Payday Lending in Alaska

It's time for reform.

In Alaska, the average payday loan is for $440 with a 421% annual percentage interest rate (APR).

The high cost of these short-term loans leaves many families trapped in a cycle of chronic debt & poverty.

IN AN AVERAGE YEAR IN ALASKA:

15,000

Alaskans take out a payday loan

$440

is the average payday loan amount

5.4

is the average # of loans each borrower takes out

Did You Know?

Over the last five years (2017-2022), payday lenders garnished over **$3.7 million** from Alaskans' PFDs.

FOR A $ 4 4 0 LOAN...

It takes **$ 1 3 7** just to keep up with the first month's interest

It could cost more than

$1,200

to repay over 5 months

The interest rate on payday loans in Alaska ranges from

194%

to over

521%

APR

In Context

If credit card companies charged 400% APR, the average credit card debt in Alaska – an $8,000 balance paid over 14 months – would cost nearly **$37,000** to pay off.

2023 OVERVIEW OF PAYDAY LENDING IN ALASKA

- There were a total of 18 licensees operating during the year
  (License types: 12 compa , 4 branches, 1 website, 1 mobile app)

- 7,085 Alaskans received payday loans totaling $17,452,476.28

- The average payday loan was $443.14

- On average, each customer entered into 5.56 payday loans

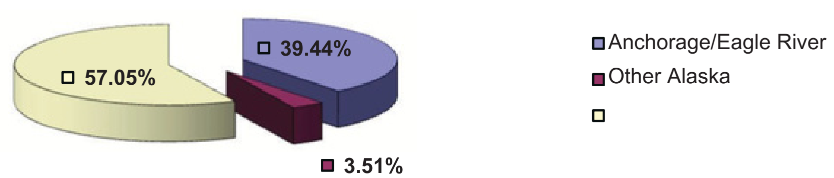
-

- On average, each payday loan customer borrowed $2,463.30 over the course of the year

- The geographic distribution of loans in the state in 2023 is as follows:

Location	Market Share %	Loan Volume
Anchorage/Eagle River	39.44%	$6,882,653
Other Alaska	3.51%	$613,365
	57.05%	$9,956,458

State of Alaska 2023
Market Share of Licensed Payday Lenders



As of January 1, 2025, there are 13 active deferred deposit advance licenses, all companies are headquartered out of state.

7 Companies
3 Branches (all are located in Anchorage, Alaska)
1 Mobile Application
2 Websites

Center for Responsible Lending

Red Alert Rates: Annual Percentage Rates on $400, Single-Payment Payday Loans in the United States

June 2023

Charla Rios, Deputy Director of Research

O ver view

Harmful single-payment payday loans remain accessible in over half of the United States. Single-payment1 payday loans are small loans, often $500 or less, that are typically repaid in full at or within 14 days after their disbursement. Payday lenders charge exorbitant fees to borrowers without assessing their ability to repay, and the annual interest rates on these loans are in the triple digits. Over a decade of research demonstrates payday loans frequently lead to a continuous cycle of debt.2 Researchers at the Consumer Financial Protection Bureau (CFPB) found that payday lenders collect 75% of their fees from borrowers with more than 10 loans per year, demonstrating that their business model is dependent on this long-term cycle of debt.3

A typical payday loan has an Annual Percentage Rate (APR)4 just under 400%—well above most other credit products.5 When a payday loan is due, these lenders are often the first in line for instant repayment due to having access to a borrower's bank account or postdated check. As a result, payday loans leave borrowers susceptible to a cascade of adverse financial consequences, including increased overdraft fees, delinquency on other bills, involuntary loss of bank accounts, wage garnishment, and even bankruptcy.6

In 28 states, payday lenders still market single-payment payday loans, and borrowers are subject to the highest APRs in these states as a result. Payday lenders drain approximately $2 billion dollars in fees from these states, from those families that can least afford it.7 The following map illustrates the APR in the states with these harmful products using state regulator information.

In 28 states, payday lenders still market single-payment payday loans, and borrowers are subject to the highest APRs in these states as a result.

It is worth noting that many states have a variety of subprime credit products. While this map addresses predatory single-payment payday loans, consumers in some states without single-payment payday loans still may be exposed to many other predatory consumer products, including high-cost loans made through "rent-a-bank" evasions and auto-title loans that put borrowers' cars at high risk of repossession. To date, 20 states and the District of Columbia have passed laws to cap payday lending rates around 36% APR, including fees, or requiring other measures to ensure that payday lenders do not impose interest rates and financing terms that create a long-term debt trap for consumers. Other states have passed some reforms for consumers using varying means, including lengthening loan terms on small loans, which results in APRs at or slightly above 100%.

Methodology

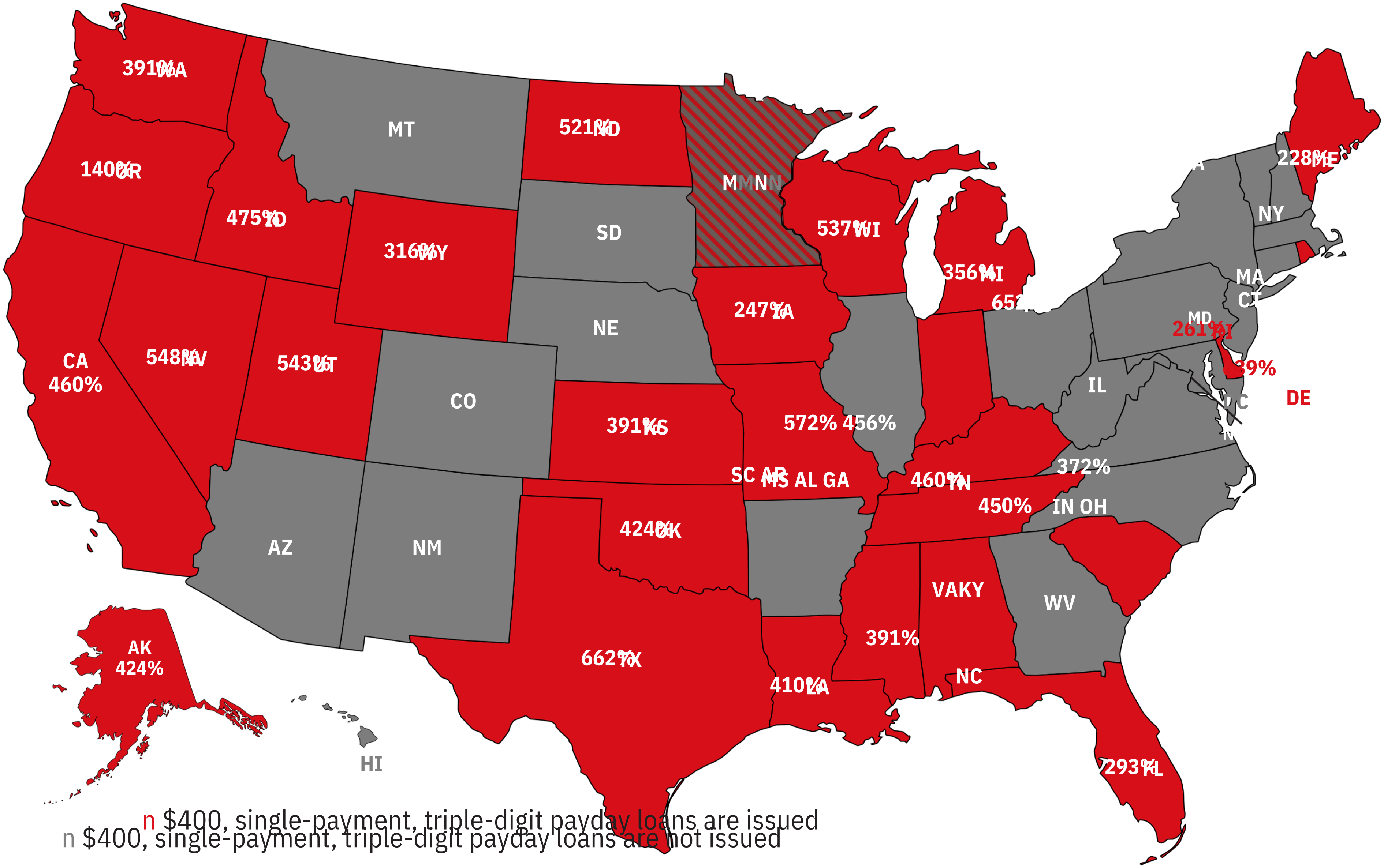
To reflect the current landscape, the map below identifies the many states that still allow single-payment payday loans despite their grave harms and cascading negative effects on consumers. We modeled a $400 loan due to the financial discourse around the percentage of Americans who could cover a $400 unexpected or emergency expense using cash or its equivalent.[8]

To obtain the typical APR for a $400, single-payment loan, we collected data from each state banking regulator using state-level equivalents of the Freedom of Information Act (FOIA). Where available, the average APR reported by the regulator was used, along with the reported average amount. For states where data were not available or loan amounts reported were noticeably less than $400, rates and terms were obtained for five online lenders to derive the APR for a $400, 14-day loan. In states where a $400 loan is not allowed, the highest allowable amount was used. These states include California ($255), Louisiana ($350), and Mississippi ($200). Two states—Maine and Oregon—have limits on fees and longer terms, respectively, however, both states still allow triple-digit interest rate payday loans.

On May 24, 2023, Minnesota Governor Tim Walz signed into law a rate cap on payday loans of 36% APR with underwriting standards on loans between 37–50%. Loans above 50% APR will not be allowed. This law goes into effect on January 1, 2024. The current, allowable APR in Minnesota is 220%. Minnesota is striped on the map to indicate the pending change.

Despite improvements in the payday loan marketplace, this map demonstrates that single-payment payday lending is still a concern in a large number of states. Many states that have no protections have substantial populations of Black and Latino communities, both of which are disproportionately targeted by payday lenders.[9] CRL recommends that states without meaningful usury caps and the federal government pass a cap on annual interest rates no higher than 36%, inclusive of fees, on small loans, to protect all Americans from the harms of payday lending and other exploitative forms of small dollar credit.

Annual Percentage Rates on $400, Single-Payment, Triple-Digit Payday Loans in the U.S.



n $400, single-payment, triple-digit payday loans are issued

n $400, single-payment, triple-digit payday loans are not issued

Legislation passed to eliminate $400, single-payment, triple-digit payday loans

See Appendix A for further methodology notes.

Center for Responsible Lending

THE SKY DOESN'T FALL

Life After Payday Lending in South Dakota

Charla Rios
Diane Standaert
Yasmin Farahi

January 2020

Executive Summary

For more than a decade, payday loans, car-title loans, and high-cost installment loans in South Dakota have carried charges exceeding 300% annual percentage rate (APR). In 2016, South Dakotans approved lowering the cost of payday loans, car-title loans, and installment loans to an annual interest rate cap of 36%, inclusive of all fees and charges. The vote in favor of the rate cap was overwhelming. In policy discussions about high-cost small dollar lending, one of the most frequently asked questions is: what happens when a state enacts a rate cap? This paper seeks to add to this body of knowledge by providing insight into how consumers, communities, and credit availability are faring in South Dakota, two years after the enactment of a rate cap.

In this paper, we review several data sources including loan usage rates, small claims files, credit data (such as the volume of Payday Alternative Loans and unsecured loans), polling of South Dakotans' views after the passage of the rate cap, and community interviews. These community interviews also formed the content of the documentary, *Let My People Go: South Dakotans Stop Predatory Payday Lending.*

This work in South Dakota provides an example of a community-driven, state-level reform effort. Its story provides a template of how other states can contemplate and potentially achieve a 36% rate cap. It shows positive developments after the passage of a rate cap, including continued lending by banks and credit unions; redevelopment of former payday loan storefronts; and widespread support for the 2016 reforms. Finally, this paper contrasts current developments at the federal level which seek to favor payday lenders and threaten to override state laws like South Dakota's voter-affirmed rate cap. For example, if allowed by federal regulators, rent-a-bank schemes would enable high-cost lenders to evade rate caps and remove state control, leaving millions of people vulnerable to the harms of high-cost lending—even when it directly contradicts the affirmative public policy decisions of their home states.1

Key Findings of this Report Include:

1. Payday lending causes immediate and long-term harms through high interest rates, forced reliance on the loan product, and consequences of debt collection that last years beyond the original loan term.
2. Other options are available to South Dakotans following the 36% rate cap, including small dollar loans and other financial strategies.
3. Storefronts formerly occupied by payday lenders that extracted millions in wealth from South Dakotans, now are revitalized as restaurants, churches, credit unions, and other community contributing businesses. With the rate cap in place, South Dakotans save $81 million a year annually in fees that would have otherwise been paid on high-cost loans.
4. Two years after the enactment of the rate cap (2018), South Dakotans still show continued strong support for 36%. Both borrowers and voters show strong concern if the South Dakota legislature were to repeal the 36% rate cap.

The Harmful Foundation of Payday Lending

Marketed as a quick, customer-oriented financial solution for people in need, payday loans most often do the exact opposite of their claims, resulting in a continuous cycle of harmful debt. This cycle of debt is the cornerstone of the business model, as high APRs, harmful collection practices, and long-term financial consequences all come at great cost to the consumer. The payday lending business model is a debt trap machine, comprised of six interconnected cogs (Figure 1).

> *"Once they got you, they got you good. They sign that paper, they give them that information, and by golly, after that you're done. . . ."*
>
> -Voice of Sioux Falls Borrower from *Let My People Go: South Dakotans Stop Predatory Payday Lending*
>
> *"They are so easy... so easy to get. But paying them back is hard. It's [a] struggle. . . [I]t was like a cycle that never ended."*
>
> -Wambli Bear Runner, Black Hills Community Loan Fund Client

Figure 1. The Payday Loan Business Model Relies on a Long-Term Cycle of Debt

Source: *Let My People Go: South Dakotans Stop Predatory Payday Lending* (2018).

> **The payday loan business model relies on a consumer debt cycle, with borrowers typically taking out 10 loans per year, and often many more.**

First, a payday lender makes a loan to a borrower without determining his or her ability to repay the loan. Payday lenders generally only require some proof of income and identification to obtain the loan, ignoring current expenses, debts, and stability of income the borrower may have, relative to the loan amount. Second, the payday lender obtains access to the borrower's bank account as a condition of the loan, either by holding the borrower's post-dated check or by electronic debit authorization. This direct access to the borrower's bank account puts the lender first in line for repayment on a borrower's payday, which is also when the loan payment is due. Third, when the payday lender collects the loan payment on payday, they often leave the borrower without sufficient funds to meet their remaining obligations, thus providing the payday lender the opportunity to make a new loan and start the cycle over again. Nationally, payday borrowers average around 10 loans annually, often in succession. Seventy-five percent of payday loan fees accrue from borrowers stuck in 10 or more loans.2 By contrast, only 2% of payday loans go to borrowers who take out one loan and do not return for a loan within one year.3 Living evidence is found in these data: if on average, borrowers take out 10 loans and borrowers with more than 10 loans generate the majority of fees for the payday lenders nationally, the cogs in this machine are the consumers.

The harms caused by payday lenders expand far beyond the initial loan period. Payday loans are associated with a cascade of long-lasting financial consequences such as increased likelihood of experiencing insufficient fund fees, bank penalty fees, involuntary bank account closures, and bankruptcy.4

Borrowers also often suffer aggressive debt collection, including lawsuits brought by payday lenders years after the original loan. To capture this aspect of the consumer experience, we reviewed small claims court files of consumers who were sued by Dollar Loan Center, a payday lender that operated in South Dakota before the rate cap. These court files give a glimpse into the long-term negative impacts of the debt trap on consumers in South Dakota that last well beyond the initial loan. The case files not only reveal the details of the debt collection suit itself, but also contain the lender's internal records of its lending history with the borrower.5 In these legal documents, the evidence of the debt trap is clearly shown.

After the Rate Cap: Did the Sky Fall? No.

"There's community lenders available in all communities, wherever you are, and those services are available as an alternative to payday lenders."

–Lakota Vogel, Executive Director, Four Bands Community Fund

Despite the personal stories, the initiative's support, and research documenting the harms caused by their high-cost loans, payday and car-title lenders continue their attempts to paint a dire need for their payday lending products. For example, in April 2017, Advance America, one of the largest online and in-person payday lenders, polled 200 of its former South Dakota borrowers.22 One of the arguments advanced by the payday lenders' poll is the notion that few options exist for borrowers no longer able to obtain a triple-interest rate payday loan. Contrary to this argument, research has found that credit is available and the credit economy for individuals in South Dakota is stable. In the following section, we highlight some of the existing products in South Dakota following the rate cap and in other states without payday lending. The findings show that eliminating the payday loan debt trap protects borrowers and ensures that other options are available in the state.

Life After the Rate Cap: Better Options Remain Available

Other types of small dollar loans in the marketplace include unsecured consumer loans made by banks, credit unions, or other non-bank lenders. The rate cap set by South Dakota voters reaches unsecured consumer installment loans by non-bank lenders, but did not reach state-chartered financial institutions or national banks and credit unions. Federally-chartered credit unions are subject to an 18% usury limit, with the exception of Payday Alternative Loans (PAL) that can carry a 28% interest rate cap.23 Data show that both credit unions' PAL loans and unsecured consumer loans made by credit unions continue to be available and have increased in volume since the enactment of the voter-affirmed rate cap (Table 1).

Table 1: South Dakota Payday Alternative Loan Volumes, Unsecured Loan Volumes, and Total Loan Count by Year

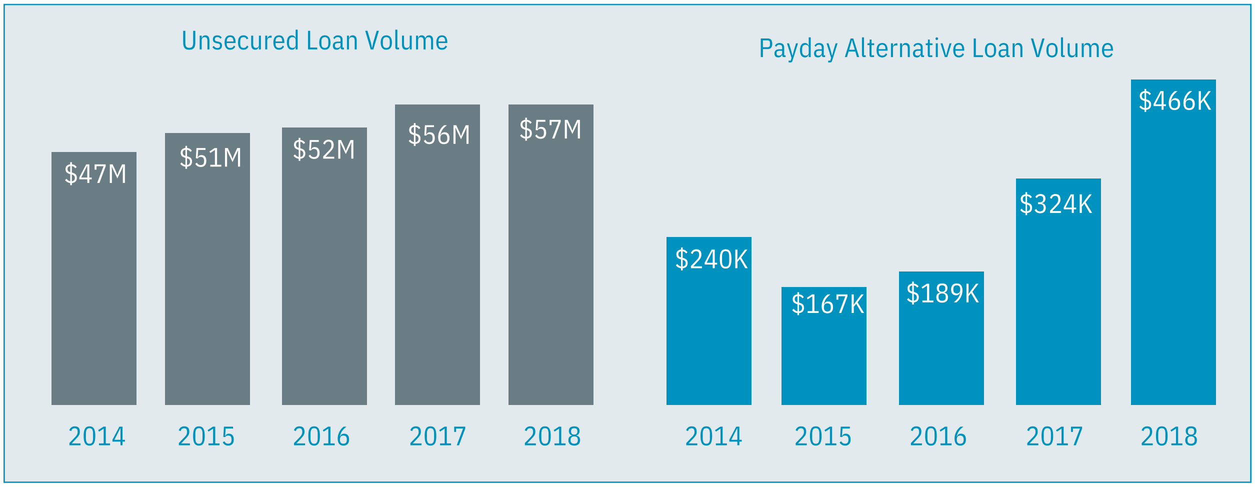
Year	Unsecured Loans		Payday Alternative Loans		Unsecured and PAL Loans	
	Count	Volume	Count	Volume	Count	Volume
2014	32,277	$47,169,669	371	$239,976	32,648	$47,409,645
2015	33,122	$50,625,718	287	$167,493	33,409	$50,793,211
2016	32,884	$51,790,578	387	$188,660	33,271	$51,979,238
2017	33,836	$55,980,636	483	$324,145	34,319	$56,304,781
2018	35,672	$56,824,924	622	$465,928	36,294	$57,290,852
2014–2018 Change	+3,395	+$9,655,255	+251	+$225,952	+3,646	+$9,881,207
	11%	20%	68%	94%	11%	21%

Source: CRL analysis of National Credit Union Administration (NCUA) Call Reports 2014–2018.

Two years following the rate cap, the total PAL and unsecured loan count combined rose by over 3,000 loans in South Dakota. Similar patterns are seen at the national level regarding PAL loans (Appendix A); thus South Dakota's experience is in line with national trends, even following the rate cap implementation.24 Unsecured consumer loans are also a positive replacement for payday loans, as the loans do not need collateral for security. In South Dakota, unsecured consumer loans are widely available, with all reporting credit unions offering these products in some form.

Between 2014 to 2018, the number of active unsecured consumer loans has increased by over 2,000 loans, with total volume increasing by $5 million since the implementation of the rate cap. For both PAL and unsecured loan types, we see an overall increase in the number of active loans and the volume since 2016. As of 2018, there were 36,294 active loans across these two types of small dollar loans with a loan volume of over $57 million dollars (Figure 10).

Figure 10. Unsecured Loan and PAL Loans Remain Available after 2016 Rate Cap



Source: CRL analysis of NCUA Call Reports 2014–2018.

Community-Based Resources

South Dakota, like many states, has community-based organizations serving constituents in a wide variety of ways to facilitate financial security and wealth building. In South Dakota, for example, Native-led Black Hills Community Loan Fund and Four Bands Community Loan Fund, both of which are Native Community Development Financial Institutions (CDFIs), serve this function. CDFIs are designated as such by the U.S. Treasury for "specialized organizations that provide financial services in low-income communities and to people who lack access to financing."25

"Please don't go to a payday lender. Let's see what we can do about increasing your take-home pay or cutting down on some of your debt that you have to make it more comfortable for you to live month to month or week to week, whatever it takes."
–Cora Mae Haskill, Four Bands' Financial Coach

Black Hills Community Loan Fund, located in Rapid City, serves the Black Hills region with a range of products and services for small business, homeownership, home improvements, and credit building. Among its products is a credit builder loan which emerged as a way to help South Dakotans get out of the payday loan debt trap. Executive Director Onna LeBeau describes that they developed it to tackle the payday loan issue because *"[W]e had several individuals that would have three, four, five payday loans that they needed to take care of, so we would pay them all off. Then they would start to make their payments to us, and we've had some clients actually pay off their debt whereas if they were still paying the payday loan centers, they probably would still be paying the $25 monthly payment and not making a dent in the overall principle."* In addition to this range of affordable loan products, Black Hills Community Loan Fund also provides financial education and coaching to support residents in their journey to better financial health.

Four Bands, located on the Cheyenne River Sioux Reservation, works "to create economic opportunity by helping people build strong and sustainable small businesses and increase their financial capability to create assets and wealth."26 Like Black Hills and other CDFIs, it engages in a range of asset building and economic development strategies, including financial coaching, small business loans, credit builder loans, and mortgages.

To date, Four Bands provided $12 million of loans and created or retained over 800 jobs. Among its product offerings is a credit builder small loan product, which carries an 11% interest rate for loans up to $5,000. Lakota Vogel, Four Bands Executive Director, says, *"A family can come in or an individual can come in, consolidate debt so that they lower all interest rates and we report to the credit bureaus in order for them to increase their credit score. Often times, that can be a mix of different credit that they've utilized, so it could look like a car loan or a payday lending loan, and we'll bring it all together, up to $5000 into one loan, single payment, for that household at an affordable interest rate for that household."*

Life After Reform: The Lingering Consequences of Payday Loan Debt

As mentioned, for many South Dakotans, the harmful consequences of payday lending continue long after the loan itself. In the case of South Dakota, consumers are, years later, facing the devastating consequences of loans made before the 2016 rate cap. One consequence is the threat of debt collection lawsuits that may arise even years following the loan origination or default. A review of case files from Dollar Loan Center in the Sioux Falls, South Dakota, small claims court shows that South Dakota borrowers may still be facing lawsuits even two years after the implementation of the rate cap. The five example cases below suggest that consumers were sued for 2.5 to 17 times as much as the original loan amount (Table 2). They also show that by the time they defaulted on their loans they had often paid thousands of dollars in interest in fees over the original loan amount.

Table 2: Sample of Payday Loans Now in Claims Court

	Original Loan Amount (Year)	Total Interest and Fees Paid27	Loans (#)	Total # of Payments	Small Claims Suit Amount (Year)
Borrower 1	$2,000 (2011)	$8,544	13	83	$5,045 (2017)
Borrower 2	$200 (2015)	$3,234	6	31	$3,416 (2017)
Borrower 3	$400 (2007)	$4,246	10	117	$3,488 (2017)
Borrower 4	$300 (2015)	$2,416	5	42	$2,360 (2017)
Borrower 5	$500 (2012)	$1,925	4	44	$3,361 (2017)

Source: South Dakota Small Claims Court Files. Accessed May 2018.

Conclusion: Looking to the Future

In 2016, South Dakota voters spoke loud and clear that they did not want triple-digit interest rates in their state. In 2018, two years following enactment of the rate cap, South Dakotans continue to show strong support for the rate cap. South Dakotans expressed concerns about legislative efforts to repeal the vote. Based on the findings in this report, these results should not be surprising: South Dakotans are faring better without these predatory products in the state. They continue to have access to credit through safer financial products, and where payday loan shops once dotted the landscape, churches, restaurants, and other wealth-creating and community-building institutions exist.

While payday loans are marketed as a quick financial fix, the payday lenders' business model relies on consumers taking out multiple loans in a year, ultimately being buried in mounting interest and fees and debt that cannot be repaid without reborrowing or defaulting on other bills. Data show that over 75% of payday lenders' fees come from borrowers taking out 10 or more loans in a year, and our case studies of South Dakotans illustrate the harms of the debt trap that can come from what starts as one small dollar loan, with borrowers still facing the consequences of these loans in legal proceedings years later.

Since South Dakota enacted its rate cap, a number of other significant developments have occurred in other states and at the federal level. In 2018, Colorado voters likewise affirmed lowering the costs of its payday loans from 200% APR to a 36% cap. The cap was approved by 76% of Colorado voters, after years of legislative efforts failed to rein in the harms of these loans. While more states, like South Dakota and Colorado, have been continuing to advance protections that rein in the debt trap of high-cost loans, since 2016 the federal government has taken the opposite approach by working to facilitate dangerous high-cost loans. For example, under the current leadership, the Consumer Financial Protection Bureau has proposed repealing rules that were finalized in 2017 which would simply require lenders who make short-term payday and car-title loans to ensure that loan is affordable in light of a borrower's income and expenses. The federal government is also failing to take action against high-cost lenders that partner with out-of-state banks, a practice known as "rent-a-bank," which allows payday lenders and others to attempt evasion of state usury caps by exporting banks' ability to charge higher rates that what is permitted under state law. These rent-a-bank schemes threaten to override the will of South Dakota voters, which clearly supports limiting the cost of these loans to 36%.