House of Representatives Digital Assets, Financial Technology, and Inclusion Subcommittee Hearing
"Modernizing Financial Services through Innovation and Competition."

Statement for the Record
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Introduction

Chairman Hill, Ranking Member Lynch, and Members of the Subcommittee, thank you for the opportunity for EarnIn to provide a written statement for the record.

My name is Ram Palaniappan, and I am the CEO and founder of EarnIn, a company focused on improving the financial health of our customers by giving them more choice and control over their finances. Our primary product, known as Earned Wage Access (EWA), addresses the problems caused by the archaic and rigid system of fixed paydays. Two-thirds of our country lives paycheck to paycheck, and much of their lives revolve around waiting for payday.[1] With EWA, they can access the money they have already earned, without waiting for payday. Around 2 million people use our product - people working at retail, nurses, teachers, and government employees including TSA agents and more than 100 congressional staffers.[2] Today, there are several other companies that also offer similar EWA products.

I'd like to tell you how EarnIn started. I did not set out with the intent to start a company. I was running another company and heard that some of my employees were struggling between paychecks and were running into overdrafts. I was surprised because I thought we were paying them well. When I spoke with one of them, she told me that she needed money the next day and couldn't wait until payday. It was already halfway through the week, so I thought we'd pay her for the days she already worked, but I couldn't make our payroll system do that. So instead, I just gave her the money she had earned; and we settled it when payroll finally ran. This happens in tens of thousands of businesses across the country, where the business owner or manager helps their employees.

I continued to do this in person for a handful of employees for about four years. When I left the company, these employees wanted to know if I would still help them. I didn't mind doing it because I had worked with them for several years and knew them well. At first it was over instant messenger and then I built a web form. When I had this web page up, then people who I did not know tried to use it. I decided to do it for them as well. That's when I realized that when you give someone access to the money they have already earned, when they need it, their life is much simpler. They're paying all their bills on time - bills aren't piled up on payday with late fees, and they're not running into overdrafts or loans. And I knew that if I didn't make this into a product, I'd always feel bad about myself.

We now do this at scale. EarnIn gives people access to up to $100 per day of earnings, and up to $750 per pay period. That may not seem like a lot to some people, but it's enough for many people to pay rent and bills on time, buy gas and groceries when they are needed, and cover for unexpected expenses that may otherwise be a struggle to pay without resorting to high-cost

[1] https://www.prnewswire.com/news-releases/23-of-the-us-population-now-lives-paycheck-to-paycheck-301536811.html

[2] EarnIn internal data, October 2023

alternatives. It also allows families to celebrate birthdays and anniversaries on time. Overall, EWA enables people to live their lives more fully.

You may wonder how we are able to do that. Our business is centered around choice - the two ways we monetize are: $0 or a voluntary tip if you choose with ACH or $1.99 to $3.99 for expedited transfer. People know they have a choice and utilize the choice - over half of all transactions did not include a tip, with the average tip being $1.45.[3] Every month, over a million people use EarnIn. The top five use cases are food, gas (40% said it was specifically to get to work), utility bills, avoiding overdraft fees, and rent.[4] By accessing their wages when they need them, EarnIn customers avoid over $1 billion a year in overdraft fees.

Beyond EarnIn's EWA product, EarnIn also provides a suite of services to help with gaining more visibility over finances and budgeting. Balance Shield, a low balance alert to help maintain a positive bank balance; free Credit Monitoring, instant access to credit scores and insights to empower credit growth and protection; and Tip Yourself, a free and easy way to set aside money to reach savings goals.

History of the Pay Cycle

EarnIn and the EWA industry is designed to free people from the outdated pay cycle and give people control of their money, starting from when they earn it.

The pay cycle grew from a desire to ease the burden on employers seeking to implement the federal income tax in the 1940s. One consequence of the periodic pay schedule is that it limits workers' access to money they have already earned and creates everyday hardships because workers' financial obligations often do not coincide with employer-chosen pay dates. As a result, workers delay necessities, such as medical care until they receive their next paycheck. In an era of on-demand technology, we believe that EWA provides workers with a choice of how to obtain near-real-time access to the funds they earn without the excessive fees, challenges, and pitfalls of traditional tools like debt, bank account overdrafts, and high-cost lending.

The median amount of wages that our customers have already earned, but haven't yet received is $640, while their median bank balance is much lower. When people have a low bank balance and bills are due, then they accept the late fee on a bill and pay the bill late on payday. Or, if their service is going to get disconnected, they'll pay it and incur an overdraft fee. But when people have access to the money they have already earned, decisions are made differently - people pay their bills on time, not incur late fees, and they'll be more likely able to budget and save.

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[3] EarnIn internal data, July to October 2023

[4] EarnIn customer survey December 2020 to January 2021, 1,122 responses

EarnIn Community Impact

Many of our customers work in retail. There are different jobs at retail. With some, you're attached to a particular store. With another role, you work in a certain department, but cover multiple stores. That role pays better. One of our customers was offered this higher paying role but could not take it as she could not front the gas money and wait for reimbursement. When we offered the role again, she accepted it because she had our app and now she could afford to wait for reimbursement.

The benefits of EWA are not just financial. As mentioned above, it allows people to live their lives more fully - I recently met with one of our customers from Columbus, Ohio. She works at a hospital and was telling me about how her daughter has a passion for dance. She has to pay for the dance classes upfront and would not have been able to do that without EarnIn. It's amazing that through our app, her daughter is able to pursue her passion and participate in dance competitions.

A May 2021 research study of 4,735 EWA consumers showed that EWA helps working families stuck in a traditional pay cycle with the tools they need to manage their finances. The study found that 44% of users would otherwise consider not paying certain bills without EWA, and more than one-third of consumers would deliberately overdraft or use a payday loan because of cash flow constraints. Additional findings from the study show:

- 92% of consumers given EWA reported that it helped them to pay bills on time, avoid overdraft fees and payday loans, and become less dependent on credit cards; empowering them to achieve at least one of their financial goals in 2020.
- 91% of consumers said they understand how the EWA service works and understand the associated fees.
- 82% of consumers reported feeling less stressed about their financial situation, 81% feel EWA is the best option to help them manage their spending, and 77% reported having improvement in their overall mental health after using EWA.

Similar results were found in a 2023 survey of employees from one of EarnIn's corporate partners. The survey found that over 85% of these employees who use EarnIn agree it helped them avoid taking out a loan, pay bills on time, and reduce their financial stress. At a more granular level, the employees who started using EarnIn relied less on borrowing money from family (42% drop), personal loans (36% drop), credit card loans (17% drop), payday loans (23% drop), 401k loans (24% drop).

Modernizing Financial Services Laws to Expand Financial Access

If we want more financial access and financial inclusion, then we need new financial products. For new financial products to work, we need innovations as well as the right regulatory frameworks. EWA is one of those innovations that provides a great option for people who do not have any other good ones and at the same time does not fit into existing regulatory frameworks.

It needs its own regulatory framework – not regulation that treats EWA like revolving debt or installment loans. It needs regulations that recognize the benefits of EWA and the new, much needed consumer protections that come with it. If we don't create new regulations, then we are left with the same products we already have. It means that we are satisfied with the status quo and that we are comfortable with the amount of inequality we have.

Regulating EWA - Why Legislation is Necessary

Federal EWA regulations must find a balance between innovation and consumer protection in the rapidly changing financial ecosystem. One of the primary challenges in regulating EWA lies in the classification of these services. EWA is fundamentally distinct from credit offerings.

The absence of Federal legislation creates uncertainty for government agencies, consumers, and providers, alike. As providers seek to help working families through the benefits of EWA, they are forced to contend with a ceaseless stream of misinformation and scare tactics that actually harm consumers by pushing consumers to punitive and harmful alternatives. We believe that consumers are better served by regulatory clarity through a new, straightforward, tailored regulatory framework that serves and protects consumers, that also recognizes the unique attributes of EWA that distinguish it from revolving debt or installment loans,[5] and that ensures that EWA services are provided in a safe and responsible manner–a framework that supports innovation and not the status quo. In this way, consumers are able to make better-informed decisions and have greater choice.

In the 2022 and 2023 Treasury Budget proposal, the Biden Administration called for "on-demand pay arrangements," another common name for EWA, to be specifically exempted from being considered loans. Secretary Yellen gave a speech last year where she spoke about how delays in our payroll system harm people with lower incomes. She emphasized three main points in her speech:

- Our financial system benefits from responsible innovation
- When regulation fails to keep pace with innovation, vulnerable people often suffer the greatest harm
- Regulation should be based on risks and activities, not specific technologies

EWA has enabled millions of workers to manage their finances more effectively and avoid falling into financial ruin – misguided regulation will pull the rug out from underneath these workers and their families. Without federal guidelines for EWA, we have an inconsistent national landscape and a patchwork of state laws and ambiguity that leaves some Americans worse off. Clear federal guidelines that provide a new framework, that recognize that EWA is not credit and that provide guardrails that protect against exploitative practices, will better allow access to essential financial services and help working Americans and their families.

[5] We note that the Department of Treasury's March 9, 2023 "General Explanations of the Administration's Fiscal Year 2024 Revenue Proposals" contains a proposal to clarify that on-demand pay arrangements [which EarnIn calls EWA] are not loans for Federal tax purposes." https://home.treasury.gov/system/files/131/General-Explanations-FY2024.pdf, at page 208.

EWA provides access to an employee's own legally earned funds that an employer is allowed to keep until an arbitrary payday that occurs days or weeks later. These funds are not based on future income or credit scores, like credit products and not held in the employer coffers or payroll system waiting for funds to land in hard-working Americans' bank accounts. EWA has characteristics of several different financial products but does not fit well in any one of those existing regulatory frameworks. For this reason, the EWA community has been working to encourage federal policymakers to introduce legislation that will define EWA as what it is, not what it isn't, and set a regulatory regime that allows for innovation that safely and responsibly increases consumer choice and access to consumers' own earned funds.

1) EarnIn's approach to EWA fundamentally falls outside the definition of credit

EarnIn's approach to EWA falls outside of the definition of credit because:

a. EWA provides access to accrued earnings, providing timely liquidity as an alternative to credit to synchronize the timing of income with the timing of bills.
b. There are no finance charges and no interest paid by consumers.
c. Customers are not required to pay any mandatory fees to obtain EWA from Earnin.
d. EWA (as opposed to 'early pay' or 'payday' lending) is non-recourse. The transactional risk is borne entirely by the provider rather than consumers. Providers have no legal right to repayment and cannot report to credit reporting agencies or engage in collection activities (see Earnin Terms of Service[6]). If a customer does not repay their funds, the only recourse available to providers is to deny future access to the service. The amount involved in an EWA transaction does not roll over or compound.

Accessing earnings is closer to an ATM transaction than credit. ATMs provide consumers with faster, more convenient access to their funds - they can access money from their checking account through ATMs from any bank. We believe that EWA is more similar to ATM transfers than credit. Thus, we support clear disclosures on pricing structures for EWA services similar to ATM fee disclosures. In the ATM context, the consumer must be provided with notice of any fee; and the consumer must elect to continue the transaction after receiving notice of the fee.[7]

2) Regulating EWA as credit will lead to worse outcomes for consumers

EWA is fundamentally different from both credit products that have taken advantage of struggling Americans for years and the exclusive products that make liquidity available to wealthier Americans but remain off-limits to those most in need (the vast majority of Americans). Moreover, forcing EWA into the "credit" system seems to shoehorn a new consumer-friendly approach into a system that may disadvantage consumers.

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[6] https://www2.earnin.com/privacyandterms/

[7] Regarding ATM fee disclosures, see, CFPB required disclosures for ATMs: https://www.consumerfinance.gov/rules-policy/regulations/1005/16/#a. We also note that $4.66 was reported as the national average for out-of-network ATM fees in January 2023. See, https://www.bankrate.com/banking/how-much-are-atm-fees/.

Regulating EWA as credit would:

a. Transfer the downside risk from providers to consumers. Currently, EWA providers bear all of the legal and financial risks of non-repayment. If one were to treat EWA as credit, traditional credit decisioning logic is more likely and risks and costs to providers would increase, making it much more likely for them to manage risk the way credit card issuers do: requiring that customers have a legal obligation to repay; assessing creditworthiness of potential borrowers, including evaluating the applicant's credit history and debt-to-income; engaging in debt collection; credit reporting; and so forth.
b. Likely lead at least some EWA providers to resort to the most common credit-related fees, like annual fees, finance charges, late fees, and over-the-limit fees, just to be able to be sustainable or profitable.
c. Lead to negative credit reporting that could follow consumers around for years for a minor mistake.
d. Encourage more revolving debt.

These kinds of outcomes are detrimental to consumers and are more likely to lead them into cycles of debt and debt traps than EWA's consumer-friendly approach that is not based on revolving credit principles.

Conclusion

Our business is about serving our customers, America's workers: it's about empowering people's potential.

I believe we can do better, and that's why we support regulation that preserves and promotes responsible innovation and consumer choice, especially for those who are unserved or underserved by the traditional financial system. Earnin supports a regulatory framework for EWA that protects consumers while, at the same time, recognizing that EWA is inherently different from credit or lending. EarnIn greatly appreciates the work of Rep. Steil, the Subcommittee and larger Financial Services Committee to draft legislation on this bipartisan issue to protect this essential financial tool for workers.

Chairman Hill, Ranking Member Lynch, thank you for your commitment to consumers and for exploring the nuances of Earned Wage Access and other new, innovative financial service products that offer consumers opportunities beyond the status quo. We firmly believe in consumer choice and flexible solutions that meet consumers where they are. I look forward to working with the Subcommittee to help achieve our common goals of modernizing financial services to better serve millions of Americans today.