



## American Fintech Council Testimony

TO: Alaska House Finance Committee  
FROM: Elizabeth Gorz, Chief Strategy Officer and Legislative Affairs, American Fintech Council (AFC)  
DATE: April 24, 2024  
SUBJECT: House Bill 145

### ***Position: Support.***

### ***Testimony:***

Thank you, Co-Chairs Foster and Johnston, Vice-Chair Ortiz, and members of the House Finance Committee for the opportunity to submit written testimony in support of House Bill 145, which creates a maximum annual percentage rate of thirty-six percent for loans in an amount of \$25,000 or less.

AFC is the premier, standards-based trade association representing responsible fintech companies of all sizes and their innovative partner banks. Our mission at AFC is to promote an innovative, transparent, inclusive, and customer-centric financial system by supporting responsible innovation in financial technology (Fintech) and encouraging sound public policy. AFC members are at the forefront of fostering competition in consumer finance and pioneering ways to better serve underserved consumer segments and geographies.

AFC believes that the goal of sustainable access to credit should be present in all lending and servicing components, and that innovation can be a driver of fair and responsible access to credit. Innovative fintech platforms can expand access for communities and small businesses that have been traditionally underserved through responsible lending.

We strongly believe that responsible credit, made available to Alaskan consumers is especially important in the current interest rate environment. As evidenced by our consistent advocacy for a 36 percent interest rate cap and our standards for lenders, AFC advocates for responsible credit in a manner that mirrors HB 145's provisions. Ensuring that Alaskan consumers have access to responsible credit of 36 percent and below will provide your constituents with the credit they need and give them the ability to continue driving the Alaskan economy forward. To that end, AFC supports HB 145's establishment of a 36 percent interest rate cap for small dollar loans \$25,000 offered in Alaska.

In closing, the AFC applauds this Committee for taking up this issue in a timely manner and seeking a pragmatic solution for access to credit issues. Thank you for the opportunity to offer our testimony in support of this bill. The AFC avails itself for any questions that may arise now and in the future.

Sincerely,

Elizabeth Gorz  
Chief Strategy Officer and Head of Legislative Affairs  
American Fintech Council

April 24, 2024

Via Email to House.Finance@akleg.gov

The Honorable Neal Foster  
Co-Chair  
House Finance Committee  
Alaska State Legislature

The Honorable DeLena Johnson  
Co-Chair  
House Finance Committee  
Alaska State Legislature

The Honorable Bryce Edgmon  
Co-Chair  
House Finance Committee  
Alaska State Legislature

**Re: Comments on HB 145, "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 Edgmon, Foster, and Johnson,

On behalf of INFiN, a Financial Services Alliance ("INFiN"), we write in strong opposition to House Bill 145.<sup>1</sup> As the leading national trade association representing the diverse and innovative consumer financial services industry, INFiN comprises more than 300 member companies operating throughout the United States providing critical access to financial services to millions of Americans, particularly middle-income, working families. Our members span large companies with national reach to small "mom and pops," offering products and services to meet U.S. consumers' changing financial needs.

**INFiN urges the Committee to reject this bill, which would deny Alaska residents access to the regulated, short-term, small-dollar credit on which they occasionally rely, decimate a regulated industry, and leave Alaskans with little or no recourse other than illegal lenders, many of which operate offshore and beyond the regulatory reach of state and federal agencies.** We further respectfully submit that the justifications offered for the proposed legislation misrepresent the true state of the consumer lending industry.

Regulated, community-based providers such as our members play a vital role in the lives and livelihoods of the many consumers and communities underserved, overlooked, or left behind by other financial institutions. **Amid clear financial needs, HB 145 would mandate an arbitrary 36 percent Annual Percentage Rate (APR) cap on short-term, small-dollar "deferred deposit advance" loans offered by licensed consumer lenders, amounting to an effective ban of these loans.** If enacted, the bill would do nothing to address Alaskans' continued credit needs and financial insecurity, instead leaving vulnerable borrowers with little to no regulated alternatives.

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<sup>1</sup> About INFiN, [www.infinalliance.org](http://www.infinalliance.org)

## **HB 145 is a ban on deferred deposit advance loans and a denial of access to credit**

INFiN strongly believes that a regulated small-dollar lending market is in the best interest of consumers, affording financial inclusion and consumer protections. Nearly every aspect of small-dollar lending is regulated at the state and federal levels, and our members – in Alaska and beyond – operate in strict compliance with all applicable laws as well as our own Best Practices<sup>2</sup>, which impose limits on loan renewals. Alaska’s existing deferred deposit advance statute features several effective guard rails while ensuring consumers can borrow when they need to.

It bears noting that deferred deposit advance loans are short-term credit products. As a result, APR does not accurately reflect the [cost of a short-term, small-dollar loan](#) repaid in a matter of weeks. Under a 36 percent rate cap, lenders would operate at a loss even before paying employee wages, rent, and other costs associated with running a trusted, regulated business. Under the proposed 36 percent interest rate cap, a lender’s revenue on \$100 would be just \$1.38 – less than 10 cents a day on a two-week loan. No lender can afford to cover basic operating expenses at such a low rate without additional subsidy or without restricting access to borrowers with higher credit scores.

### **Consequences of an arbitrary rate cap**

Many policymakers, think tank experts, independent researchers, and academics [agree](#) that a 36 percent rate cap is an effective ban on short-term, small-dollar credit – with detrimental consequences for consumers. In [every state](#) that has implemented an arbitrary interest rate cap like the one proposed in HB 145, licensed lenders offering short-term, small-dollar loans have been forced to close their doors, eliminating consumers’ credit options and leaving them with little choice but to face the consequences of missed or late payments or the costs of more expensive, less regulated options. Recent [Urban Institute research](#) following Illinois’ adoption of a 36 percent rate cap reveal not just the consequences of but the lack of clear benefit for consumers.

**In the absence of regulated small-dollar loans, the need for regulated credit would not be filled by banks or credit unions; representations to the contrary are not supported by the evidence.** While other lenders may technically offer loans for 36 percent or less, they often charge other fees not captured by the APR calculation. Although some credit union programs are touted as “alternatives” to small-dollar loans, they often involve a variety of restrictions such as membership in a credit union for a minimum period, existence of minimum account balances, and confusing fee structures, restricting these options to only a fraction of the Alaskans in need. They cannot be considered legitimate replacements for widely accessible, regulated, small-dollar loans, which would be eliminated by a rate cap.

Passage of this legislation would prohibit Alaskans from choosing the solutions that work best for them. Consumers deprived of regulated credit options would have little choice but to turn to unregulated sources, including illegal online loans offered by companies outside of the regulatory reach of state and federal agencies. As a result, the very consumers that the proposed legislation purports to protect would be exposed to unscrupulous lenders.

Borrowers appreciate regulated small-dollar loans for their simplicity, cost-competitiveness, and transparency, and consistently voice overwhelming satisfaction in customer surveys and online reviews. In research from Global Strategy Group (D) and Tarrance Group (R), 94 percent of those surveyed felt that small-dollar loans can be a sensible decision when consumers are faced with unexpected expenses, and 96 percent said they fully understood how long it would take to pay off their loan and the finance charges they would pay before taking out the loan. Regulated small-dollar loans are also the subject of very few consumer complaints. In 2023, just 0.1 percent of consumer complaints received by the Consumer Financial Protection Bureau (“CFPB”), our industry’s federal regulator, were about small-dollar lenders.

Eliminating regulated credit options – as HB 145 would – does little to address Alaskans’ need for credit or to ease the challenges they face. We urge you to reject this bill.

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<sup>2</sup> INFiN Best Practices, <https://infinalliance.org/Dev/Dev/Content/Best-Practices.aspx>

Thank you for your consideration of our position.

A handwritten signature in black ink, appearing to read "G. Alessio". The signature is fluid and cursive, with the first letter "G" being particularly large and stylized.

Executive Director  
INFiN, A Financial Services Alliance