The Honorable Forrest Dunbar
Alaska State Capitol
120 4th Street Rm 125
Juneau, AK 99801

February 19, 2025

Re: Senate Bill 39 relating to loans in an amount of $25,000 or less *et al.*

Dear Senator Dunbar,

We write on behalf of the American Financial Services Association (AFSA)1 to express our serious concerns about Senate Bill 39. This measure has the potential to significantly disrupt access to safe and affordable credit in Alaska. If passed as written, it would drive far-reaching unintended consequences, as those Alaskans with credit scores that make it more difficult to secure loans from banks and credit unions find they have nowhere to turn for the credit they need to smooth their finances, meet emergencies, and build credit histories to become financially mobile.

If enacted, SB 39 would effectively eliminate the only safe, affordable, credit-building loans available to many Alaskans, as well as place unnecessary and damaging limitations on the commercial lending operations of AFSA members operating in the state. For decades, Alaska's licensed lenders have filled a niche in the state's credit markets by serving residents who have less than perfect credit scores with fair and affordable loan options. AFSA members also make commercial loans in the state that, while not intended to do so, would be limited were SB 39 to become law. This bill would prevent these lenders who play by Alaska state rules from operating. By doing so, this bill would negatively affect the very communities it attempts to help, including lower and moderate-income families, underserved, and minority communities.

The Dangers of Non-TILA APR

SB 39 mirrors disastrous policies seen in a couple other states by incorporating elements such as insurance that are unrelated to the cost of credit into the calculation of Annual Percentage Rate (APR), and then using that calculation for price cap purposes. The effect is to artificially increase

[1] Founded in 1916, the American Financial Services Association (AFSA), based in Washington, D.C., is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, direct and indirect vehicle financing, mortgages, and payment cards. AFSA members include national banks and non-bank state licensed financial institutions. AFSA does not represent payday lenders, title lenders, or credit unions.

the "APR" that a form of credit can be said to carry so that it exceeds the Truth-in-Lending Act (TILA) definition, which has regulated the consumer credit industry since 1968. Altering the longstanding industry practices outlined in TILA undermines its underlying consumer protections and would severely limit access to credit in Alaska.

Fundamental to the discussion of APR caps is an understanding of what APR is and what it measures. APR is a measure of time, not cost. As an example, A $100 loan with $1 in interest is 1 percent APR if paid back in a year, and 365 percent if paid in a day—but the cost is still $1. For this reason, APR limits such as those contemplated in SB 39 are an inappropriate way to regulate loans in general. They have little bearing on the true cost of credit and only serve to eliminate good sources of small dollar credit along with bad.

In fact, there is now a preponderance of evidence that points to the fact that "All-In" APR limits ~~eliminate small dollar credit~~ in the states where they exist. This disproportionately affects those with developing credit scores who have yet to reach the stage at which they qualify for bank credit, and forces those who are lucky enough to qualify for credit into much larger loans than they need—thereby increasing their debt.

This is because, as the United States Federal Reserve noted, creditors do not break even at 36 percent unless a loan is for more than approximately $2,500. 6 This is the case for loans at 36% as defined in the Truth in Lending Act (TILA). This break-even amount would be much higher under SB 39, because it would include non-APR items in the APR calculation.

A very similar law passed in Illinois in 2021. This has demonstrably failed, with three particularly notable consequences:

1. 368,916 Borrowers Lost Access to Credit: The total number of borrowers who received some kind of state-reported loan went from 431,018 people in 2019 down to 62,102 people in 2021.7 The difference is 368,916 people no longer getting state-regulated and reported loan products in that state.
2. The number of licensed lenders in the state halved: The number of state licensed lenders went from 1,813 entities at the end of 2020 to 900 entities at the end of 2021, and has decreased further since.8
3. The lucky few who could qualify for credit were forced into larger loans for longer terms: For the lucky subprime consumers who still have access to credit in Illinois, the average loan size increased by 40 percent.9 According to the Illinois Trends Report issued by the state, loans for larger amounts with longer repayment terms have increased by 226%.10

Imposing an arbitrary limit on APR means that people who need small loans are forced to borrow more money for longer terms—if they still qualify for loans at all.

But you need not take it from us. Several organizations understand the value of traditional installment lending and the potential damage caused by All-In APR-based rate cap laws:

- The National Black Caucus of State Legislators resolution BED-16-2111 states "Traditional Installment Lenders should be reasonably protected" and "that the NBCSL supports the expansion of Traditional Installment Loans as an affordable means for borrowers to establish and secure small dollar closed end credit while preventing cycle of debt issues inherent with non-amortizing balloon payment loans."
- The 2022 Congressional Black Caucus Institute Annual Report12 highlights the harm of 36% rate caps, saying "proposals to protect consumers from predatory practices through a 36% rate cap . . . cause more harm than help by limiting consumer access to credit."
- The Urban Institute study13 on the effects of the Military Lending Act (*i.e.* a similar "All-In" rate cap to that contemplated in SB 39) used credit bureau data from 2013-2021 and found no evidence of decreased collection rates among subprime borrowers, no improvement in credit scores, suggestive evidence that subprime consumers had less access to credit, noting that expanding the MLA "might have detrimental effects on the most vulnerable consumers by limiting their access to credit in times of need."

SB 39 Would Effectively Ban Credit Insurance

Furthermore, when the novel definition of "All-In APR" is used for rate cap purposes, it acts as a ban on optional protection products, such as credit insurance for consumers who want to build financial resilience. For AFSA members, optional protection products complement loans, helping customers build financial stability, security, and resilience. Credit insurance is accessible, affordable, and popular with customers, who understand that it plays an important role in limiting their exposure to financial risk and the consequences of financial shock.

Data on financial shocks, provided by The Pew Charitable Trust, found that 60 percent of households had experienced a financial shock in the past 12 months2. Similar research carried out by the Consumer Credit Industry Association (CCIA) demonstrates that 59 percent of individuals have experienced an unexpected repair or expense costing between $500 and $2,000 in the past five years, and 28 percent have had one costing more than $2,000.3

[2] The Role of Emergency Savings in Family Financial Security (Pew) (2016)
[3] Credit Insurance Delivers Peace of Mind (CCIA)

If Alaska has concerns about products like credit insurance, debt cancellation contracts, debt suspension agreements, credit-related ancillary products, and/or other benefits conferred on the consumer contemplated in SB 39, we respectfully request that proponents of this legislation please open a dialogue about those concerns instead of effectively back-door banning them by including them in the calculation of "rate."

The Effect on Commercial Credit

The over-broad focus of SB 39 means that as written, it also applies to commercial credit. This will affect the availability and flexibility of vehicle floor planning to new and used automobile dealers in Alaska, because these lines of credit are not "loans," but rather open-end lines of credit available to dealers that have terms determined by dealer actions. This same form of financing is prevalent in RV and boat financing.

Commercial B2B lenders extend credit to a more sophisticated borrower. Commercial lenders routinely offer complex financing options to their customers, and commercial borrowers in the space where AFSA members provide credit are clearly familiar with these financing arrangements. For this reason, commercial B2B lenders do not require, and historically, have not been subject to, the levels of oversight and protection imposed upon retail lenders (*i.e*. businesses that lend to consumers). SB 39 would affect the appetite for risk and undermine the commercial lending business model for lending. Higher risk and higher costs will affect the credit availability to commercial borrowers and ultimately affect the prices of goods and services available to consumers—particularly the cost of vehicles and boats in the state.

The Need for Safe and Affordable Consumer Credit in Alaska

The consequence of enacting SB 39 would be a radically reduced financial capability for hardworking Alaskans and their families, disproportionately affecting low-income and minority communities4. Reducing the supply of credit through regulations will not affect consumer demand for it, and has the associated effect of denying potential borrowers the ability to build their credit histories and become financially mobile. According to the U.S. Federal Reserve, 40 percent of Americans lack savings of $4005 and rely on safe credit sources during financial emergencies. Auto-finance is the most common route to ownership of the vehicles essential to get to work, school, or the doctor's office. This go-to financing option for many Alaskans would be dramatically limited if the cost of optional products is included in the APR calculation.

[4] The 2022 Congressional Black Caucus Institute Annual Report highlights the harm of 36 percent rate caps, saying "*...they cause more harm than help by limiting consumer access to credit.*"
[5] Source: Federal Reserve Economic Well-being of U.S. Households in 2022, p. 32

Unfortunately, individuals with poor credit scores—perhaps those starting out in careers and family life—have difficulty accessing traditional banking services. These consumers need the opportunity to build their credit so they can improve their access to financial services and lower its cost to them. In the absence of the safe and affordable alternatives provided by licensed and regulated AFSA members, consumers will have limited options and may seek unregulated sources of credit, which would have broad, unintended socioeconomic implications for Alaska.

In conclusion, we respectfully ask you to vote no on SB 39, in support of the hard-working Alaskans with credit scores that make it more difficult to secure loans from traditional banking services. We also urge you to study the implications of what would happen in Alaska if a bill like SB 39 were enacted. We believe an independent study would accurately predict two outcomes: 1) a dramatic increase of consumers without anywhere to turn for the credit they need to smooth their finances, meet emergencies, and become financially mobile; and 2) a limitation of commercial credit floor planning lines to new and used automobile, RV, and boat dealers.

Sincerely,

Elora Rayhan

Elora Rayhan
State Government Affairs
American Financial Services Association
1750 H Street, NW, Suite 650
Washington, DC 20006-5517
erayhan@afsamail.org

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[6] "A loan amount of $2,530 is necessary to break even at 36 percent." *The Cost Structure of Consumer Finance Companies and Its Implications for Interest Rates: Evidence from the Federal Reserve Board's 2015 Survey of Finance Companies*, FEDS Notes, The Board of Governors of the Federal Reserve System, August 12, 2020. We note that the break-even figure is for a 36% TILA APR. The amount of a loan would presumedly need to be larger in a state with an APR definition that includes items beyond TILA rate as "rate."

[7] Source: Illinois Trends Report 12/20/2022

[8] *ibid*

[9] Source: Credit for me but not for thee: The effects of the Illinois rate cap 7/3/23

[10] Source: Illinois Trends Report 12/20/2022

[11] A Resolution Promoting Safe and Affordable Lending Practices (NBCSL)

[12] https://www.cbcinstitute.org/21stcenturycouncil

[13] The Effects of APR Caps and Consumer Protections on Revolving Loans (Urban Institute)

February 18, 2025

The Honorable Jesse Bjorkman
Chair
Senate Labor and Commerce
Alaska State Legislature

The Honorable Kelly Merrick

Vice Chair
Senate Labor and Commerce
Alaska State Legislature

Re: Comments on SB 39, "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."

Dear Chair Bjorkman:
The Online Lenders Alliance (OLA) would like to provide the following comments and data in

opposition to SB 39*, legislation that would repeal the state's deferred deposit statute and impose a new predominant economic interest (PEI) standard on certain bank loans.*

OLA represents the growing industry of innovative companies focused on credit inclusion and financial solutions for all Americans through a common goal: to serve hardworking Americans who deserve access to trustworthy credit. Consumer protection is OLA's top priority and members abide by a rigorous set of Best Practices to ensure consumers are fully informed and fairly treated.1

Alaskans Need Access to Credit Options and Choices

The cornerstone of financial inclusion is the opportunity and ability to access credit, which leads to more independence for borrowers by providing them more control over their own financial health. The reality, however, is that not everyone has equal access to credit, despite the fact that so many Americans need credit, oftentimes unexpectedly. According to the most recent federal data, nearly 19 percent of households in Alaska are unbanked or underbanked.2 Looking more closely at the data, the rate among Black residents and Alaska Natives is 40 and 47 percent respectively for each.3 Furthermore, 31 percent of Alaska consumers are credit

[1] OLA Best Practices https://onlinelendersalliance.org/best-practices/

[2] https://www.fdic.gov/household-survey/2023-fdic-national-survey-unbanked-and-underbanked-households-appendix-tables

[3] https://scorecard.prosperitynow.org/data-by-location#state/ak

constrained, meaning that they are borrowers with limited credit history or poor/fair credit scores.4

Traditional banks and credit unions provide an essential service in the financial marketplace, but consumers are limited to the offerings of those financial institutions that are geographically accessible to them. The hardship of these limited options is significant in states like Alaska with its many remote communities. Many consumers turn to alternative lenders for small-dollar loan products because they are unable to obtain these products from other financial institutions. And today, financial technology companies increasingly offer services that enable banks – especially community banks – to expand the populations they serve and fill the gaps left in the market without being dependent on a physical branch. This means that Alaska consumers have more

options and choices available to them when deciding how to best meet their financial needs. SB 39 will take away many of the credit options available to Alaskans and limit their financial choices. SB 39 is Modeled on Illinois' Failed Legislation That Limits Credit When states eliminate small-dollar credit options, their residents lose. , In March 2021, Illinois enacted a 36 percent interest rate cap with a new predominant economic interest (PEI) test similar to what's being proposed in Alaska's SB 39. By 2024, lender licenses decreased by 64 percent.5 An academic study released following the Illinois law by three leading economists found that it decreased the number of loans to subprime borrowers by 44

percent while increasing the average loan size to subprime borrowers by 40 percent .6

The aforementioned study also included data from an OLA survey of previous borrowers who had taken out loans with APRs exceeding 36 percent; the survey showed that most of those borrowers have since been unable to borrow money when they needed it, with 80 percent of respondents wanting the option to return to their previous lender , most of whom are no longer in the marketplace. OLA is the only organization that surveyed the very borrowers who had actually used small dollar loans in Illinois before the law went into effect to better understand the law's impact.7

Unlike Alaska, Illinois is a densely populated state with a large number of banks and credit unions, yet their residents still experienced a sharp reduction in access to credit. Enacting the

same law in Alaska could generate even worse outcomes. Alaska should not adopt Illinois' failed legislation that directly hurt those who struggle to make ends meet and depend on access to credit.

Like the Failed Illinois Law, the Military Lending Act is a Flawed Model

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[4] https://scorecard.prosperitynow.org/data-by-location#state/ak

[5] https://onlinelendersalliance.org/three-years-into-illinois-rate-cap-lender-licenses-are-down-64-percent-highlighting-how-rate-cap-has-significantly-diminished-consumers-access-to-credit/

[6] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919

[7] Ibid.

Proponents of rate caps and restrictions on credit products defend the enactment of credit restrictions to nonprime consumers by touting the Military Lending Act (MLA), which imposes an artificially restrictive 36 percent rate cap on military servicemembers and covered dependents. However, researchers at the Urban Institute recently found that the credit restrictions of MLA "did not lead to better credit and debt outcomes for service members most likely to be affected by this policy. For the most vulnerable individuals—those with deep subprime credit scores—the policy may have had negative effects by limiting their access to credit." They therefore concluded that "extending the consumer protections of the expanded MLA, including the 36 percent APR cap, to revolving credit products available to all borrowers would not be an effective way of improving the credit health of most Americans."8

Conclusion The aim of a vibrant market system is to allow for competition which gives the consumer more offerings and the best deal regardless of where they are located. Unfortunately, SB 39 will reduce credit options and restrict financial choices for Alaskans. We oppose SB 39 and respectfully ask the Committee to reject this proposal. Reducing credit options will have negative ramifications for Alaskans – as demonstrated by the data from Illinois. Creating a credit marketplace that is attractive to more lenders, more options, and more choice is a policy that would benefit Alaskans. Specifically, creating a better market for installment loan products would create competition around the limited array of products that are available today without reducing options in the process . We welcome the opportunity to work with members of the Alaska State Legislature to pursue meaningful alternatives to those currently contained in SB 39.

Sincerely,

Andrew Duke,
CEO
Online Lenders Alliance
Cell: 571-420-8366

CC:

The Honorable Eliv Gray-Jackson
The Honorable Forrest Dunbar
The Honorable Robert Yundt

[8] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3505440

Innovative Lending Platform Association

February 18, 2025

The Honorable Jesse Bjorkman
Chair
Senate Labor and Commerce
Alaska State Legislature

The Honorable Kelly Merrick
Vice Chair
Senate Labor and Commerce
Alaska State Legislature

Letter In Opposition to Senate Bill 39

The Innovative Lending Platform Association (ILPA) writes to share our concern and opposition to Alaska Senate Bill 39 - the "True Lender Act," legislation that will hurt access to capital for Alaska small businesses and create severe risks to broader financial markets.

ILPA is the leading trade organization for online finance providers and service companies serving small businesses. Our members1 provide various innovative, digital commercial financing products. They proudly supply thousands of Alaska businesses with working capital to invest, purchase inventory, hire additional staff for the busy season, expand operations, or repair damaged or outdated equipment. Using innovative underwriting and advanced technology, our members assess credit risk and deliver financing in as little as 24 hours.

The U.S. lending market is a complex network of nationally chartered banks, state-chartered banks, non-bank lenders, third-party service providers, and financial technology companies. Millions of Americans' access to capital depends on a liquid credit market where financing providers can evaluate risk, provide small businesses with critically important capital, and sell loans on the secondary credit market to minimize risk to insured depository institutions.

One of the primary causes of the Great Recession was depository institutions carrying too many loans on their balance sheets with a high risk of default and a low chance of payback. In the post-Great Recession world, national and state bank regulators recognized the risks of these loans to bank balance sheets and the broader U.S. financial ecosystem. They tightened requirements on banks to prevent lenders from overextending credit and tightened access to capital for American consumers and small businesses, further hurting the U.S. economy. Small business owners, underserved and underbanked populations, rural residents, agricultural-based businesses, and minorities faced increasing difficulty meeting their credit needs from traditional banks.

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[1] BackD Business Funding, Biz2Credit, Dedicated GBC, Fiserv, FundBox, iBusiness Funding, Lendio, Mulligan Funding, and OnDeck

In response, non-bank companies entered the market to help banks reduce the cost and risk of lending. They partnered with state and nationally chartered banks to provide much-needed capital quickly and meet customer expectations and new regulations.

We ask the Alaska legislature to reconsider how this bill will impact access to capital for small businesses. Transferring loans to non-bank entities is a fundamental aspect of banking that helps reduce risk and ensures that banks meet everyone's credit needs. Restricting this ability by requiring non-banks that acquire the predominant economic interest in loans to be licensed in the state and abide by the state's lending laws will lead to a less flexible and more fragile banking sector. Investors, debt collectors, and other entities that purchase loans on the secondary market are not lenders, and many may not get licensed in the state. This is detrimental to overall financial stability and could lead to higher borrowing costs and less capital available for Alaska consumers and small businesses.

We request the committee reject this bill because it will decrease access to capital and endanger the secondary credit market, a critically important part of our financial system.

Banks play a crucial role in loan origination and risk assessment. By upending this pillar of modern banking, the bill will weaken Alaskans' access to credit and restrict Alaskan banks' ability to offload even the most traditional loans to the secondary market for purchase and servicing.

Respectfully,

Scott Stewart
CEO
Innovative Lending Platform Association
631-678-8166

February 23, 2025

Senate Labor and Commerce Committee
Alaska State Legislature
Alaska State Capitol
120 4th Street
Juneau, AK 99801

Subject: Opposition to Senate Bill 39 Based on Empirical Research and Consumer Credit Concerns

Honorable Members of the Alaska State Legislature,

As President of the Southwest Public Policy Institute, I am dedicated to advancing policies that ensure financial health and equitable access to credit. I am writing to express strong concerns regarding Senate Bill 39, which seeks to impose a 36% rate cap on consumer credit products. While well-intended, this measure risks cutting off access to essential financial tools for Alaskans, particularly low-income and underbanked consumers, as demonstrated by our extensive research.

Our studies, No Loan For You! and No Loan For You, Too!, document the real-world consequences of similar rate caps, particularly in New Mexico, where borrowers have faced shrinking credit options and increasing financial distress. Rather than benefiting consumers, such restrictions have forced them into costlier, less regulated alternatives.

A key finding from our research is that traditional financial institutions—both banks and credit unions—have failed to provide viable alternatives to the products eliminated by rate caps. Our consumer emulation studies highlight these failures in action. For example, Wells Fargo's highly publicized Flex Loan program claims to offer emergency credit, yet our investigation revealed it to be inaccessible to many consumers due to unclear eligibility requirements, arbitrary account closures, and a lack of transparency in the approval process. Consumers seeking short-term loans through Wells Fargo often find themselves caught in a bureaucratic maze with no clear path to approval.

Similarly, our research into credit union lending shows that Payday Alternative Loans (PALs) are largely unavailable to the consumers they are supposed to serve. We tested 15 credit unions in New Mexico, and 86% either denied membership, lacked small-dollar loan programs, or imposed such restrictive requirements that the loans were effectively inaccessible. Even for a well-qualified borrower with an established financial history, obtaining a small-dollar loan from these institutions proved nearly impossible.

These findings underscore a crucial reality: when policymakers cap interest rates, they do not eliminate demand for small-dollar loans—they only eliminate legal, regulated sources of credit. Consumers unable to obtain credit from traditional lenders are left with few options beyond overdraft fees, pawnshops, or unregulated lenders, all of which can be far costlier than the products rate caps seek to eliminate.

In states like Illinois, where similar legislation has been enacted, the data confirm this outcome. Consumers report increased difficulty in managing financial emergencies, and many have been pushed into higher-cost alternatives that ultimately worsen their financial standing.

Although Senate Bill 39 aims to protect consumers, it risks replicating these negative consequences in Alaska. The bill does not account for the diverse credit needs of Alaskan residents, particularly those in rural or underserved areas where traditional banking services are scarce. Instead of a one-size-fits-all rate cap, I urge the Committee to explore more flexible regulatory frameworks that both safeguard consumers from predatory practices and preserve their access to essential credit.

As an advocate for financial inclusion, I strongly recommend that the Committee reconsider SB 39 in light of these findings. Protecting consumer access to responsible, regulated lending options is critical to the financial well-being of Alaskan families and communities.

Thank you for your time and consideration. I welcome the opportunity to discuss these findings further and provide additional research to support consumer-focused policy solutions.

Sincerely,

Patrick M. Brenner
President, Southwest Public Policy Institute

[Attachments: Research Reports "No Loan For You!" and "No Loan For You, Too!"]

INFiN A Financial Services Alliance

February 18, 2025

Via Email to SLAC@AKLEG.GOV
The Honorable Jesse Bjorkman
Chair
Senate Labor & Commerce Committee
Alaska State Legislature

The Honorable Kelly Merrick
Co-Chair
Senate Labor & Commerce Committee
Alaska State Legislature

Re: Comments on SB 39, "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."

Dear Chairman Bishop and Co-Chair Merrick:

On behalf of INFiN, a Financial Services Alliance ("INFiN"), we write in strong opposition to Senate Bill No. 39, which is on your agenda for first hearing on February 19, 2025. As the leading national trade association representing the diverse and innovative consumer financial services industry, INFiN comprises more than 300 member companies operating throughout the United States providing critical access to financial services to millions of Americans, particularly middle-income, working families. Our members span large companies with national reach to small "mom and pops," offering products and services to meet U.S. consumers' changing financial needs.

INFiN urges the Committee to reject this bill, as it would deny Alaska residents access to the regulated, short-term, small-dollar credit on which they occasionally rely, decimate a regulated industry, and leave Alaskans with little or no recourse other than illegal lenders, many of which operate offshore and beyond the regulatory reach of state and federal agencies. We further respectfully submit that the justifications offered for the proposed legislation misrepresent the true state of the consumer lending industry.

Regulated, community-based providers such as our members play a vital role in the lives and livelihoods of the many consumers and communities underserved, overlooked, or left behind by other financial institutions. **Amid clear financial needs, SB 39, would mandate what amounts to an arbitrary 36 percent Annual Percentage Rate (APR) cap on short-term, small-dollar "deferred deposit advance" loans offered by licensed consumer lenders – an effective ban of these loans.** If enacted, the bill would do nothing to address Alaskans' continued credit needs and financial insecurity, instead leaving vulnerable borrowers with little to no regulated alternatives.

SB 39 is a ban on deferred deposit advance loans and a denial of access to credit

INFiN strongly believes that a regulated small-dollar lending market is in the best interest of consumers, affording financial inclusion and consumer protections. Nearly every aspect of small-dollar lending is regulated at the state and federal levels, and our members – in Alaska and beyond – operate in strict compliance with all applicable laws as well as our own Best Practices, which impose limits on loan renewals. Alaska's existing deferred deposit advance statute features several effective guard rails while ensuring consumers can borrow when they need to.

It bears noting that deferred deposit advance loans are short-term credit products. As a result, APR does not accurately reflect the cost of a short-term, small-dollar loan repaid in a matter of weeks. Under a 36 percent rate cap, lenders would operate at a loss even before paying employee wages, rent, and other costs associated with running a trusted, regulated business. Under the proposed 36 percent interest rate cap, a lender's revenue on $100 would be just $1.38 – less than 10 cents a day on a two-week loan. No lender can afford to cover basic operating expenses at this rate without additional subsidy or without restricting access to borrowers with higher credit scores.

Consequences of an arbitrary rate cap

Many policymakers, think tank experts, independent researchers, and academics agree that a 36 percent rate cap is an effective ban on short-term, small-dollar credit – with detrimental consequences for consumers. In every state that has implemented an arbitrary interest rate cap like the one proposed in SB 39, licensed lenders offering short-term, small-dollar loans have been forced to close their doors, eliminating consumers' credit options and leaving them with little choice but to face the consequences of missed or late payments or the costs of more expensive, less regulated options. Recent Urban Institute research following Illinois' adoption of a 36 percent rate cap reveal not just the consequences of but the lack of clear benefit for consumers.

In the absence of regulated small-dollar loans, the need for regulated credit would not be filled by banks or credit unions; representations to the contrary are not supported by the evidence. While other lenders may technically offer loans for 36 percent or less, they often charge other fees not captured by the APR calculation. Although some credit union programs are touted as "alternatives" to small-dollar loans, they often involve a variety of restrictions such as membership in a credit union for a minimum period, existence of minimum account balances, and confusing fee structures, restricting these options to only a fraction of the Alaskans in need. They cannot be considered legitimate replacements for widely accessible, regulated, small-dollar loans, which would be eliminated by a rate cap.

Passage of this legislation would prohibit Alaskans from choosing the solutions that work best for them. Consumers deprived of regulated credit options would have little choice but to turn to unregulated sources, including illegal online loans offered by companies outside of the regulatory reach of state and federal agencies. As a result, the very consumers that the proposed legislation purports to protect would be exposed to unscrupulous lenders.

High customer satisfaction, few complaints

Borrowers appreciate regulated small-dollar loans for their simplicity, cost-competitiveness, and transparency, and consistently voice overwhelming satisfaction in customer surveys and online reviews. In research from Global Strategy Group (D) and Tarrance Group (R), 94 percent of those surveyed felt that small-dollar loans can be a sensible decision when consumers are faced with unexpected expenses, and 96 percent said they fully understood how long it would take to pay off their loan and the finance charges they would pay before taking out the loan. Regulated small-dollar loans are also the subject of very few consumer complaints. In 2023, just 0.1 percent of consumer complaints received by the Consumer Financial Protection Bureau ("CFPB"), our industry's federal regulator, were about small-dollar lenders.

Conclusion

Eliminating regulated credit options – as SB 39 would – does little to address Alaskans' need for credit or to ease the challenges they face. We urge you to reject this bill.

In addition to this testimony, the appendices to this letter include a document debunking some of the most concerning myths and misinformation spread about our industry, products, and customers, as well as the consequences of a rate cap (Appendix A) and INFiN's robust industry Best Practices, to which all members are held alongside compliance with applicable state and federal laws (Appendix B).

Thank you for your consideration of our position.

Executive Director
INFiN, A Financial Services Alliance

INFiN A Financial Services Alliance

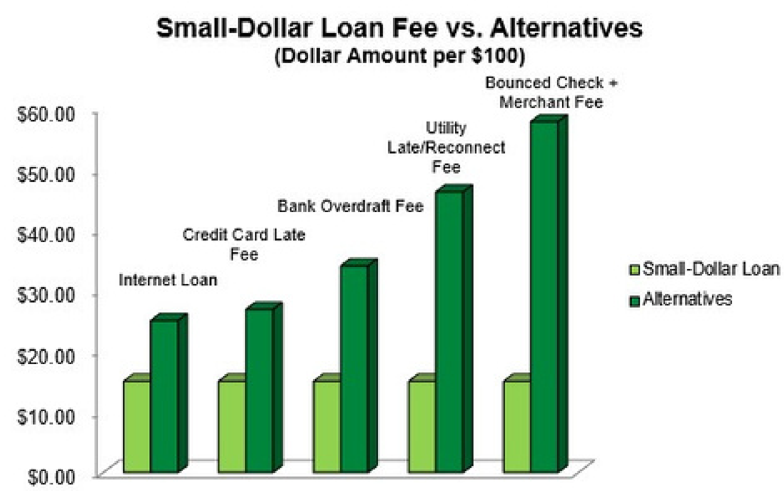
APPENDIX A

DISPELLING COMMON MYTHS: THE FACTS ABOUT INTEREST RATE CAPS ON SMALL-DOLLAR CREDIT

Myth: Short-term, small-dollar credit options have unreasonably high interest rates.

FACT: Annual Percentage Rate (APR) is not an appropriate measure of the costs associated with short-term, small-dollar credit.

- APR is not an appropriate measure of the costs associated with loans that last for less than a year, but rather is more accurate for long-term loans such as a mortgage or a car loan. The implied APR associated with short- term, small-dollar credit options equates to what a borrower would pay in fees if they renewed their loan every two weeks for a full year.
- When borrowing a small-dollar loan, consumers pay a set price for a short-term transaction. Customers appreciate that a small-dollar loan with a single payment, provided by a regulated consumer financial services provider, comes with a one-time fee – in Alaska, $15 per $100 borrowed as well as a $5 origination fee – which can be less expensive than the costs of overdrawing their account, missing a credit card payment, or neglecting a bill. The APR on a small-dollar loan decreases as the term lengthens; a small-dollar installment loan has a
- smaller
  implied APR than a two-week, small-dollar loan.
- Consumers in need of credit carefully weigh their options. Many choose small-dollar credit products from consumer financial services providers because they are straightforward, transparent, and often less costly than the alternatives.



Sources: Consumer Federation of America Survey of Online Payday Loan Sites, 2011; CFPB CARD Act Report, 2013; CFPB Study of Overdraft Programs, 2013; Readex Research National Data on Short-Term Credit Alternatives, 2006; Bankrate.com Checking Account Survey, 2014; Moebs Services, 2012.

Myth: Small-dollar lenders could still operate profitably if they charged a much smaller APR.

FACT: Some critics have proposed capping interest rates for small-dollar lending services, but to do so would effectively ban short-term, small-dollar loans.

- Lower fees would not generate enough income to pay for basic business expenses, such as rent, utilities, and wages.
- An APR of 36 percent on a two-week, small-dollar loan, as some industry critics have suggested, would mean customers pay a fee of $1.38 per $100 borrowed, or less than 10 cents per day.
- No market-based provider – not a credit union, not a bank, not a fintech – can sustainably lend short-term, small-dollar loans at that rate without being subsidized. Such rate cap models overlook the significant cost of operating a regulated business and would be an effective ban on small-dollar credit. Customers recognize that the
- price of the one-time fee is appropriate for a short-term, small-dollar loan, relative to other options.
- While some lenders claim to be able to operate under a 36 percent APR, the reality is that these providers serve a very different customer than the lenders that would be forced out of the market by a rate cap, typically only serving subprime customers – those with credit scores between 610 and 640 – whereas the average credit score for a person in need of non-bank credit is 579.
- Further, while these lenders may technically offer loans for 36 percent or less to a limited pool of subprime consumers, they often seek to evade this rate cap by offering expensive and unnecessary insurance products to their customers – services that are often implicitly positioned in loan agreements as required in order to qualify for the loan, and are not included in the loan's APR calculation.

	With a fee of $15 per $100	With a 36 percent rate cap
Revenue, per $100 loan:	$15.00	$1.38
Costs, per $100 loan		
Operating expenses:	$9.41	$9.41
Bad debt expenses:	$3.74	$3.74
Costs of debt/equity capital:	$0.74	$0.74
Total costs:	$13.89	$13.89
Pretax profit:	$1.11	-$12.51
Rational decision:	provide loans	do not provide loans

Source: Ernst & Young, "The Cost of Providing Payday Loans in a US Multiline Operator Environment," 2009.

Myth: An APR cap does not eliminate consumers' ability to access credit.

FACT: Under an interest rate cap, many regulated providers are unable to continue to offer small-dollar loans. Many consumer financial services providers close their doors, leaving consumers to face the costs and consequences of unmet financial obligations and little choice but to turn to costlier, riskier options.

- APR caps harm eliminate critical choices for thousands of people who need credit.

- Consumers' need for credit does not disappear once these regulations are in place. Instead, they either cannot meet their financial obligations, or they are forced to choose costlier or less regulated options, such as unregulated loans or bankruptcy.
- Several states have implemented APR caps and other restrictions on small-dollar credit, resulting in serious consequences for consumers and their ability to access credit.
- Nine months after Illinois adopted a 36 percent interest rate cap in March 2021, nearly all licensed lenders had closed their doors as a result of the legislation.
    - Academic researchers examined the effects of the rate cap on the availability of credit and concluded the law significantly decreased credit options and worsened the financial well-being of many consumers.
    - A survey of former Illinois borrowers found that 79 percent would like the option to return to their previous lender if they had a funding need.
    - Recent research from the Urban Institute concluded that the Illinois rate cap had little to no impact on credit scores or the amount of debt in collections, suggesting the rate cap did not improve consumer welfare.
- After South Dakota implemented a 36 percent rate cap that effectively eliminated the state's regulated small-dollar lending industry, a little over a year later, reports found that most small-dollar lenders did not renew their licenses. Pawn shops reported a rise in business.
- One year after Oregon implemented a 36 percent interest rate cap, 75 percent of Oregon's 360 small-dollar lending stores closed their centers. Consumer complaints against unregulated Internet lenders doubled, and nearly 70 percent of such complaints filed in 2010 were against unregulated online lenders.
- A Federal Reserve Bank of New York study reported that people "bounced more checks, complained more about lenders and debt collectors, and have filed for Chapter 7 ('no asset') bankruptcy at a higher rate" after small-dollar lending was banned through interest rate caps in Georgia and North Carolina.

Myth: A rate cap is in the best interest of consumers.

FACT: Even consumer advocates calling for an interest rate cap know a 36 percent rate cap will eliminate consumers' access to regulated small-dollar credit.

- In testimony, interviews, and other remarks, many proponents of interest rate caps have admitted that a rate cap is an effective ban on many forms of consumer credit. This finding is affirmed by researchers and evidence from states with rate caps.
- Some continue to advocate for this approach because they believe that some consumers shouldn't have access to any form of credit. Others support rate caps because they benefit their own business objectives, positioning their services as more reputable while reducing competition.
- In their own words:
    - Pew Charitable Trusts:
        - "Restrictive states either do not permit payday lending or have price caps low enough to eliminate payday lending in the state. This rate cap often is 36 percent APR."
        - "Small loans that reach the scale needed to compete with payday lenders, meaning they are available to a large share people who would otherwise turn to high-cost credit, will necessarily have all-in APRs over 36 percent."
        - "Our research indicates a 36 percent interest rate and $20 application fee will be inadequate to support a robust small-loan program in a safe and sound manner."
    - Gary Reeder, formerly with Financial Health Network and former CEO of the American Fintech Council:

        - "[T]here is often a trade-off between cost and availability. We encourage policymakers to allow institutions to experiment along the cost and availability spectrum, including for products with pricing above 36 percent APR. Policymakers should focus their efforts around understanding whether a product improves consumer outcomes in a measurable and demonstrable way rather than just filling immediate demand or meeting compliance requirements."
    - National Association of Federally-Insured Credit Unions/Credit Union National Association
        - "A 36 percent annual percentage rate (APR) cap, however calculated, will mean financial institutions will be unable to profitably offer affordable small dollar loans to consumers. For a loan product to be sustainable, lenders must be able to recover costs. Costs include not only the cost of funds availability, but also costs related to compliance, customer service, IT, underwriting, administration, defaults, and, most notably – losses."
    - Adam J. Levitin, Georgetown University Law Center
        - "The labor costs alone mean that it is not possible for a payday lender to profitably lend at anything close to 36% APR... And this is not counting other loan-specific costs — cost of funds and credit losses — or fixed and semi-variable expenses like rent, utilities, insurance, technology systems, advertising, customer service, and legal expenses, much less enough of a profit to attractive investment in the business."
    - Robert Deyoung, Ronald J. Mann, Donald P. Morgan, and Michael Strain, Federal Reserve Bank of New York:
        - "…a 36 percent cap eliminates payday loans altogether. If payday lenders earn normal profits when they charge $15 per $100 per two weeks, as the evidence suggests, they must surely lose money at $1.38 per $100 (equivalent to a 36 percent APR)... In view of this, '36 percenters' may want to reconsider their position, unless of course their goal is to eliminate payday loans altogether."
    - Paige Skiba, Vanderbilt University:
        - "The typical interest rate caps implemented by policymakers are, in practice, no different than outright bans."

Myth: If an all-in 36 percent rate cap works for military servicemembers, it should work for all consumers.

FACT: The Military Lending Act (MLA) effectively ended small-dollar lending to U.S. servicemembers and their families.

- In compliance with the MLA and its all-in 36 percent APR cap, regulated consumer financial services providers do not offer short-term, small-dollar loans to active-duty servicemembers.
- According to the Department of Defense (DoD) in its "Report on the Military Lending Act and the Effects of High Interest Rates on Readiness," released June 30, 2021, "[F]inancial products such as payday loans and vehicle title loans…are effectively prohibited based on other provisions of the MLA."
- The Government Accountability Office (GAO) determined that the DoD report used to justify the MLA was flawed and urged caution in interpreting its findings and recommendations. Other studies, including from faculty at the U.S. Military Academy, have also concluded that the MLA's measures to restrict servicemembers' access to short-term, small-dollar loans may be unnecessary and excessive.
- After the adoption of the MLA's APR cap, a number of reports – including from military aid societies – suggested that some servicemembers and military families have resorted to expensive programs offered by financial institutions, including "predatory or punitive overdraft practices."
- Another likely scenario is that many servicemembers are turning to unlicensed, unregulated lenders, as has been the case in every state with comparable restrictions.

INFiN A Financial Services Alliance

APPENDIX B

INFiN BEST PRACTICES

INFiN Members Must Abide by the Following Best Practices:

1. **COMPLIANCE.** A Member will conduct its business in full compliance with all federal and state laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, those applicable to federally registered Money Services Businesses ("MSB"), and all other applicable federal consumer financial laws. A member will not charge a fee or rate for a financial product or service that is prohibited by applicable law.

2. **LICENSING/REGISTRATION.** A member will register with the appropriate government agencies and hold and maintain all necessary business licenses to operate legally in the jurisdictions in which it offers financial products. A member that offers financial products through the Internet or other electronic modes shall be licensed or registered in each state where its customers reside (as required by applicable law) and shall comply with all requirements imposed by each such state.

3. **TRUTHFUL ADVERTISING AND FULL DISCLOSURE.** A member will not knowingly advertise a financial product or service in any unfair, deceptive, or false manner. Additionally, a member will fully disclose the fees and costs of financial products and services in a clear and conspicuous manner in compliance with all state and federal laws and regulations. A member will comply with the applicable disclosure requirements of each state in which its products and services are offered and with applicable federal disclosure requirements including the Federal Truth in Lending Act and the Electronic Fund Transfer Act (Regulation E).

4. **RESOLVING CUSTOMER COMPLAINTS.** Each member company shall maintain and post its own toll-free consumer hotline telephone number in each of its physical locations and on its website, as well as provide electronic means for consumers to submit complaints about a member company's product or service. A member commits to responding to and resolving consumer complaints in a timely and appropriate manner.

5. **MAINTAINING PRIVACY.** A member who possesses any non-public, personally-identifiable information about a consumer shall maintain the privacy of such information in accordance with all applicable state and federal privacy laws and regulations.

6. **APPROPRIATE COLLECTION PRACTICES.** A member must collect past due accounts in a professional, fair and lawful manner. A member will not use unlawful threats, intimidation, harassment, or the threat of criminal action to collect accounts. The collection limitations contained in the Fair Debt Collection Practices Act (FDCPA) should guide a member's practice in this area.

7. **INDUSTRY MONITORING.** A member will assist the Association in monitoring the industry and will be expected to report suspected violations of these Best Practices to the Association.

8. **VENDOR MANAGEMENT.** A member will manage its relationships with its outside vendors in order to promote compliance with all applicable laws and regulations and these Best Practices.

9. **SUPPORT BALANCED LEGISLATION.** A member will work with legislators and regulators to support responsible legislation and regulation of the industry that is consistent with these Best Practices.

10. **DISPLAY OF THE MEMBERSHIP SEAL.** A member shall prominently post the Association Membership Seal in all stores and on all member websites to alert customers to the member's affiliation with the Association and adherence to the Association's Best Practices.

11. **SMALL-DOLLAR LOANS.** Members that offer small-dollar loan products ("small-dollar loans"), including single payment loan products ("single payment loans") and multi-payment products ("installment loans"), shall abide by the following additional Best Practices:

a. **REQUIRED DISCLOSURE.** For all small-dollar loans, a contract between a member and the customer must fully and completely set forth the terms of the transaction. Members shall disclose the cost of the service fee both as a dollar amount and as an annual percentage rate ("APR") in accordance with the Federal Truth in Lending Act, and other applicable law.

b. **ENCOURAGE CONSUMER RESPONSIBILITY.** A member will implement procedures to inform consumers of the appropriate and responsible use of small-dollar loans. These procedures may include the placement of a "Customer Notice" in the form provided below or substantially similar, on all marketing materials.

CUSTOMER NOTICE: *There are a wide variety of financial products available in the marketplace, so your choice should match your financial needs. Small-dollar loans used over a long period of time can be expensive.*

c. **RESPONSIBLE REPAYMENT OF SINGLE PAYMENT LOANS.** For an unsecured single payment loan, a member shall comply with state law regarding repayment. In such cases where rollovers are authorized, a member will limit rollovers of an unsecured single payment loan to four (4) or the state limit where not otherwise limited by law. (A rollover is the extension of an outstanding advance by payment of only a fee.)

d. **AMORTIZATION OF INSTALLMENT LOANS.** A member shall ensure that all unsecured installment loan products provide customers with a structure to reduce the principal balance over the term of the loan.

e. **EXTENDED PAYMENT PLAN -- SINGLE PAYMENT LOANS.** For a single payment loan, a member will make available to customers who are unable to repay according to the original contract terms, the option of repaying the loan over a longer period ("Extended Payment Plan") unless otherwise prohibited by state law. Such an Extended Payment Plan will be offered in compliance with any requirement in state law to provide an Extended Payment Plan or, in the absence of such a requirement in state law, in compliance with the Association's Best Practice "Guidelines for Extended Payment Plans." A member will adequately disclose the availability of the Extended Payment Plan to its customers in compliance with any requirement in state law for such a disclosure or, in the absence of such a requirement in state law, in compliance with the Association's Best Practice "Guidelines for Extended Payment Plans."

f. **DEFERRED PAYMENT(S) INSTALLMENT LOANS.** A member that offers an installment loan shall ensure that a consumer who is unable to repay in a timely manner may be afforded options to deferred payment(s) in compliance with applicable State law without incurring prohibitive costs or penalties.

g. **USE OF AUTOMATED CLEARING HOUSE (ACH) SYSTEM.** A Member will comply with all Rules of the National Automated Clearing House Association (NACHA), and any additional law or regulation related thereto, when using the ACH system.

h. **MILITARY.** To the extent that any member does business with a Military "Covered Person" as defined by federal law, members will comply with all federal and state laws applicable to doing business with the military and related "Covered Persons."

i. **RIGHT TO RESCIND.** Unless state law requires otherwise, a member will give its customers the right to rescind a loan, at no cost, on or before the close of the following business day.

j. **ABILITY TO REPAY.** A member, before extending credit, shall undertake a reasonable, good-faith effort to determine a customer's ability to repay the loan.

INFiN Best Practices are intended to cover all small-dollar loans made by members to the fullest extent that such practices are allowed by applicable laws and regulations. State or local laws and regulations may not permit implementation of some Best Practices for certain types of small-dollar loans.

Consumers' Research
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February 19, 2025

The Honorable Jesse Bjorkman
Chair
Senate Labor and Commerce Committee
Alaska State Senate
Juneau, AK 99801

The Honorable Kelly Merrick
Vice Chair
Senate Labor and Commerce Committee
Alaska State Senate
Juneau, AK 99801

The Honorable Elvi Gray-Jackson

Senate Labor and Commerce Committee
Alaska State Senate
Juneau, AK 99801

The Honorable Forrest Dunbar
Senate Labor and Commerce Committee
Alaska State Senate
Juneau, AK 99801

The Honorable Robert Yundt
Senate Labor and Commerce Committee
Alaska State Senate
Juneau, AK 99801

Dear Chair Bjorkman, Vice Chair Merrick, Senator Gray-Jackson, Senator Dunbar, and Senator Yundt:

Alaska legislators are considering SB 39, a bill that adds new restrictions to consumer lending, including the imposition of an all-in 36 percent interest rate cap. The measure would mean that lenders would be prohibited from offering loans, regardless of their length or the risk posed by the borrower, with a rate above 36 percent, including fees, which the law interprets as adding to the financing cost.

Lawmakers have proposed similar bills that simply run afoul of the research. About three years ago, Illinois lawmakers presumably thought they were helping borrowers by limiting the all-in rates lenders could charge as well. But did they? Did this rate cap improve consumer welfare and protect the underprivileged from so-called predatory lenders? And, importantly, did this rate cap make small-dollar loans more affordable?

Working with a fellow academic (Brandon Bolen) and an economist from the Federal Reserve (Greg Elliehausen), we addressed these questions and other findings in a recent study. In that study, we documented the measurable effects on Illinois borrowers after the 36 percent all-in rate cap went into effect.

We examined the number and size of unsecured installment loans over a twelve-month period—six months before the imposition of the all-in cap and six months after. We sorted credit bureau

DEFENDING CONSUMERS

data into credit score buckets by county or county groups for Illinois and Missouri, which we chose as a comparison state because it had no legislated rate cap. In Missouri, the competitive market sets borrowing rates.

Basic economic theory predicts that interest rate caps have effects that differ across groups of borrowers. A rate cap will affect borrowers with poor credit differently than those with a strong credit history. In our study, we found that the all-in 36 percent rate cap impacted subprime borrowers, those with credit scores below 600, most significantly.

Using widely accepted, well-known statistical techniques, we estimated how the number of loans made after the cap was imposed and compared it to an estimated number of loans that would have been made without the cap. According to our model, in the period following the imposition of the 36 percent cap, the number of loans to subprime borrowers fell by 38 percent. Meanwhile, the average loan size increased by 35 percent from where it would have been without the cap.

Additionally, we estimated that the total dollars loaned to subprime borrowers fell about 14 percent, or about $26 million. The deepest subprime borrowers, those with the fewest credit alternatives, were the most affected: the dollars lent to them fell by about 26 percent. This amount may sound trivial to some; however, this amount of money is significant to the Illinois families denied access to credit. We estimated that roughly 34,000 Illinois families now have even fewer credit options because they lost access to unsecured installment loans.

We also examined the results of a survey of actual installment loan borrowers in Illinois who lost access to credit after the 36 percent rate cap imposition. Ninety-three percent of the respondents said their pre-cap loans helped them manage their financial situation. Seventy-nine percent of borrowers surveyed responded that they would like the option to return to their previous lender operating under pre-cap conditions.

The proponents of an all-in 36 percent rate cap may all think they are doing a great thing for working families, but their good intentions stand in stark contrast to the cold facts observed when rate caps like the one they propose, have been imposed. Legislators claim they care about consumers who are struggling financially, but if their struggles lead them to miss payments and pay bills late, the result is a lower credit score, further limiting their access to credit. Such was the case when Illinois instituted its version of Alaska's proposed rate cap, which harmed Illinois borrowers with low credit scores while providing additional credit access to borrowers with higher credit scores.

I urge you to study the actual impacts of imposing this rate cap and I urge you to look for other ways to measure the cost of short-term loans before you move forward. Imposing an interest rate cap has actual effects that differ from the intentions of lawmakers. A 36% all-in interest rate cap is especially harmful to the very consumers the law is intended to protect.

For example, a one-year, $1,000 installment loan at a 36% all-in rate has a monthly payment of about $100. Thus, the lender receives $200 on the $1,000 principal, i.e., not $360. If the rate is doubled to 72%, the payment increases to about $120 month, or about $5 more per week. In this case, the lender receives about $440 on the $1,000 principal. Rates like 36% and 72% sound jarring, but I urge you to think in terms of dollar amounts paid for the loan.

Suppose an Alaskan has a need for a $1,00 loan. Installment lenders will likely not make $1,000 loans under a 36% all-in cap. The $200 received on this repaid loan is not enough revenue to cover operating costs as well as the cost of loans that are not repaid. The net effect is that the cap will legislate $1,000, and smaller, loans out of existence. Some Alaskans will lose access to installment credit, but they still need credit. Where will they go?

Sincerely,

Tom Miller Jr., PhD
Professor of Finance and Jack R. Lee
Chair in Financial Institutions and Consumer Finance
Mississippi State University College of Business
Senior Research Fellow
Consumers' Research

Cc:

The Honorable Cathy Giessel, Majority Leader, Alaska State Senate
The Honorable Gary Stevens, President, Alaska State Senate
The Honorable Mike Shower, Minority Leader, Alaska State Senate

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