April 29, 2024

The Honorable Forest Dunbar
Chair
Senate Community & Regional Affairs Committee
Alaska State Legislature

The Honorable Donald Olson
Vice Chair
Senate Community & Regional Affairs Committee
Alaska State Legislature

> ***Re: Comments on SB 264, "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 Chair Dunbar and Vice Chair Olson:

The Online Lenders Alliance (OLA) would like to provide the following comments and data in opposition to *SB 264, 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]

The cornerstone of financial inclusion is the opportunity and ability to access credit, which results in greater independence while affording borrowers 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 federal data, more than **17 percent of households in Alaska are unbanked or underbanked**.[2] Looking more closely at the underbanked data, **the rate among Black and Native residents is 33 and 36 percent**

[1] OLA Best Practices https://onlinelendersalliance.org/best-practices/
[2] https://www.fdic.gov/analysis/household-survey/2021appendix.pdf

respectively for each.[3] Furthermore, **31 percent of Alaska consumers are credit constrained**, meaning that they are borrowers with limited credit history or poor/fair credit scores.[4]

OLA advocates for policy outcomes that create more credit options for consumers, and we support more banks and regulated alternative credit lenders providing these options in a competitive marketplace. The consumer activists that are advocating for this paint a distorted picture of the realities around what happens with options and credit access when you impose these types of restrictions. The impacts of those restrictions are outlined below.

Banks have historically struggled to provide small dollar credit to consumers. In fact, the FDIC implemented the "Small-Dollar Loan Pilot Program" in 2008 and 2009, trying to encourage banks to offer small dollar credit. At the conclusion of the program, the FDIC stated that the interest and fees of these small dollar credit products were not sufficient in achieving "robust profitability."[5]

In 2022, the Government Accountability Office (GAO) issued a report on the affordability and availability of basic banking products.[6] The market participants they spoke to "on regulatory uncertainty around small-dollar loans told us banks are hesitant to offer such loans in part because of changes to related rules or guidance in recent years." Other commentators stated that "banks do not want to offer small-dollar products because they are expensive to develop, and the regulations or supervisory expectations may change."

Therefore, 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.

When states eliminate small-dollar credit options, their constituents lose. **Similar to Alaska's SB 264, Illinois passed a 36 percent interest rate cap with a new PEI test in March 2021. By 2024, lender licenses decreased by 64 percent** with the largest drop occurring with installment lenders.[7] **An academic study released last year by three leading economists found that the law decreased the number of loans to subprime borrowers by 44 percent while increasing the average loan size to subprime borrowers by 40 percent**.[8]

The aforementioned study also included data from an OLA survey of previous borrowers who had taken out loans with APRs exceeding 36 percent; the survey showed that **most of those**

---

3 https://scorecard.prosperitynow.org/data-by-location#state/ak
4 https://scorecard.prosperitynow.org/data-by-location#state/ak
5 https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2010-vol4-2/fdic-quarterly-vol4no2-smalldollar.pdf
6 https://www.gao.gov/assets/gao-22-104468.pdf
7 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/
8 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919

borrowers have since been unable to borrow money when they need 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 had actually used small dollar loans in Illinois before the rate cap to better understand the law's impact.[9]

In January 2023, New Mexico enacted a similar rate cap. One year later, the state saw a 50 percent decline in lender licenses. An OLA survey of New Mexico consumers had similar results to the survey in Illinois – many consumers no longer could access credit and most wanted to go back to their previous lender if they had a financial need.[10]

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."[11]

We also want to draw your attention to data unique to Alaska consumers and the challenges they have identified within financial services. The Consumer Financial Protection Bureau (CFPB) operates a 50-state complaint portal covering an expansive array of financial services and products. Over the past three years (2021-2024), Alaskans have submitted nearly 2,000 complaints on a variety of financial services and financial products. Of those, there are only 3 complaints (0.15%) about fees or interest charged on small dollar loans. For context, more than 60% of the total complaints were about credit reporting and inaccurate information on these reports. Obviously, Alaskans are expressing challenges in managing their household finances, but, small dollar loans barely register among the problems they are identifying.

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, SB 264 will reduce credit options and financial innovation for Alaskans. We respectfully oppose SB 264 and ask the Committee to reject this bill. Reducing credit options has ramifications for consumers – as demonstrated by the data from Illinois. **Creating a credit marketplace that is attractive to more lenders and more options 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**

---

[9] Ibid.

[10] https://onlinelendersalliance.org/new-data-shows-one-year-after-new-mexico-implemented-its-rate-cap-credit-options-are-sharply-lower/

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

options in the process. We welcome the opportunity to work with members of the Alaska State Legislature to pursue meaningful alternatives.

Sincerely,

Andrew Duke,
CEO
Online Lenders Alliance