

PAYDAY LOANS

House Bill 132

Loans under \$25,000; Payday Loans

Representative Ted Eischeid, House District 22 ➤





What is a Payday Loan?

In Alaska, payday loans are loans of \$500 or less, with a minimum loan term of two weeks. To ensure eventual repayment, borrowers must provide a post-dated check or **direct access to their bank account** as collateral.

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 **number of loans** each borrower takes out

Nationally:

Borrowers take an **average of five months** to repay payday loans

When a borrower can't repay their loan, the loan can be rolled over, or a new loan can be created





What's the problem with payday loans in Alaska?



Payday loans target **the most vulnerable Alaskans** - those living paycheck to paycheck

Payday loan interest rates range from **194% to over 512% APR**

For a \$440 loan, it costs \$127 just to keep up with the first month's interest; at these interest rates, **to repay the loan in 5 months could cost more than \$1,200**, or almost 3 times as much as the original loan amount

The high cost of these short-term loans can leave families trapped in a cycle of **chronic debt and poverty**



What's the problem with payday loans in Alaska?



If credit card companies charged 400% APR, the average **Alaskan's credit card debt of \$8,000, would end up costing nearly \$37,000 to pay off**

Most payday loans are made online, by out of state companies, **extracting about \$29 million from Alaskans, and Alaska's economy**

From **2017-2022**, payday lenders garnished **over \$3.7 million from Alaskans' PFDs**

2017 Texas study found that **45% of Veterans had taken out payday loans**, compared to **7% of the general population**



Ending Alaska's Payday Lender Exception

Alaska law already sets a 36% APR limit on
other small dollar loans

Why should payday loans be any different?

18 other states, including South Dakota, New Mexico, Montana, West Virginia, and Nebraska,
have a 36% APR rate cap

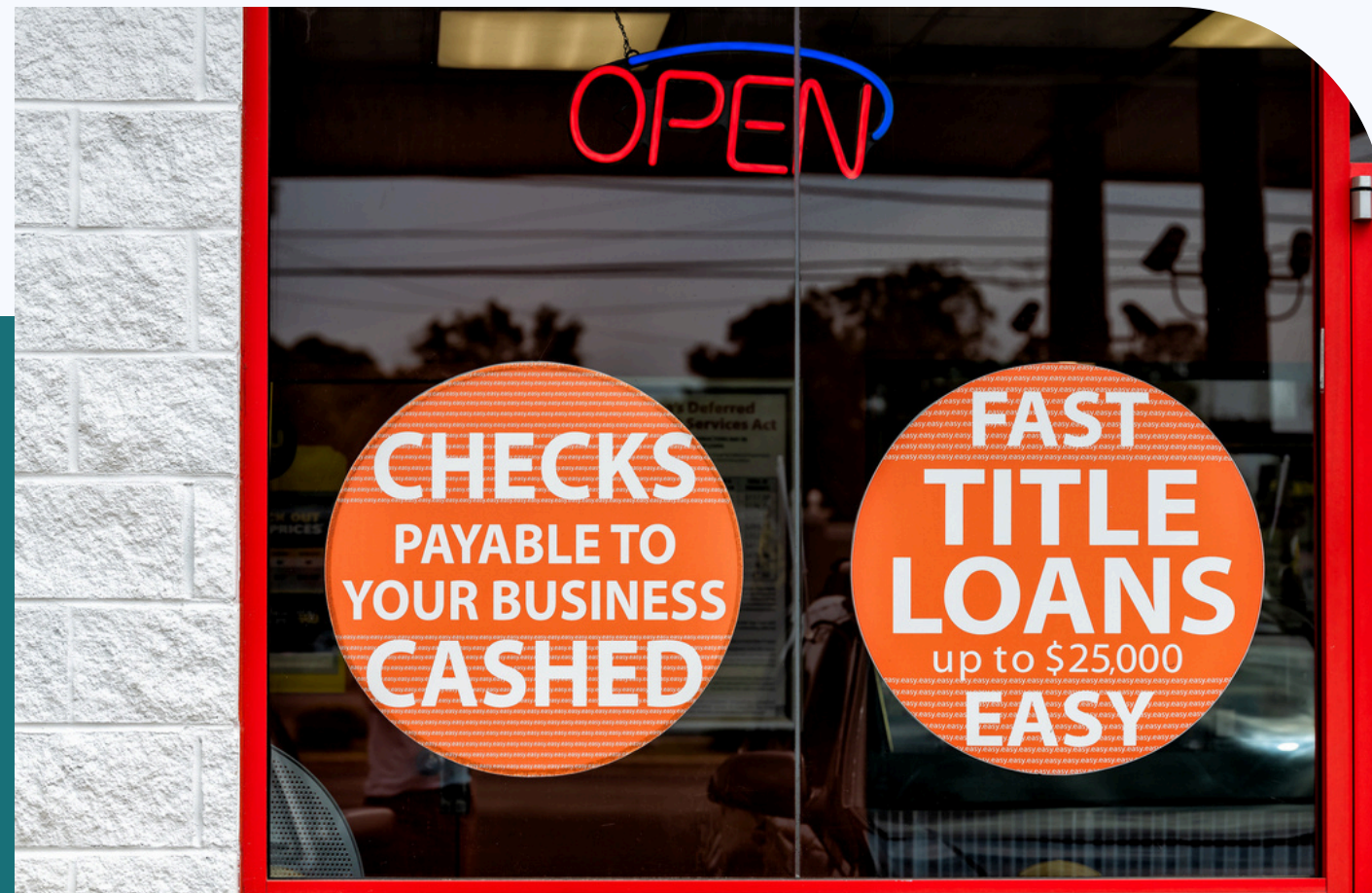


Image Source: <https://www.linkedin.com/pulse/get-instant-approval-300-payday-loans-alaska-direct-david-steigerwald-gaebc/>



House Bill 132

Removes a special exemption allowing payday lenders to be exempt from federal financing limitations

Treats payday lending like all other small loans in the state

Will help protect all Alaskans and help safeguard the economic well-being of families





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Sectional Analysis



Section 1

Amends statute to **remove** payday lenders from the list of financial institutions **exempt** from federal financing limitations



Section 2

Removes payday lenders from the definition of a **“financial institution”** under state law



Section 3

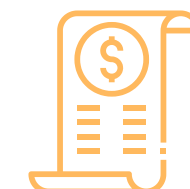
Closes loopholes around the definition of a lender, and helps prevent businesses from evading small loan regulations

Clarifies **what it means for a loan to “originate in Alaska”**



Section 4

Amends statute to allow DCCED to **utilize the Nationwide Multistate Licensing System and Registry**, manage the registration process, and adopt regulations for implementation



Section 5

Amends statute to enable applicants to **pay investigation expenses** through the registry



Section 6

Enables applicants to pay licensing expenses **through the registry**

Makes a licensing change that requires applicants to **pay per branch, website, or mobile app location** instead of a single office license

Creates a **company license** option



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Sectional Analysis



Section 7

Requires applicants to **submit separate applications** for each business location

Allows the department to **set application requirements, procedures, and licensing periods**



Section 8

Amends statute to have the department **conduct periodic examinations as needed**, instead of every 18 months



Section 9

Simplifies the previous tiered interest rate structure for loans under \$25,000 and open-ended loans, **creating a uniform 3% rate**

Adds language that guides the calculation of interest rates



Section 10

Amends statute to render payday loans with interest rates **greater than 3% per month invalid**



Section 11

Amends statute to enable applicants to **prohibit payday lenders from threatening to prosecute borrowers in the event of default**



Section 12

Amends statute to **exempt financial institutions chartered under the National Bank Act or Federal Credit Union Act**



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Sectional Analysis



Section 13

Defines “registry” as the Nationwide Multistate Licensing System and Registry



Section 14

Subjects payday lenders to **the same regulations** as small loan companies



Section 15

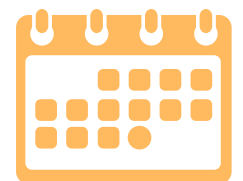
Mandates that interest calculations include **all service charges paid by the borrower to ensure transparency**

Defines “service charge”



Section 16

Repeals statute where doing so **eliminates the carveout for payday lenders**



Section 17

Provides for an effective date of **July 1, 2025**



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THANK YOU

QUESTIONS?

*Representative Ted Eischeid
House District 22*

