden Costs of Small-Dollar Loans Made Through Cash Advance Apps | Center for Responsible Lending](#)

¹⁸ [Red Alert Rates: Annual Percentage Rates on \\$400, Single-Payment Payday Loans in the United States | Center for Responsible Lending](#)

¹⁹ [Debt Trap Drives the Fee Drain: Payday and Car-Title Lenders Drain Nearly \\$3 Billion in Fees Every Year | Center for Responsible Lending](#)

²⁰ We identified payday loan transactions for users living in states where payday loans are legal by creating filters for major payday lenders, including Advance America, Ace Cash Express, Speedy Cash, Checksmart, Approved Cash Advance, Advance Financial, LendNation, MoneyTree, Rapid Cash, Check City, Community Choice Financial, AmeriCash, Cashback Loans, Cash Central, Cash Time, Community Loans. We also filtered for amounts greater than \$75 and no more than the state-specific maximum (e.g., \$300 in California), where applicable. Fifty-seven EWA users in our sample had payday loan transactions, representing approximately 1% of all EWA users in the sample.

²¹ States included: Arkansas, Arizona, California, Colorado, Connecticut, Georgia, Illinois, Massachusetts, Maryland, Michigan, Minnesota, North Carolina, New Jersey, New York, Ohio, Pennsylvania, Virginia, and Washington.



Center for Responsible Lending

www.responsiblelending.org

The Center for Responsible Lending (CRL) is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gap. CRL's expertise gives it trusted insight to evaluate the impact of financial products and policies on the wealth and economic stability of families of color, rural, women, military, low-wage, low-wealth, and early-career workers and communities. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. We work in partnership with national and local consumer, faith, and civil rights organizations.

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EXHIBIT F

Not Free: The Large Hidden Costs of Small-Dollar Loans Made Through Cash Advance Apps

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April 2024



About The Center for Responsible Lending (CRL)

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Executive Summary

Earned wage advances (EWA) and cash advance products are small, short-term loans that are typically repaid on the consumer's next payday either directly from a bank account or as a payroll deduction. Consumers access these products using an app on their smartphone by linking their bank accounts or by enrolling through their employer. The costs of these very short-term loans are not always transparent to consumers, who often pay fees and leave tips to access money and run the risk of unexpected overdraft fees. Workers who are already living paycheck to paycheck may frequently find themselves pulled into a cycle of reborrowing that depletes their net earnings and further erodes their financial stability. Through a mixed-methods approach, this research aims to better understand the costs and risks of using EWA and cash advances as well as their impacts on the financial lives of low- and moderate-income consumers.

Key Findings Include:

- 1 Overdrafts on consumers' checking accounts increased 56% on average after use of an advance product.
- 2 Consumers are taking out advances repeatedly, and using multiple lenders is common. Three quarters (75%) took out at least one advance on the same day or day after making a repayment.
- 3 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%).
- 4 Many low- to moderate-income consumers are already struggling to meet their expenses and repaying advances makes it harder to catch up or save.

Background

EWA and cash advance products are small-dollar, short-term loans that borrowers access via smartphone apps and typically repay on their next payday, either directly from a bank account or as a payroll deduction. Two types of companies offer advances: employer-integrated and direct-to-consumer. In employer-integrated EWA, companies contract directly with employers, using their timekeeping and payroll systems to determine advance eligibility. Loans are repaid through payroll deduction, leaving the user with a smaller paycheck on payday. Direct-to-consumer companies have access to users' bank accounts and rely on deposits, income history, spending habits, and in some cases, location tracking to determine projected pay and borrowing limits. A borrower repays advances directly from their bank account when they receive their next paycheck or at a scheduled date. Borrowing limits vary by company but can be up to \$750 or more per pay period or up to 100% of earned wages.¹ A 2021 report found that the average advance was \$120 across two employer-based and two direct-to-consumer companies.² In California, the Department of Financial Protection and Innovation (DFPI) found 80% of transactions were between \$40 and \$100.³

Companies market these loans as having no mandatory fees or interest and as a way to avoid overdrafting a checking account, but consumers often pay optional fees, leave "tips" when they take out an advance, and incur overdraft charges upon repayment, making advances costly. Employer-integrated and direct-to-consumer companies use different fee structures, which can include a combination of monthly subscription fees, transaction fees, and expedite fees.



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.⁴ The cost of expediting payment for the cash advance company is less than \$.05 per transaction.⁵

Subscription or membership fees: Monthly fees to access advances range from **\$1.00–\$19.99**. In some cases, these fees provide access to other products like credit builder loans, credit monitoring, and budgeting apps.

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–\$14.00** for the companies researched.

Companies advertise advances as a way to get cash “in minutes” but charge a fee to do so. Fast-funding fees are optional, but in practice, consumers in need frequently pay them to access cash immediately rather than wait one to three business days (the free option). Similarly, while tips are not mandatory, users often feel compelled to leave one due to applied pressure tactics like setting default tips greater than \$0 or claiming tips are used to support other vulnerable consumers or for charitable purposes.⁶ DFPI found that tip-based lenders received a tip on nearly three-quarters (73%) of all loans.⁷ In an online survey conducted by CRL, 70% of respondents reported leaving tips, with 62% doing so nearly every time. Nearly 8 in 10 respondents (79%) also typically paid expedite fees to receive funds faster, suggesting that fees and tips are common practice.⁸ Fees make these small advances costly for consumers, with annual percentage rates (APRs) averaging over 300%.⁹

Consumers take out advances with varying frequencies, from multiple times a year to every pay period. Some companies allow users to take out multiple advances before repayment, while others only allow one advance at a time. Research by the Government Accountability Office (GAO) estimated that users of one employer-sponsored EWA company used the service 10 to 24 times per year while users of a direct-to-consumer company did so more frequently, 26 to 33 times per year on average. Another study found more than 70% of users took advances in consecutive semi-monthly periods, with 10% of users taking out advances consecutively for at least five months.¹⁰ DFPI found consumers took out advances nine times a quarter on average for a total of 36 times a year.¹¹ The frequency of advances adds to the cost, especially if consumers are paying expedite fees and leaving tips with each advance. Some lenders restrict how much can be borrowed in a single advance while permitting multiple advances per pay period and even per day, to increase the number of advances and amount paid in fees. For example, one company allows consumers to take out \$750 per pay period but only up to \$100 per day.

Existing research suggests that low- and moderate-income consumers make up a significant percentage of the customer base for EWA and cash advance companies. The GAO found that the share of users earning less than \$50,000 a year ranged from 59% to 97% across four different advance companies that separately provided these percentages. One direct-to-consumer company reported 78% of its users made less than \$25,000 a year.¹² A survey of low-income workers receiving government benefits found that 51% had used or downloaded direct-to-consumer apps and 16% had used them once a week.¹³ Sold as a liquidity solution for consumers living paycheck to paycheck, advances may provide some relief to consumers in the short term but can cause a cycle of repeated borrowing in the long term, as consumers are continually borrowing against their own paycheck, often at a high cost.

Research Objectives

Despite the increasing public attention on advances, there remains a notable gap in our understanding of their usage by consumers, as well as the associated costs and impacts on consumers’ finances. To bridge this information gap, we conducted a mixed-methods research study, encompassing both a quantitative analysis of transactional data and a qualitative diary study. This report aims to understand the impact of fintech cash advances on consumers by addressing the following three research questions:

- 1 What is the cost of using these products?**
- 2 What do usage patterns look like for EWA and cash advance products?**
- 3 What are the impacts on consumers’ financial health and goals?**

Data and Methodology

Transactions Analysis

CRL received anonymized financial transactions data from a panel of low- to moderate-income consumers affiliated with SaverLife. This nonprofit advocacy organization uses technology to improve the financial health of people living on low-to-moderate incomes across the country. SaverLife has a network of more than 600,000 members who engage with their financial product, research, or advocacy efforts.¹⁴ More than 160,000 consumers have chosen to connect one or more of their accounts to the SaverLife platform. The sample provided to CRL included anonymized data for U.S. consumers who shared their transaction-level activity from one or more financial institutions with SaverLife's financial product. The consumers in this sample were "active" on the platform, with "active" being defined as having a transaction on record in the 30 days before November 13, 2023.

SaverLife works with a subset of American consumers that is younger and lower income than the U.S. population as a whole based on self-reported demographic information obtained through intake surveys. The majority of SaverLife members (91%) have a household income of \$75,000 or less compared to 50% of American households overall. Our dataset consisted of a sample of users with similar demographic characteristics as SaverLife's membership. The income distribution of the sample aligns with the income distribution of advance users reported in previous research by GAO and others. Detailed characteristics are available in Appendix 1.

The dataset included 14,514,724 transactions for 16,442 individuals over an 18-month period (May 2022 to November 2023). Variables included anonymized user ID, account type, transaction date, transaction description, transaction amount, and banking institution name. Because the data are account-level and consumers may hold multiple accounts, our findings may reflect only a portion of the consumer's transactions.

Identifying Cash Advance Users

We include five direct-to-consumer companies in the analysis, but they are not the entirety of the EWA and cash advance marketplace. One report identified at least nine direct-to-consumer companies.¹⁵ Although total market share is unknown, three companies (Brigit, Dave, and EarnIn) in our report have a combined reported user base of 14 million.¹⁶ Employer-integrated companies were visible in the transactions data but were not reflected in the analysis because repayment was done through payroll and not a separate, identifiable transaction. Because the analysis does not include all companies, our findings likely underestimate frequency and usage of EWA and cash advance.

Of the five advance companies included in this analysis, two used a tip-based model and three used a subscription-based model with no tips. Consumers using advances were identified by creating filters for transactions containing company names for each direct-to-consumer company (Brigit, Cleo, Dave, EarnIn, and FloatMe). These consumers had advances that could be matched to repayments. Of the 16,442 consumers included in the sample, 1,938 (12%) had transactions associated with at least one of the five companies listed above:

Link Advances to Repayments

Although advances are the main line of business, EWA and cash advance companies offer other ancillary products and services like credit builder loans, credit monitoring, savings accounts, and debit cards. To isolate advances and repayments, we first identified them by removing any transactions associated with other company products using keyword filters; this left advances, repayments, and monthly subscription fees. We organized the remaining transactions into three distinct datasets based on their nature: advances, repayments, and (when applicable) membership fees.

In cases where companies permit only one advance at a time, we matched advances to repayments, using the transaction date. We assumed the repayment date occurred after the advance date and identified repayment amounts that were within \$20 of advance amounts. We also included monthly membership fees in the dataset. This procedure enabled advances to be aligned with their respective repayments and fees to be calculated.¹⁷

In cases where companies allow users to take out multiple advances before repayment, we conducted a merge operation between advances and repayments to ascertain the timeframe during which each advance transaction was both initiated and repaid.¹⁸

Ultimately, we matched 37,826 advances for 1,938 unique users across five direct-to-consumer companies.

Table 1: Total Advances and Users by Company

Company	All Five Lenders	Brigit	Cleo	Dave	EarnIn	FloatMe
Number of Advances	37,826	7,133	2,966	5,992	19,561	2,174
Number of Users	1,938	909	719	873	706	444

Note: Number of users in this table is greater than 1,938 because some users used more than one company.

Diaries

On behalf of CRL, BSP Research implemented a diary study of 18 EWA and cash advance users. All participants use EWA or cash advance products regularly, with some using several apps multiple times a week. Participants discussed their experiences with more than seven companies, including the five companies included in the transaction analysis. Participants logged onto an online discussion platform (QualBoard) several times a week over the course of three weeks. From August 28, 2023 through September 15, 2023, participants answered a series of questions about their experiences with and concerns about using EWA and cash advance products.

The study recruited from among people aged 18 to 55 years old who are employed and have a personal income of no more than \$50,000. In total, 14 participants completed the study in English, and four completed the study in Spanish. Most respondents (11 out of 18) identified as people of color and slightly more identified as female than male. Participants lived across the country, in 13 different states. A detailed description of the sample is available in Appendix 2.

In partnership with BSP Research, CRL researchers analyzed diaries to identify themes related to advance use, ability to meet expenses, impacts of using advances, and planning for financial goals. Some of the most salient themes, along with direct quotes that support them, are presented in the findings section below.

Findings

Overdrafts on consumers' checking accounts increased 56% on average after use of an advance product.

Companies providing advances often tout their product as a way for consumers to avoid overdrafting their checking accounts and incurring associated fees. However, this claim is inconsistent with past evidence that demonstrates how high-cost credit products may compound other financial costs, such as overdraft fees. For example, a Consumer Financial Protection Bureau (CFPB) study that reports on other deposit advance products issued by banks found that borrowers were substantially more likely to overdraw their accounts when they used these products. Even when banks discontinued these deposit advance products, there was not an increase in overdraft use.¹⁹ In other words, the availability of the high-cost credit products was associated with more overdrafts, and the elimination of this loan program did not appear to lead to an increase in overdrafts as a replacement.

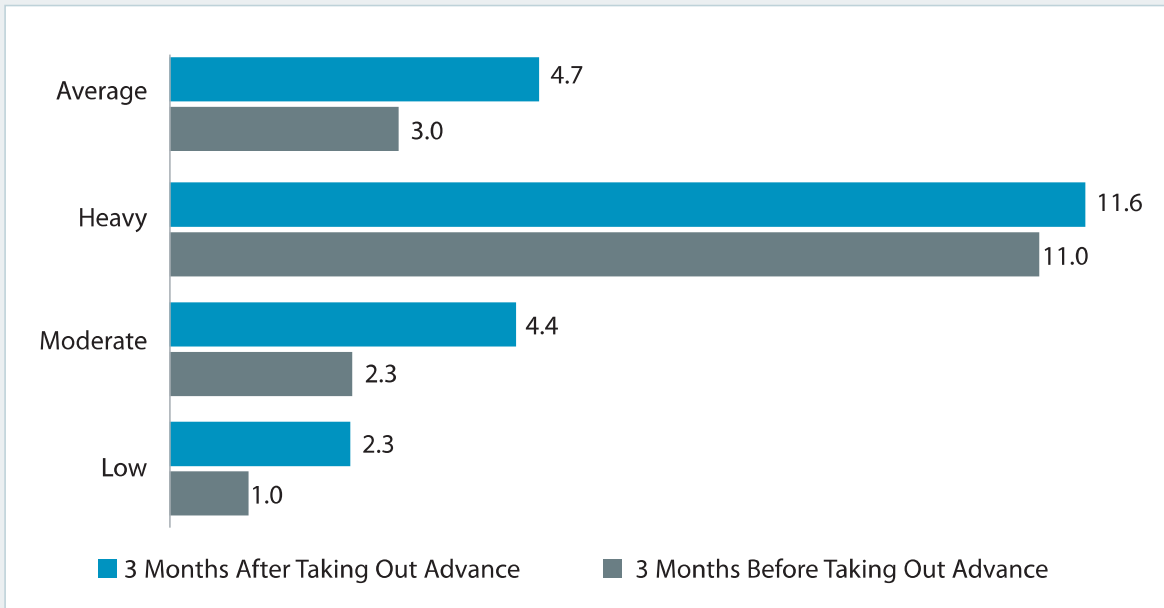
Direct-to-consumer lenders recoup funds and subscription fees directly from users' bank accounts through ACH authorizations. If the user does not have enough funds at the time of repayment, lenders will make multiple attempts to collect repayment, resulting in overdraft fees.²⁰ Though the price varies by bank, an overdraft fee often costs \$35.

To evaluate whether the use of advances changed the frequency of overdraft fees, CRL looked at the change in overdraft fees before and after a customer started using advance products.²¹ We identified the first advance transaction associated with a consumer and then looked at the number of overdraft fees incurred three months prior to advance use and three months post use to evaluate the change in overdraft activity. We used four categories to define frequency of overdraft fees in those three months: "heavy" users had four or more overdrafts over three months, "moderate" users had two or three overdrafts over three months, and "low" users had one overdraft every three months.

In our transaction analysis, we found that users experienced more overdraft fees after an initial advance. The average number of overdraft fees increased from 3.0 in the three months leading up to borrowers first advance use to 4.7 overdrafts in the three months following advance use. Assuming a common overdraft fee of \$35, advance users paid about \$60 more in overdraft fees in the three months after using advances. Half of advance users had zero overdrafts in the three months prior to using advances. These users newly started to overdraft on average 2.3 times, and as many as 35 times, in the three months after taking their first advance.

In fact, all consumers, regardless of overdraft frequency, saw their overdraft activity increase. Over three months, the number of overdrafts for low and moderate users more than doubled, rising from 1.0 to 2.3 (and up to 19) and from 2.3 to 4.4 (and up to 20), respectively. Meanwhile, heavy overdraft users saw their activity increase from 11.0 overdraft transactions to 11.6 (and up to 53).

Figure 1. Counts of Overdrafts Preceding and Following Three Months of Advance Use



Source: CRL analysis of SaverLife data.

The increase in overdraft fees in conjunction with use of advances is similar to the relationship observed between overdraft fees and payday lending. Notably, consultants selling bank payday loan software have promised banks that providing payday lending would result in little to no “overdraft revenue cannibalization” because payday lending would increase total borrowing by consumers, resulting in higher fee generation.²² Advance products appear to be operating in a similar pattern and users seem unlikely to be able to reduce overdraft fees because of their use.

Consumers are taking out advances repeatedly, and using multiple lenders is common. Three quarters (75%) took out at least one advance on the same day or day after making a repayment.

Lenders impose restrictions on how much can be borrowed in a single advance, but some allow borrowers to take out more than one advance per pay period, in some cases within the same day. (See Table 2 below.) As a result, lenders collect more fees as consumers take out consecutive advances or take out advances from multiple lenders to access more money. Consumers are left with less money on payday and increased risk of overdraft as they repay multiple advances at once. In our analysis, 37% of advance product users had at least one month where they took out advances four times or more. Additionally, 17% of users heavily relied on advances, using it four times or more in a month, for three consecutive months.

Table 2. Advance Limits and Fee Structure by Company

	Brigit	Cleo	Dave	EarnIn	FloatMe
Maximum Advance	\$250	\$250, \$100 for first-time users	\$500	\$100 per day \$750 per pay period	\$50
Monthly Fee	\$ 9.99 or \$14.99	\$5.99 or \$14.99	\$1.00	-	\$3.99
Expediting Fees	\$0.99–\$3.99 with the \$9.99 monthly option	\$3.99	3% of advance (\$3–\$15)	\$1.99 to \$3.99	\$3 for advance of \$10–\$20
	free with the \$14.99 monthly option		5% of advance (\$5–\$25)		\$4 for advance of \$20–\$30 \$5 for advance of \$30+
Tipping	-	-	Up to 25% of advance solicited	Up to \$13 solicited	-

Source: CRL review of company websites.

We found that almost half of users (48%) accessed advances from multiple companies, sometimes simultaneously. While 52% of users exclusively depended on a single lender, 24% utilized two lenders, and 24% had engaged with at least three lenders within the studied period. Among the consumers using multiple lenders, most (51%) engaged with multiple lenders within the same month for at least half of the time they took out advances. Taking out multiple advances simultaneously increases fees paid and the risk of overdraft upon repayment.



Among the consumers using multiple lenders, most (51%) engaged with multiple lenders within the same month for at least half of the time they took out advances.

Although advances may initially serve as an emergency resource, consumers are reducing their own paycheck each time they borrow and creating a cycle of borrowing and repayment that is difficult to break. In our transactions analysis, we found 12.0% of users took out new advances on the same day they repaid another from the same company and another 62.8% took out an advance one day after making their repayment. We found that 36.5% of users took out a new advance from any of the five companies on the same day they made a repayment for an advance from any of the five companies. And 38.7% took out their next advance just one day later. In total, this means 75.2% of users took out an advance on the same day or next day they made a repayment.

Users took out advances over several months, not just on a single occasion or sporadic basis. Seventy-six percent of individuals who began the use of an advance product continued to use the product at least once over the next six months.²³ Among those who kept using these advances, over half (51%) used the product at least once per month, 30% used it on average at least twice per month, over one-fifth (22%) took out advances an average of at least three

times per month, and 10% of users averaged at least five advances per month over the six-month period. Users who took out at least six advances in one or more months (ranging from a single-month maximum of 7 to 22 times) accounted for 17% of all users and nearly half (49%) of all advances.



Users who took out at least six advances in one or more months accounted for 17% of all users and nearly half (49%) of all advances

Most diary participants reported trying more than one lender, and several had taken out advances from multiple companies within the same period. Some used a combination of employer-integrated and direct-to-consumer lenders while others relied on multiple direct-to-consumer lenders.

“Since last week, I have only used EarnIn. But, last payday I used EarnIn, Cleo, Empower, and Brigit, all once except for EarnIn, I used them twice.” –Shaylene

“I usually use them every time I get paid because they take out their payment and usually my check is short because I use the apps and I have to go back and re-borrow almost every time I get paid.” –Ayanna

“They’re predatory, they get you stuck in a cycle, and you’re basically getting money that you already are having a hard time managing... They purposely advertise to people with low income, typically people that use these end up getting stuck in a vicious cycle.” –Cody

Consumers taking out small amounts of cash paid a high price. 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%).

When using these advances, consumers are borrowing small amounts of cash and typically repaying them in less than two weeks. The average advance amount for users in our transaction dataset was \$79 but varied from \$20 to \$133 depending on the company. The minimum advance amount in our sample was \$10 and the maximum was \$500, reflecting the variation in borrowing limits across companies. Consumers repaid advances within 10 days on average.

Table 3. Average Advance Amounts and Days to Repay by Lender

Company	All Lenders	Brigit	Cleo	Dave	EarnIn	FloatMe
Average Advance Amounts	\$79	\$58	\$39	\$133	\$83	\$20
Minimum Advance	\$10	\$25	\$20	\$20	\$10	\$10
Maximum Advance	\$500	\$280	\$250	\$500	\$300	\$50
Average Days to Repay	10.0	10.8	10.3	10.5	8.8	9.0

Source: CRL analysis of SaverLife data.

To compare the cost of advances relative to other financial products, CRL calculated the rate (APR), which represents the total cost of credit including fees and tips. We used the same APR formula as the California Department of Financial Protection and Innovation.²⁴ Monthly membership fees were included in the calculation by dividing the fee by the number of advances a consumer took out in each month.

Our calculations show that the cost of these advances can be comparable or more costly than traditional payday loans because of the high fees paid to borrow small amounts for a short period of time. **The average APR on advances repaid in 7 to 14 days was 367% (compared to 400% for a typical payday loan) but ranged from 284% to 956% by company.** Cleo and FloatMe showed higher average APRs due to the high fees for low advance amounts. Average fees represented 12% of the average advance amount but for Cleo and FloatMe were 18% and 26% respectively.

Table 4: Costs of Advance Compared to a Typical Payday Loan

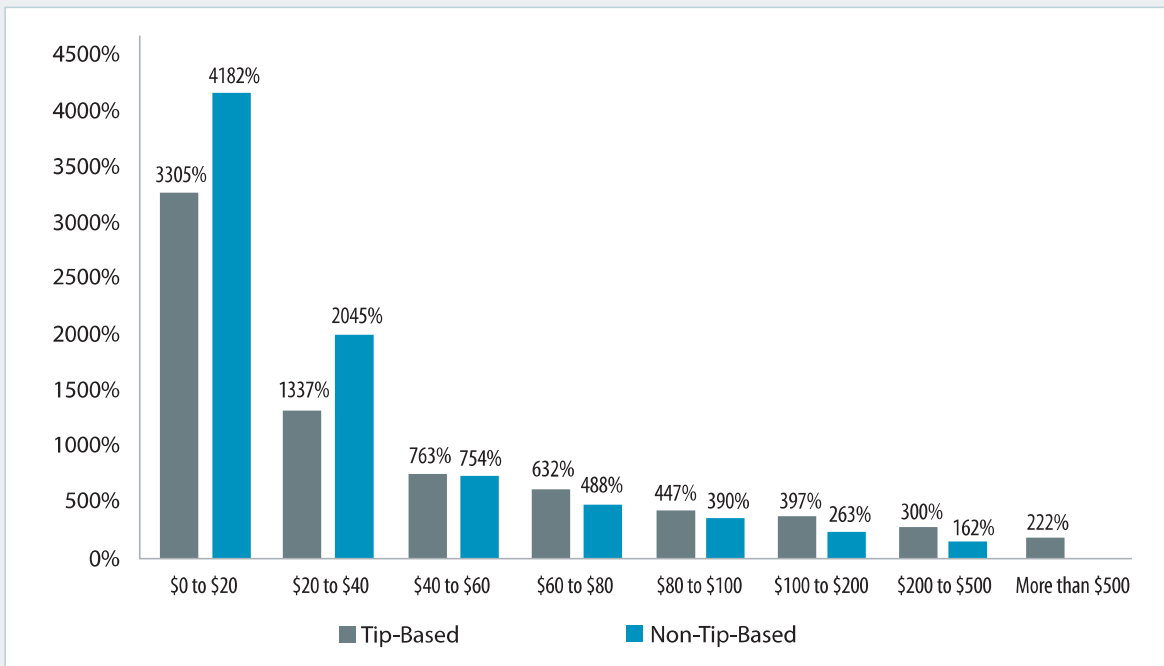
Cost Metrics	All Five Lenders	Brigit	Cleo	FloatMe	Dave	EarnIn	Payday Loan
Average APR on Advances Paid in 7 to 14 Days	367%	439%	652%	956%	329%	284%	400%
Average Fee to Advance Amount	12%	12%	18%	26%	10%	8%	15%
Cost per Advance	\$7	\$7	\$6	\$5	\$10	\$5	\$15

Note: Share of advances repaid within 7 to 14 days was 58%.

Source: CRL's calculations using SaverLife Data. The cost of a typical payday loan is taken from <https://www.consumerfinance.gov/ask-cfpb/what-is-a-payday-loan-en-1567>.

Consumers taking out small amounts of cash paid a high price. Over half of the transactions (51%) in our dataset were for less than \$80, especially among non-tip providers (see Appendix 3). Both tip-based and non-tip-based companies have exorbitant average APRs for advance amounts below \$40, with non-tip-based companies showing notably higher average APRs for these smaller advances. Advances ranging between \$40 and \$60 exhibit nearly identical average APRs across both tip-based and non-tip-based companies. Conversely, tip-based companies present significantly higher APRs for amounts of \$60 and above, which suggest consumers are leaving more in “tips,” which makes advances more costly.

Figure 3: APRs by Advanced Amount and Lender Type



Source: CRL's calculations using SaverLife data.

Diary participants' understanding of fees, tipping, and the costs associated with taking out an advance varied. Some users seemed to be unaware they were paying fees while others kept track of the changes in fees. Most participants reported regularly paying fees with some estimating they spent between \$30 to \$50 in fees per month. The lack of transparency around fees was concerning to some customers.

"I would say it's close to \$5–6 per advance except with Brigit I know it's only .99 cents. I would say each month I probably spend close to \$40 just on fees." –Zachary

"The tips I have not paid. I think they are ridiculous because they are already getting a fee. Most make you pay the expedite fee because if not it can take 3 business days and most people simply can't wait. I do feel the fee plus the monthly fee a lot are now doing is really starting to take advantage of people like \$6.99 a month and then \$6–7 expedite then want \$3–4 tip for 50 is a lot. This is one of the reasons I am trying my best not to use them." –Heather

Participants expressed mixed feelings about paying fees and confusion about leaving tips. Some felt fees were just the cost of doing business while others felt they were “paying to get paid” and that fees were unnecessary. Most felt they had no choice but to pay extra fees to receive money when they needed it. Some users described being charged for fees and tips that they hadn’t agreed to pay and expressed a desire for greater transparency around charges.

“I have been charged additional fees along with tips I never agreed to giving that amount. You can decline a tip one time and as you’re going through the process it adds another tip, but you have to catch it before you agree to the terms.” –Ayanna

“It has made it harder to save money, having to pay extra fees. That money could be going to my savings. I would say it (fees) is around \$50 a month, I would save that for an emergency fund.” –Jason

Many low- to moderate-income consumers are already struggling to meet their expenses and repaying advances makes it harder to catch up or save.

Diary participants were frustrated to find themselves in precarious financial situations despite how much they work and try to stay on top of their financial obligations. They expressed common financial goals—to build an emergency fund, open a savings account, own a home—but these goals were out of reach in their current situation. They were instead focused on getting by each week. Advances offered them quick access to money but at a high cost that puts them further behind and makes it difficult for them to save money. Most would prefer not to use advance apps in the future and are hopeful they will stop using them once they are more financially stable. They feel, however, that this is unlikely in the immediate future due to their pressing financial needs.

“It has been harder to save money, because I often find myself paying back more than what I borrowed every time and that sets me back for paying off other things.” –Ayanna

“Until I get a raise unfortunately, I feel I will be having to use it just as regularly as I have been.... I hope for there to come a day where I may not need to use a EWA where I will be financially stable enough to not have to rely on EWA or other means to pay bills on time.” –Brian

“I believe I will continue to use it at least for a while, but I would like to cut down on how frequent I’m using it, I’d like to get more ahead and get a savings built up so I don’t have to rely as much on the apps.” –Cayden

“My future financial goals are just to be stable to be honest without the need for these extra services. It’s frustrating because once you pay something there’s something else that pops up that you need to pay. I think it’s affecting my future financial goals because when you use these apps, you’re using money you’re already having a hard time balancing.” –Cody

Borrower Story: Zachary



Regular User of Cash Advance Apps

LOCATION:
Mississippi

AGE:
35

EMPLOYMENT:
Line cook, full-time

INCOME RANGE:
\$25–50K

HIGHEST LEVEL OF EDUCATION:
High School

ADVANCE LENDERS:
Brigit, Cleo, Dave, EarnIn

Relies on multiple lenders to make ends meet:

"I believe the first time I just needed extra money because I wasn't getting many hours at work, and now I'm in a perpetual state of borrowing every check because I can't afford to give up the amount till next pay period. . . . I consistently use EarnIn, Dave, Cleo and Brigit. I use them every paycheck."

Pays fees regularly but wants greater transparency:

"I always pay the fee to get it as soon as possible, it's usually not too big of a fee. I forget which app it was but they wanted you to pay for a subscription to the service with no guarantee you'd even get an advance which is ridiculous. I think the fees for the service should be made clear upfront because most of the apps make it seem like everything's free."

Trapped in a cycle of borrowing and repayment:

"My finances are horrible I hate it, I've been living paycheck to paycheck for a while now it's really hard to save up money for anything. I budget around these advances every month, I can't come up with the extra money to get out of the cycle. . . . Save money, own a home would be the most critical to me. I'm just trying to survive how it is right now honestly so I don't really have a plan set in place. It doesn't help having to forfeit half or more of my check every payday and then borrow it back, so yeah that affects my finances."

Conclusion

As the qualitative and quantitative findings in this report emphasize, the frequent use of advance products combined with their high cost make earned wage advance harmful for consumers who in many cases are already living paycheck to paycheck. Eroding their own paychecks each time they take out an advance, consumers are becoming trapped in a cycle of borrowing and repayment similar to payday loans. Another form of high-cost credit is not the solution to the income insufficiency faced by American workers whose wages have lagged behind the rising costs of everyday expenses like rent and food. Lawmakers and regulators addressing these products should impose meaningful guardrails on their use by regulating them under existing credit regulations or, if that is not feasible, implementing minimum consumer protections, such as treating advances as credit and including strict cost caps.²⁵

Appendix 1:

Demographics of Users by Sample Compared with Membership and U.S. Populations

Household Income	Advances Sample (n=814)	Transactions Sample (n=7,067)	SaverLife Membership (n=321,086)	ACS 2022, One-Year estimates
Less than \$15,000	12%	15%	31%	9%
\$15,000 to \$24,999	14%	14%	15%	7%
\$25,000 to \$34,999	14%	14%	13%	7%
\$35,000 to \$49,999	23%	22%	18%	11%
\$50,000 to \$74,999	20%	19%	13%	16%
\$75,000 to \$99,999	8%	8%	5%	13%
\$100,000 or more	8%	8%	5%	38%
Age	Advances Sample (n=876)	Transactions Sample (n=7,641)	SaverLife (n=321,086)	ACS 2022, One-Year estimates
18–24	7%	6%	6%	12%
25–44	48%	46%	42%	34%
45–64	33%	38%	43%	32%
65+	11%	10%	9%	22%

Note: Not all users in transactions sample reported income or age information, which is why n differs for each category and from the total users reported in the data section.

Appendix 2:

Focus Group Participants Demographics

Gender	
Men	8
Women	10
Race/Ethnicity	
Asian	2
Black	1
Hispanic	7
White	7
Other Race	1
Age	
18–25	4
26–35	7
36–45	4
46–55	3
Diary Language	
English	14
Spanish	4
Employment Status	
Full-Time	10
Part-Time	5
Self-Employed	3
Personal Income	
Less than \$25,000	2
\$25,000–\$50,000	16
Educational Attainment	
HS Diploma or GED	7
Some College, No Degree	5
Four-Year Degree	6
EWA Apps Used	
EarnIn	9
Dave	8
Chime	7
Brigit	5
MoneyLion	4
Daily Pay	3
PayActiv	2
Other	3

Appendix 3:

Distribution of Advance Amount by EWA Provider

	All Advance Providers	Non-Tip-Based Providers	Tip-Based Providers
\$0 to \$20	1.36%	1.51%	1.30%
\$20 to \$40	15.78%	34.90%	6.53%
\$40 to \$60	27.52%	47.52%	17.90%
\$60 to \$80	6.02%	7.02%	5.53%
\$80 to \$100	2.03%	3.54%	1.31%
\$100 to \$200	43.02%	5.30%	61.21%
\$200 to \$500	4.25%	0.22%	6.20%
>=\$500	0.01%	0.00%	0.02%

Endnotes

- ¹ What Is Earned Wage Access?, NerdWallet
- ² Final Copy EWA & D2C Advance Usage Trends (cfsi-innovation-files-2018.s3.amazonaws.com)
- ³ 2021 Earned Wage Access Data Findings (ca.gov). <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/2021-Earned-Wage-Access-Data-Findings-Cited-in-ISOR.pdf?emrc=08148f>
- ⁴ 8 Cash Advance Apps That Cover You 'Til Payday, NerdWallet
- ⁵ https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/rtp_-pricing_02-07-2019.pdf
- ⁶ <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/PRO-01-21-ISOR.pdf>
- ⁷ 2021 Earned Wage Access Data Findings (ca.gov). <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/2021-Earned-Wage-Access-Data-Findings-Cited-in-ISOR.pdf?emrc=08148f>
- ⁸ Survey Summary of Earned Wage Advance and Cash Advance Apps, Center for Responsible Lending
- ⁹ 2021 Earned Wage Access Data Findings (ca.gov). <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/2021-Earned-Wage-Access-Data-Findings-Cited-in-ISOR.pdf?emrc=08148f>
- ¹⁰ Earned Wage Access and Direct-to-Consumer Advance Usage Trends, Financial Health Network (finhealthnetwork.org)
- ¹¹ 2021 Earned Wage Access Data Findings (ca.gov). <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/2021-Earned-Wage-Access-Data-Findings-Cited-in-ISOR.pdf?emrc=08148f>
- ¹² GAO-23-105536, FINANCIAL TECHNOLOGY: Products Have Benefits and Risks to Underserved Consumers, and Regulatory Clarity Is Needed
- ¹³ 214_AWP_final_2.pdf (harvard.edu)
- ¹⁴ About Saverlife
- ¹⁵ Final Copy EWA & D2C Advance Usage Trends (cfsi-innovation-files-2018.s3.amazonaws.com)
- ¹⁶ 214_AWP_final_2.pdf (harvard.edu)
- ¹⁷ For example, a user took out an advance of \$80 on March 2, and the next repayment occurred on March 14 for \$84.99. We linked those two transactions and the corresponding amounts and consider this transaction to have a \$4.99 fee for the advance.
- ¹⁸ After linking advances and payments, certain transactions were excluded. First, some transactions lacked full payment coverage for the advance, likely due to additional payments processed from unlinked accounts. Second, repayments made without any advances issued likely indicated payments for products other than EWAs. Third, the dataset spans from May 2022 to November 2023. However, for certain repayments processed in May 2022, there is missing information regarding the advances taken out before May 2022.
- ¹⁹ Supplemental findings on payday, payday installment, vehicle title loans, and deposit advance products, Consumer Financial Protection Bureau, June 2016. https://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.pdf
- ²⁰ <crl-ewa-brief-oct2023.pdf> (responsiblelending.org)
- ²¹ To do this analysis required restricting the sample to individuals with at least 90 days of transactions data prior to their first use of an EWA advance product to identify their propensity to overdraft before using one of the advance products in this analysis. This includes 604 individuals.
- ²² Fiserv, Relationship Advance program description, retrieved from <http://www.relationshipadvance.com/> in August 2011, on file with the Center for Responsible Lending.
- ²³ We restricted the sample to individuals who had not used an EWA advance in the prior three months and who had at least six additional months of subsequent transaction records.
- ²⁴ 2021 Earned Wage Access Data Findings (ca.gov)
- ²⁵ <crl-ewa-brief-oct2023.pdf> (responsiblelending.org)



Center for Responsible Lending

www.responsiblelending.org

The Center for Responsible Lending (CRL) is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gap. CRL's expertise gives it trusted insight to evaluate the impact of financial products and policies on the wealth and economic stability of families of color, rural, women, military, low-wage, low-wealth, and early-career workers and communities. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. We work in partnership with national and local consumer, faith, and civil rights organizations.

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EXHIBIT G

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Counsel for Plaintiff and the Putative Class

MARK CAVE, individually and as a representative of the Class,)	PHILADELPHIA COUNTY COURT OF
	)	COMMON PLEAS
Plaintiff,	)	TRIAL DIVISION
)	
v.	)	CLASS ACTION
)	
KLOVER HOLDINGS INC.,	)	Case No.
)	
Defendant.	)	JURY TRIAL DEMANDED

**PLAINTIFF'S FIRST SET OF INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS**

Pursuant to the Pennsylvania Rules of Civil Procedure, Plaintiff, by counsel, serves the following interrogatories and requests for production of documents. Plaintiff requests Defendant answer and respond to such discovery within the time allowed by the Pennsylvania Rules of Civil Procedure, and that Defendant produce for inspection and copying the documents described below by email to: kabramowicz@eastendtrialgroup.com; or by mail to: East End Trial Group LLC, 6901 Lynn Way, Suite 503, Pittsburgh, PA 15208.

RULES OF CONSTRUCTION

- A. The terms “and” and “or” are to be read interchangeably, *i.e.*, “and/or,” so as to give the broadest possible meaning.
- B. The term “concerning” is to be given the broadest possible interpretation, such that it includes relating or related to, consisting of, referring to, describing, discussing, constituting, evidencing, containing, regarding, reflecting upon, mentioning, pertaining to, citing, summarizing, analyzing, or bearing any logical or factual connection with the matter discussed.
- C. The term “including” always means “including without limitation” or “including but not limited to,” and should not be construed as a limitation.
- D. “Any” means “all” and *vice versa*.
- E. “Each” means “every” and *vice versa*.
- F. The use of the singular form of any word includes the plural and *vice versa*.
- G. The use of any tense of any verb shall also include within its meaning all other tenses of the verb.

DEFINITIONS

- A. “Account” refers to an account at a depository institution, or any other account that holds funds.
- B. “Advance” refers to Your cash advance product.
- C. “CDCA” refers to the Consumer Discount Company Act, 7 P.S. §§ 6201-6219.
- D. “CFPB” refers to the Consumer Financial Protection Bureau.
- E. “Communication” means any transmittal or attempt at transmittal of information, including telephone communications, which include failed calls, unanswered calls, dropped calls, text messages, and voicemails, oral communications, electronic communications, which include electronic mail and communications sent or attempted to be sent over any internet, intranet, or any other information network, and any documents or information transmitted between persons or devices.
- F. “DFPI” refers to the California Department of Financial Protection and Innovation.
- G. “DFS” refers to the New York Department of Financial Services.
- H. “DOB” refers to the Pennsylvania Department of Banking and Securities.
- I. “Document” shall be synonymous in meaning and equal in scope to the usage of this term in Rule 34(a) of the Federal Rules of Civil Procedure, and includes without limitation any written, typed, printed, recorded, electronic or graphic matter, however preserved, produced, maintained, or reproduced, of any type or description, regardless of origin or location, in your actual or constructive possession, custody or control, or the existence of which you have knowledge, and whether prepared, published, or released by you or by any other person. If a Document has been prepared in several copies, or additional copies have been made, or copies are not identical (or which by reason of subsequent modification of a copy by the addition of notations

or other modifications, are no longer identical), produce each non-identical copy as a separate document. Documents include Electronically Stored Information and Communications.

J. “Electronically Stored Information” means the complete original and any non-identical copy (whether different from the original because of notations, different metadata, or otherwise), regardless of origin or location, of any electronically created, electronically stored, or computer generated information, including, but not limited to, electronic mail, instant messaging, videoconferencing, and direct connections or other electronic correspondence (whether active or deleted), word processing files, spreadsheets, databases, and sound recordings, whether stored on cards, magnetic or electronic tapes, disks, computer files, computers or other drives, cell phones, Blackberrys, personal digital assistants, print-outs, or other storage media, and such other codes, technical assistance, or instructions as will transform such Electronically Stored Information into an easily understandable and usable form.

K. “Fees” refers to the express fees, monthly fees, and tips that You request, charge, collect, contract for, and receive.

L. “FTC” refers to the Federal Trade Commission.

M. “LIPL” refers to the Loan Interest and Protection Law, 41 P.S. §§ 101-605.

N. “Plaintiff” refers to Mark Cave.

O. “Platform” refers to www.joinklover.com and any related application.

P. “Research” refers to market, behavioral, or psychological research, survey, studies, or reports, or user, customer, or product testing, including A/B or multivariate testing, copy testing, surveys, focus groups, interviews, clickstream analysis, eye or mouse tracking studies, heat maps, session replays, or recordings.

Q. “TILA” refers to the Truth-in-Lending Act, 15 U.S.C. §§ 1601-1667f.

R. “You,” “Your,” and “Yourself” refer to Klover Holdings Inc., and its agents, representatives, officers, directors, affiliates, predecessors, and successors in interest, parents, divisions, subsidiaries, area and regional offices and employees, including persons or entities outside of the United States.

INTERROGATORIES

1. Identify by name, physical address, phone number, email address, and job titles or capacities, the person(s) most knowledgeable on the following topics:
 - a. The Fees that You request, charge, collect, contract for, or receive, including why You decided to request the Fees, the purpose of these Fees, the cost of the services these Fees are intended to cover and, if You claim any portion of the Fees are donated, what percentage You donate and what those donations fund.
 - b. The structure and presentation of the Platform, including how Fees are requested, and why You decided to request Fees in the way they are requested.
 - c. Whether You expect repayment on Advances, and whether persons are obligated to repay Advances.
 - d. How You issue, service, and collect Advances, how You determine whether persons may obtain Advances or the amount of the Advance a person may obtain, how You obtain repayment on Advances, and how You monitor Accounts to obtain repayment.
 - e. The Documents and information generated, used, stored, collected, retained, or maintained while issuing, servicing, underwriting, or collecting Advances, the ways the Documents and information can be accessed, searched, and produced, and the technology, systems, and databases You use.

ANSWER:

2. Identify by name, physical address, phone number, email address, and job titles or capacities, all persons on which You may rely to support any affirmative defense you may assert, and all persons answering or providing any information used to answer these discovery requests.

ANSWER:

3. Identify by name, physical address, phone number, and email address, all persons that meet the class definition.

ANSWER:

4. Identify each Advance Plaintiff obtained, including: the amount of the Advance; the date the Advance was requested; the date the Advance was obtained; the date the Advance was repaid; the amount repaid; the Fees charged on the Advance, including the name and amount of each Fee; each date and time You attempted to withdraw funds from an Account to obtain repayment on the Advance, each date and time You reviewed or monitored an Account concerning the Advance, and any other activating concerning the Advance.

ANSWER:

5. For each person identified in Your Answer to Interrogatory No. 3, identify each Advance they obtained, including: the amount of the Advance; the date the Advance was requested; the date the Advance was obtained; the date the Advance was repaid; the amount repaid; the Fees charged on the Advance, including the name and amount of each Fee; each date and time You attempted to withdraw funds from an Account to obtain repayment on the Advance, each date and time You reviewed or monitored an Account concerning the Advance, and any other activating concerning the Advance.

ANSWER:

6. Identify, by name and date, all Research that You reviewed, commissioned, used, requested, relied on, created, or performed (whether directly or indirectly) that concerns Advances or Fees, and explain the purpose of the Research.

ANSWER:

7. Identify all proposed or finalized changes made to Advances, and describe in detail why each change was proposed or made.

ANSWER:

8. Identify all proposed or finalized changes made to the way You request Fees, and describe in detail why each change was proposed or made.

ANSWER:

9. For each year You have been in business, identify the number and dollar value of Advances issued, and, for those Advances, identify:

- a. The number and dollar value of Advances repaid.
- b. The number of persons that obtained Advances.
- c. The number of persons that repaid advances.
- d. The number of Advances on which tips were scheduled to be paid.
- e. The number and dollar value of tips charged.
- f. The number of Advances on which express fees were scheduled to be paid.
- g. The number and dollar value of express fees charged.
- h. The number of Advances on which monthly fees were scheduled to be paid.
- i. The number and dollar value of monthly fees charged.
- j. The number of attempts You made to withdraw money from Accounts to obtain repayment on Advances or Fees.
- k. The number of attempts You made to withdraw money from Accounts where an Account had insufficient funds to meet Your request to withdraw money.
- l. The number of overdraft fees, over-the-limit fees, insufficient fund fees, and any other bank fees triggered by Your attempts to withdraw money from Accounts.

ANSWER:

REQUESTS FOR PRODUCTION OF DOCUMENTS

1. All Research that concerns Advances or Fees, or that You reviewed, commissioned, used, requested, relied on, created, or performed (whether directly or indirectly) while requesting, charging, or collecting Fees, offering Advances, or designing advertisements, webpages, or in-app screens that concern Advances or Fees.

RESPONSE:

2. All Documents that discuss, reference, or mention any of the Research identified in Request for Production No. 1.

RESPONSE:

3. All presentations, reports, speeches, statements, PowerPoints, research, handouts, data, memos, or any other Documents, including draft, finalized, and all other versions, that were presented or intended to be presented to investors or lenders.

RESPONSE:

4. All Documents that discuss, reference, or mention any of the Documents identified in Request for Production No. 3.

RESPONSE:

5. All internal presentations, reports, handouts, PowerPoints, or memos concerning Advances or Fees, including draft, finalized, and all other versions.

RESPONSE:

6. All Documents that discuss, reference, or mention any of the Documents identified in Request for Production No. 5.

RESPONSE:

7. Documents that discuss Your decision to characterize Advances as “non-recourse,” why You decided to do so, and the purpose of this characterization.

RESPONSE:

8. Documents that discuss Your decision to charge an express fee for Advances, why You decided to do so, and the purpose of this practice.

RESPONSE:

9. Documents that discuss Your decision to charge a monthly fee for Advances, why You decided to do so, and the purpose of this practice.

RESPONSE:

10. Documents that discuss Your decision to request “tips,” why You decided to do so, the purpose of this practice, the manner in which You request tips, and why You decided to request tips in the manner You requested them.

RESPONSE:

11. Documents that discuss Your expectation of repayment on Advances.

RESPONSE:

12. Documents that discuss the criteria You use to issue advances, the risks the criteria is intended to mitigate, how the criteria is used, the purpose of the criteria, and why You decided to use the criteria.

RESPONSE:

13. Documents sufficient to understand how Advances are funded.

RESPONSE:

14. Documents sufficient to show how You treat Advances for tax purposes.

RESPONSE:

15. All advertisements concerning Advances or Fees, including advertisements made on or through the Platform, websites, applications, television, radio, phone, social media, email, or any other medium.

RESPONSE:

16. All screenshots of the Platform concerning Advances or Fees.

RESPONSE:

17. All information and data that You provided to the Financial Health Network or any other entity conducting research on cash advance products.

RESPONSE:

18. All licenses You hold or have held in Pennsylvania.

RESPONSE:

19. All Documents concerning Plaintiff.

RESPONSE:

20. All Documents relied on to answer these discovery requests.

RESPONSE:

21. All Documents that concern or discuss whether Your Advances qualify as advances of money or credit, loans, or extensions of credit, whether Your Fees qualify as interest, charges, fees, discount, compensation, other consideration, or finance charges, or whether usury laws, the CDCA, LIPL, or TILA apply to Your business.

RESPONSE:

22. All Documents on which You may rely to support any of Your affirmative defenses, or to argue that Your Advances do not qualify as advances of money or credit, loans, or extensions of credit, that any of the Fees You request, charge, contract for, collect, or receive do not qualify

as interest, fees, charges, discount, compensation, other consideration, or finance charges, or that the CDCA, LIPL, or TILA do not apply to Your business.

RESPONSE:

23. All Documents that discuss, reference, or mention Your pricing strategy or pricing model concerning Advances or Fees.

RESPONSE:

24. All Documents that discuss, reference, or mention eligibility requirements, or any underwriting criteria, models, or technology concerning Advances.

RESPONSE:

25. All Documents You received from or sent to any state, federal, or other agency, including the FTC, CFPB, DFS, DFPI, DOB, or any other agency.

RESPONSE:

26. Any insurance agreement under which any person or entity in an insurance business may be liable to satisfy all or part of a judgment which may be entered herein or to indemnify or reimburse for payments made to satisfy the judgment.

RESPONSE:

27. An excel spreadsheet or similar Document sufficient to show every Advance You issued, including: the amount of the Advance; the date the Advance was requested; the date the Advance was obtained; the date the Advance was repaid; the amount repaid; the Fees charged on the Advance, including the name and amount of each Fee; each date and time You attempted to withdraw funds from an Account to obtain repayment on the Advance, each date and time You reviewed or monitored an Account concerning the Advance, and any other activating concerning the Advance.

RESPONSE:

Respectfully Submitted,

Dated: March 11, 2025

By: /s/ Kevin Abramowicz
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