



April 7, 2025

The Honorable James Kaufman
Senate Finance Committee
Alaska State Legislature

Dear Senator Kaufman,

The Online Lenders Alliance (OLA) opposes SB 39 which would repeal the state's deferred deposit lending statute and impose a new predominant economic interest (PEI) standard on certain bank loans.

On March 20, the Finance Committee held an initial hearing and heard public testimony on SB 39. During that hearing, you asked several questions of the bill sponsor, Senator Dunbar. We've reviewed Senator Dunbar's March 27 response to those questions and feel compelled to respond.

Senator Dunbar's responses are based on a series of assumptions about a potential borrower's behavior and not on the basic facts about how the Deferred Deposit Advance (DDA) loan product works.

The deferred deposit advance (payday) loan product is designed to be a bridge between paychecks, with a loan duration of either two or four weeks. Regardless of the duration, the permissible fee structure is that the lender may charge up to \$15 per \$100 borrowed, with a maximum loan limit of \$500. If a borrower were to offer a loan beyond four weeks- the fee structure would still be \$15 per \$100 borrowed.

The lender does not charge interest on the loan in addition to the fee, and therefore there is no compound interest. The Truth in Lending Act (TILA) requires an Annual Percentage Rate (APR) calculation to be included in the loan disclosure despite the fact no interest is actually being charged. APR calculations are highly impacted by the duration of a loan, and a short-term loan will carry a high APR value because the calculation assumes that the borrower is making the payments for a full year – which is not possible on the deferred deposit product under Alaska law.

In Alaska, borrowers may only renew (rollover) a deferred deposit loan twice (Ch. 50 Deferred Deposit Advances -- Sec. 06.50.470) . Furthermore, lenders have prohibitions on extending new loans if there is a loan outstanding. If customers are taking out more than one new loan a year, it likely reflects recurring financial needs. Lenders have repeat customers that are satisfied with the product and turn to it again when necessary. Alaska caps a deferred deposit loan at \$500, and the reality is that amount does not go far in today's world. SB 39 will not eliminate this need for credit, it will simply eliminate one of the very few options available to this group of Alaskans.

Senator Dunbar rightly states that the fee structure with the deferred deposit loan product is set by the state, however its use is driven by market forces. Approximately 30 percent of Alaskans are considered below prime because of their credit risk, which sharply limits their credit offerings. Alaskans who are able to secure credit cards carry the highest balances in the US, and Alaska's lending laws do not allow for even a modest market of credit options.

We have proposed to Senator Dunbar that the state could replace the deferred deposit product with an installment product that would allow for larger loans with longer durations and a multiple payment schedule. This would give consumers more options and flexibility than they have today. Unfortunately, there seemed to be no appreciable interest in exploring this alternative.

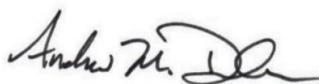
Shifting to your question about pawn loans. A pawn loan in Alaska can charge 20 percent of the amount financed every 30 days – effectively a 240% APR- with no limit on how many times the loan is renewed. A deferred deposit loan can charge \$15 per \$100 loaned and is typically due at the next pay period in either two or four weeks - and the loan can only be renewed twice. While the costs are similar, the pawn loan requires the borrower to provide something of value as collateral. Senator Dunbar's letter complains about lenders collecting on a deferred deposit loan, while saying it is okay that a pawn loan confiscates the collateral a borrower puts up to secure their loan. It is a legitimate question for policy makers as to whether pawn loans should receive preferential carve outs in Alaska statute. If DDA loans no longer deserve an exemption from Alaska's Small Loans Act, why do pawn loans? We would suggest giving consumers the option to select which is better for them.

During the hearing there was also a question about the exceedingly low volume of consumer complaints payday loans have received in Alaska. In his response, Senator Dunbar suggested that the low number was likely due to the complaint process being difficult or obscure. In fact, lenders are required to provide consumers a phone number for reporting problems directly on the loan document they sign (Ch. 50 Deferred Deposit Advances -- Sec. 06.50.510. Required disclosures before disbursement). Lenders take customer concerns very seriously, and they work with borrowers to remedy any issue they may have.

Finally, SB 39 will have immediate consequences on consumers' and small businesses' ability to access credit in Alaska. Under federal law, both federally chartered, and state-chartered banks have the ability to extend loans across state lines and these loans are facilitated with the assistance of service providers and financial technology companies. The anti-evasion and "predominant economic interest" provisions of SB 39 ignore these modern banking realities and seriously hinder both small business and consumer lending in Alaska. Commercial lending under \$25,000 is increasingly being facilitated by lenders outside of Alaska, broadening reach and leveraging better technology to service the capital needs of small businesses throughout the state.

Hopefully this letter helps address your excellent questions, and we welcome the chance to discuss this legislation further.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew Duke".

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

cc
Senate Finance Committee Members