March 22, 2025

The Honorable Zack Fields
Co-Chair
House Labor & Commerce Committee
Alaska State Legislature

The Honorable Carolyn Hall
Co-Chair
House Labor & Commerce Committee
Alaska State Legislature

Re: Comments on HB 132, "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 Co-Chairs Fields and Hall:

The Online Lenders Alliance (OLA) would like to provide the following comments and data in opposition to HB 132*, 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]

<u>Alaskans Need Access to Credit Options and Choices</u>

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]

It's also notable that Alaskans have the highest average credit card balance in the United States ($8077), and they have the second-highest credit card utilization rate in the country[5]. All of this points to a scenario where **Alaskans are more dependent on their credit cards than other Americans - ultimately paying more in interest and fees**.

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. Small dollar credit from banks and credit unions is not widely available, and the stringent eligibility requirements further dimmish its utilization. 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**. HB 132 will take away many of the credit options available to Alaskans and limit their financial choices.**

<u>HB 132 is Modeled on Illinois' Failed Legislation That Limits Credit</u>

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 HB 132. By 2024, lender licenses decreased by 64 percent**.[6] **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**.[7]

The aforementioned study also included data from a 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

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

[5] https://www.experian.com/blogs/ask-experian/state-of-credit-cards/ According to Experian, a consumer's credit utilization ratio is the amount of revolving credit they're using divided by the total amount of revolving credit they have available. It's expressed as a percentage, and it can be an important factor in credit scores. In general, lower utilization rates can improve credit scores, which can in turn make it easier to secure additional credit with favorable terms.

[6] 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/

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

had actually used small dollar loans in Illinois before the law went into effect to better understand the law's impact.[8]

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

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."[9]

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, HB 132 will reduce credit options and restrict financial choices for Alaskans. That will mean Alaskans will be even more dependent on the use of credit cards- which will only raise their balances (which are the highest in the nation), fees and interest payments. Furthermore, if people are not allowed to access the financial products they need to support themselves in times of financial shock, many will ultimately turn to government support. Alaska currently ranks among the highest per capita state and local public welfare expenditures in the United States, and HB 132 will likely increase this spending level.[10] We oppose HB 132 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 HB 132.

[8] Ibid.

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

[10] https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/public-welfare-expenditures

Sincerely,

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

CC:

The Honorable Ashley Carrick
The Honorable Robyn Niayuq Burke
The Honorable Dan Saddler
The Honorable Julie Coulombe
The Honorable David Nelson

March 26, 2025

Re: AK HB 132: Relating to Loans of $25,000 or Less

Chairs Fields and Hall, and Members of the House Labor & Commerce Committee,

On behalf of OneMain Financial, thank you for the opportunity to comment on House Bill 132. OneMain Financial, which has operated for more than 100 years, is a nonbank lender that helps hardworking consumers meet their financial needs through traditional installment loans and other credit products. OneMain operates nearly 1,300 branches in 44 states and has extended nearly $23B in credit to our more than 2.5 million current customers. Unlike many lenders, OneMain chooses to never exceed 35.99% APR, even in states that permit interest well above 36%.

Our installment loans are fully underwritten with amortized payments that help customers successfully repay their loans in affordable monthly payments. This approach is why more than 90% of our customers successfully repay their loans. Unfortunately, Alaska's current rate structure limits our ability to provide much-needed credit to Alaskans. We support House Bill 132's simplification of the rate structure, which could result in increased competition in the marketplace and more options for nonprime consumers.

We are concerned, however, that House Bill 132 utilizes a unique "all-in" rate calculation that includes elements unrelated to the cost of credit. This unique calculation will cause much confusion and implementation issues, especially for lenders who operate in other states. However, the Federal Truth In Lending Act (TILA), adopted in 1968, provides for a standard TILA rate calculation, which includes all mandatory charges required to receive a loan. This gives borrowers the true cost of credit. In certain cases, courts and regulators have prohibited lenders from advertising and disclosing APRs inconsistent with this method as it undermines the universality of the term and may confuse consumers. Additionally, the "all-in" APR method limits access to ancillary products for consumers who may desire to protect their loan in the case of unexpected unemployment or other unforeseen events. The vast majority of states, as well as federally and nationally chartered depository institutions, utilize the TILA APR.

If passed, House Bill 132 would significantly alter the lending environment in Alaska. Although some lenders may be unable to operate under the new rate structure, amending HB 132 to include a standard TILA rate calculation would attract new lenders like OneMain to enter the state and meet the needs of these nonprime consumers.

We appreciate your consideration. Please contact the undersigned with any questions.

Sincerely,

Ryan Black

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