



# ALASKA STATE LEGISLATURE

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### **Sponsor Statement** **House Bill 188**

*An Act relating to the interest that may be charged by express agreement.*

House Bill 188 addresses the maximum interest rate allowed on loans of \$25,000 or less.

HB 188 would allow an individual offering a loan of \$25,000 or less, to charge an interest rate that would be the greater of 10% or 5% above the 12<sup>th</sup> Federal Reserve District rate at the time of the loan. Today that would allow a maximum rate of 10%.

Alaska Statute 45.45.010(b) currently sets the maximum interest rate for private loans, such as owner financing real property of \$25,000 or less, at 5 percentage points above the rate charged to banks by the 12<sup>th</sup> Federal Reserve District. In 1981, the last time this section was addressed, the Federal Reserve Rate was 14%. Thus the maximum allowed then was 19%.

Today the 12<sup>th</sup> Federal Reserve Rate is 0.75%. Thus the current maximum interest allowed is 5.75%.

It is doubtful anyone contemplated such a low rate when Alaska's interest laws were adopted. Currently landowners who wish to owner finance the sale of their property are limited to an interest rate of 5.75%. Such a low rate is a strong disincentive to owners willing to finance the sale of their property.

This bill does not address interest charged on other forms of credit or by other lending institutions, such as credit unions.

I urge your support of House Bill 188.