# California consumer agency strikes data-sharing deal with fintech companies

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California's newly empowered consumer protection agency signed a data-sharing deal with several financial technology companies in an effort to better evaluate benefits and risks of their products as the market for cash advance apps grows, Yahoo Finance has learned.

Using new oversight and enforcement authority under the California Consumer Financial Protection Law that went into effect on Jan. 1, the California Department of Financial Protection and Innovation (DFPI) signed the deal on Wednesday with five California-based earned wage access companies — Earnin, Even, Brigit, Payactiv, and Branch — that are licensed and regulated by DFPI.

The deal involves these cash advance companies to deliver quarterly reports starting in April to the DFPI, which will address specific metrics on how their products are affecting consumers and fees being collected. The move is significant in that DFPI, a regulator, is proactively reaching out to companies to research how this nascent industry is affecting consumers.

"I'm very much applauding this effort by California," Dan Quan, adjunct scholar at the Cato Institute, told Yahoo Finance. "The root of this industry… started as a way to be a lower-cost alternative to payday lending… [and] these companies are dying for certainty."

DFPI Commissioner Manuel P. Alvarez said that this was the result of a "tailored, collaborative approach" with the companies, and added that more of such deals can be expected "in the coming weeks.

**Booming demand**

Over $1.8 billion in equity funding had gone into "alternative lenders" like these companies (and others like Affirm and Klarna) as of the third quarter in 2020, according to CB Insights.

DailyPay, an on-demand payment platform that wasn't included in California's deal, announced a 400% increase in users during the early months of the pandemic as some employees sought to access their earned but unpaid wages prior to pay day.

Yet, unlike payday lending companies, which can charge exorbitant fees and are facing pushback in Nebraska to Illinois, newer on-demand payment companies don't charge the same level of fees or interest.

Nevertheless, the payment advance companies faced an uncertain regulatory climate and were sometimes lumped in with traditional payday lending companies. DFPI’s move places the companies on more stable and defined ground.

The DFPI deal also brings some regulatory certainty and enables the companies involved to attempt to grow aggressively during a period where there is strong demand from consumers.

“This order really struck the right balance” between private interests and consumers, according to Quan, who added that there’s hope that “other states will follow.”

As to whether the federal Consumer Finance Protection Bureau (CFPB) will follow a similar method of regulation, Brookings Institution’s Aaron Klein added that he’s expecting the CFPB to be a “more stringent cop on the beat” under Biden appointee Rohit Chopra.

Brigit CEO Zuben Mathews told Yahoo Finance that the fintech company, which included in the DFPI agreement, would “welcome proactive engagements with regulators, including consumer champions like Mr. Chopra. We hope all regulators take note of the monitoring-first approach the DFPI has taken to help expand financial innovation.”