

Alaska State Senate

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SPONSOR STATEMENT

SB 39: LOANS UNDER \$25,000; PAYDAY LOANS

Version A

February 10, 2025

"An Act relating to loans in an amount of \$25,000 or less; relating to the Nationwide Multistate Licensing System and Registry; relating to deferred deposit advances; and providing for an effective date."

Each year approximately 15,000 Alaskans take out payday loans. Many do so under duress; they must provide for not only themselves, but also their family, meaning the number of affected Alaskans is even higher than the roughly 15,000 who take out the loans. These short-term loans take advantage of individuals in dire situations, and special exemptions that are written into statute allowing them to charge higher rates, resulting in rates between 194.7% APR and 521.4% APR. Because the 13 licensed payday loan lenders are all headquartered out of state, these companies represent a pipeline directing Alaskan wages out of the state with each loan repayment. In 2023 over 7,000 Alaskans received payday loans totaling over \$17 million.

General lending laws cap institutions at a maximum rate of 36% Annual Percentage Rate (APR). Because of the payday loan exception, those who are in a more vulnerable position often find themselves further trapped in a cycle of financial hardship when they are drawn into taking out a loan from a lender that falls under this exception.

The fix to this solution is easy: remove this special exception and hold all lenders to the same standard and expectations when issuing loans contracts, regardless of how they brand or display the loan. By ensuring payday loans are subject to reasonable maximum interest rates in line with other small-dollar loans, Alaska can mitigate a known contributing factor to cycles of poverty. I urge your support for SB 39 to protect vulnerable Alaskans from these predatory lending practices.