Alaska State Senate

Senator Forrest Dunbar

Session:
Alaska State Capitol
Juneau, Alaska 99801
(907) 465-6944

Interim:
1500 W. Benson Blvd.
Anchorage, Alaska 99503
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March 26, 2025

The Honorable Lyman Hoffman
Co-Chair, Senate Finance Committee
Alaska State Capitol, Room 518
Juneau, AK 99801

The Honorable Bert Stedman
Co-Chair, Senate Finance Committee
Alaska State Capitol, Room 516
Juneau, AK 99801

The Honorable Donny Olson
Co-Chair, Senate Finance Committee
Alaska State Capitol, Room 508
Juneau, AK 99801

Dear Co-Chairs Hoffman, Stedman, and Olson, and Members of the Committee:

Thank you for hearing SB 39, a bill relating to payday lending practices in Alaska, on March 20th in the Senate Finance Committee. I'm writing to follow up on the questions and comments received during that hearing.

1. **Senator Kaufman mentioned some discrepancies in testimony surrounding how fees and interest rates on these loans work and whether borrowers are facing a simple flat fee or if they're saddled with a more ongoing financial headwind.**

By telling only half the story, opposition intentionally seeks to make payday loans seem less convoluted and long-lasting than they end up being for borrowers.

The Deferred Deposit Advances Act (AS 06.50) allows payday lenders to charge a $5 origination fee plus 15% of the amount borrowed every two weeks. If a loan cannot be paid back in two weeks, then it can be rolled-over. When the loan is rolled over, the lender may charge another 15% on the entire balance, including both the initial principal and fees.

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The first point to make is that statute establishes a minimum term payment for a payday loan of 14 days. However, this is just the minimum term, there is no maximum. The second point is that you cannot renew a payday loan more than two consecutive times before defaulting. Sometimes we hear lenders say that these loans are only ongoing for a six-week period, at which rate interest rates stop accruing and the loan ends. However, this is only part of the story. The six-week loan period is only for those loans that were created with the **minimum** two-week term. However, even in the event that a loan term is only for two weeks, and it is rolled over twice to make for a total of a six-week term, the story does not end there**. We know from reports from the Division of Banking and Security that the average Alaskan borrower engaging in payday lending is taking out 5.56 loans per year and this is why we see interest rates accruing for much longer than lenders make clear.**

To illustrate this point, say a borrower gets a payday loan with a loan term of two weeks and then renews it twice. However, say at the end of six weeks they're still unable to pay everything off. What we see happening is that borrowers will take out another payday loan to make that first one disappear. What this means is that now they're taking out a larger loan this second time around to cover the associated rollover fees and interest that has accrued on the original loan. We can see that the interest on the first doesn't actually disappear, the borrower now just has a new, bigger loan that is continuing to accrue interest. **So in affect, these loans are accruing interest for longer periods than 6 weeks because they're allowing people to take out new payday loans to pay off their old payday loans. In turn, we can see that the interest rate functionally ends up being more than 15% as time goes on.** We know that the average borrower in Alaska is taking out 5.56 loans per year, so we can see how much opportunity there is for these loans and the associated fees and interest rate to accrue over a much longer period of time than lenders make it seem. This is where we get estimates of APR rates between 400-500% on the original loan.

Unfortunately, the structure of fees established by Alaska's laws creates perverse incentives for payday lenders. Data from the Consumer Financial Protection Bureau shows that payday lenders earn 75% of their revenue from borrowers who take out 10 or more loans. The longer it takes a borrower to repay, the more fees the lender can collect. The less money that the borrower repays each period, the more money the lender is able to make overall. This incentivizes payday lenders to find borrowers who *cannot* afford to repay their loans. The fees on payday loans are not determined by market forces or related to the risk of the loans. They're set by statute. And the law protects lenders from the risk of default (aka non-payment) because borrowers must write a post-dated check or give the lender direct access to their bank accounts. If you miss a payment, the lender can deposit your check or withdraw funds from your bank account. When lenders are still unable to collect directly, they can pursue you in small claims. In fact, Cash America (a Texas-based payday and pawn company) was the number one plaintiff in Alaska Small Claims Court in both 2017 and 2018. The lender is likely to prevail in court. In over 75% of small

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claims court cases, the plaintiff (in this case, the payday lender) wins by default, without actually needing to prove that the defendant (in this case you, the borrower) owed them anything.

2. Senator Kaufman also brought up questions regarding the carveout for pawnshops.

We are working on an amendment right now that will tweak the language as this bill relates to pawnshops. It is our intention to hold pawnshops under a 36% APR rate for their payday loan activity, however, we don't want this legislation to affect any other type of pawnbroker activity. For example, many pawnshops conduct what are colloquially known as 'collateral loans.' These collateral loans work very differently than a payday loan; lenders take an item of collateral equal in value or greater than they loan they give to borrowers that they can pawn in the event that the loan defaults. These collateral loans are an example of business activities we don't want to affect with this legislation.

However, we also don't want to create a carveout for pawnshop licenses that would exempt them from the 36% cap on payday lending. Such an exemption would encourage payday lenders to continue operating just under a pawnshop license. Our intention is instead to hold pawnshops accountable to this legislation while conducting payday loans, and to leave the rest of their business activities unaffected.

Should any members of the committee have additional questions, please don't hesitate to contact our office. The staff contact is Rachel Levy and you can reach her at Rachel.levy@akleg.gov.

Sincerely,

Senator Forrest Dunbar