INFiN℠ A Financial Services Alliance

WEIGHING CONSUMER CREDIT OPTIONS: PRODUCT COMPARISON

When faced with a gap in their finances or an urgent need, consumers carefully weigh all of their options, including the costs and consequences of not meeting an obligation, to determine what makes the most sense for their individual circumstances. For many, options for accessing their money and obtaining credit have evolved and diversified in recent years, with innovative new products like buy now, pay later (BNPL) loans and earned wage access (EWA) programs joining incumbent products and services in the marketplace to address consumers' short-term credit needs.

Below is a chart comparing common credit options consumers increasingly consider and use interchangeably to meet their financial needs, including the costs associated with each, as well as other considerations. From all of these options, many consumers choose small-dollar loans from regulated non-bank consumer financial services providers because they are cost-competitive, transparent, and available through multiple convenient channels.

For example, a short-term, small-dollar "payday" loan offers simplicity, cost-effectiveness, and a two- to four-week term. Consumers understand and are familiar with the product, often due to convenient, licensed storefronts in their communities, strong customer service, and well-established regulations – characteristics not always associated with other options, particularly those from emergent fintech providers. And these loans also often compare favorably to traditional alternatives from banks and credit unions such as costly overdraft services.

Consumers benefit from a competitive credit marketplace, from which they can choose the solution that works best for their personal financial situation. However, competing products can and must be regulated similarly. Too often, today's policy conversation regarding consumer credit remains trapped in the past, focused on arbitrary, antiquated restrictions that only apply to a narrow range of consumer financial services such as short-term, small-dollar loans, but not the burgeoning array of fintech competitors consumers often consider comparable and interchangeable. As a result, policymakers pick winners and losers in the market, eliminating the community-based, licensed options consumers like and value with little concern for the consequences.

Policymakers at the state and federal levels must work to maintain a thriving consumer credit marketplace. This necessitates a level regulatory playing field – one that evolves alongside consumer-driven innovations – to ensure consumers can access the regulated, safe, and transparent credit options they need and expect today and in the future.

Service	Description	Typical Fees	Example	The Fine Print
Small-dollar Loan from a Non-Bank Provider	Short-term, small dollar loan – usually up to $500, paid back in 2-4 weeks; offered by regulated consumer financial services providers.	Varies by state; typically fixed, flat fee of $15 per $100 loan that does not accrue interest	Fee: The one-time fee charged a small-dollar loan, which does not accrue interest, varies in compliance with state laws – and is only offered where allowed under state law. For example, in Rhode Island, borrowers pay a fixed fee of $10 per $100 borrowed, with the ability to take out loans up to $450.	Fees and terms are transparent and easy to understand; customers know the costs of their transactions up front, and there are no hidden fees or surprises. In addition to extensive compliance requirements, regulated consumer financial services providers that are members of INFiN are also bound to abide by a comprehensive set of best practices. These industry-developed standards include mandatory disclosures, offering an Extended Payment Plan for consumers in need of more time to repay, and consideration of consumers' ability to repay, among other protections.
Bank Overdraft Fee	Fee a bank charges when a consumer makes a payment or purchase against a checking account that exceeds the available funds / account balance.	The average overdraft fee is $33.58 (BankRate)	BB&T: Overdraft Fee: $36 for each overdraft item (or $12.50 transfer fee per day for linked accounts).	Recent CFPB research found that the majority of overdraft fees – 80 percent – are paid by a minority of customers, with 9 percent of customer accounts paying 10 or more overdrafts per year.

			Total Possible Overdraft Costs in a Day: $216 (max six items charged per day).	Nearly all banks (92.9%), and the majority of credit unions (60.9%) charge overdraft fees, according to the CFPB. These fees can be incurred even if the amount only exceeds the available balance by a few cents.
Buy Now, Pay Later (BNPL) Loan	An increasingly popular type of point-of-sale installment loan that divides a purchase into multiple, equal payments, with the first due at checkout. Remaining payments are billed to the consumer's debit or credit card until the purchase amount is paid in full.	Payments and fees vary by provider. Typical late fee: $20-$30 per payment (The Ascent)	**AfterPay:** Late Fee: Customers incur a $10 late fee, plus an additional $7 if the payment is not current after seven days (for a total of $17) – with late fees of up to 25 percent of the original purchase price or $68, whichever is less (per purchase).	The average debt owed on BNPL purchases is $883. BNPL providers – mostly fintech lenders – are not required to disclose fees as an Annual Percentage Rate (APR), despite the product essentially functioning the same as a short-term, small-dollar installment loan. BNPL providers are also not required to consider a consumer's ability to repay loans, as noted by the Federal Reserve Bank of Kansas City. A recent survey conducted by Qualtrics found that 34 percent of BNPL customers have fallen behind on one or more of their installment payments. As the CFPB warns, consumers could be blocked from future purchases until past due payments are made, and unpaid debts could be sent to a debt collector for collection, as well as reported to credit bureaus – damaging consumers' credit scores. Further complications may also arise when consumers attempt to return items purchased using BNPL loans. Given the ease of BNPL, consumers most often use the service for non-essential items, with more than half (59%) reporting they've purchased an "unnecessary" item they couldn't afford, and 56 percent have regretted making a purchase through BNPL because the item was too expensive and they have fallen behind on making a payment, respectively – according to a recent survey from C&R Research.
Credit Union Small-Dollar Loan "Alternatives" / PALs	Some federal credit unions offer payday alternative loans (PALs) – small-dollar loans of $200 to $1,000, paid back in one to six months. There is also a longer-term PAL option of up to $2,000. Select state credit unions offer similar programs.	Fees vary by loan size; credit unions can charge a 28 percent APR along with an application fee of up to $20 (NCUA)	**Express Credit Union:** Members can receive up to a $750 loan, with a 15 percent flat fee on the amount borrowed (equates to $15 on a $100 loan). The loan must be paid back in 90 days, with payments linked to a direct deposit account. Membership Requirement: Must be a current credit union member with at least six months continuous direct deposits from the same source in order to qualify.	Credit union loans can include various fees and employ tighter credit requirements, in addition to requiring ongoing membership. For example, PAL loans are only available to individuals who have been a credit union member for at least one month before applying. Membership can also be limited based on location, employer, or other affinity qualifications. Credit unions small-dollar loan "alternatives" are often not widely accessible, particularly for consumers with low credit scores. Likewise, PALs through federal credit unions have not come close to meeting consumers' credit needs. In the first few years that PALs of up to $1,000 were available, fewer than 200,000 loans were issued through the program. This prompted the NCUA to amend the program in 2018 to allow for larger loans of up to $2,000, acknowledging the low usage numbers.
Fintech Installment Loan	Installment loan offered online and in storefronts in some states, primarily serving consumers with a near-prime credit scores.	Varies by state	**OneMain Financial:** Origination Fee: Depending on the state, the origination fee for an installment loan may either be a flat amount	Loans under $1,500 are not available, and loans are typically only available to borrowers with a credit score higher than 610. (The average credit score for a person in need of non-bank credit is 579.)

			ranging from $25 to $500, or a percentage ranging from 1 percent to 10 percent of the loan amount. Late Payment Fee: Either a flat amount of $5 to $30 per late payment or a percentage of the monthly payment amount or a percentage of the delinquent amount, ranging from 1.5 percent to 15 percent, based on the state.	While frequently touted for technically offering loans for 36 percent or less, they also market ancillary insurance products that are often implicitly positioned in loan agreements as required in order to qualify for the loan. These expensive fees are not included in the loan's APR calculation.
Earned Wage Access (EWA)	Earned wage access (EWA) products allow consumers to access a certain amount of their paycheck prior to payday. The provider then recoups that amount by deducting it from a consumer's subsequent paycheck. There are two EWA models – one employer-based and the other direct-to-consumer (D2C), which does not require employer participation.	Varies by provider; individual fees often range from $1-$5 per transaction or $5-$10 per month (Financial Health Network)	**FlexWage:** Fees: Transactions fees vary from $3-$5 for each early transfer. Employees can access up to 100 percent of their net wages early, with a maximum of two transfers per pay period and four per month. Disbursement: Funds can only be distributed on a reloadable FlexWage Visa Pay Card.	EWA providers are not required to comply with the federal Truth in Lending Act (TILA) – regulations that apply to small-dollar loans, even though consumers use them similarly and interchangeably. There is no standardization in payment structures, which range from charging employers fees, to interchange fees on debit cards used to deliver pay advances, to charging consumers fees each time they use the service. (Financial Health Network) EWA programs require consumers to provide either their employer or third-party provider (depending on the EWA model) access to their bank account. D2C providers also monitor cash flows of the user's bank account, which introduces potential data security risks, particularly given the lack of regulation over EWA providers' operations. Further, many EWA providers will only distribute funds to a debit card operated by their company, often charging additional fees for immediate transfer to other accounts or cards.