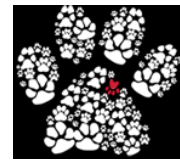




**NATIONAL  
DEFENSE  
COMMITTEE**



April 29, 2024

The Honorable Forest Dunbar  
Chair, Senate Community & Regional  
Affairs Committee  
Alaska State Legislature  
Juneau, AK 99801

The Honorable Donald Olson  
Vice Chair, Senate Community & Regional  
Affairs Committee  
Alaska State Legislature  
Juneau, AK 99801

### **Re: Comments on SB 264**

Dear Senators Dunbar and Olson:

The current provisions of your bill SB 264 will significantly harm the financial security and readiness of Alaska's more than [21,500 active-duty military personnel, 4,700 Guard and Reserve military personnel, their 26,000 family members](#), and the almost [69,000 veterans](#) residing in Alaska. SB 264 will impose an unnecessary and destructive inability to access credit on military and veteran consumers by trying to extend a 36% annual percentage rate (APR) cap on all loans issued in Alaska, much as the federal *Military Lending Act* (MLA) currently does on active-duty military personnel and their families. As organizations serving and representing military personnel, veterans, and their families, we are opposed to this bill in its current form and request you to keep this in committees to further examine the issues raised below.

#### Rate Caps, the *Military Lending Act*, and Military Financial Readiness

Given Senator Dunbar's military service and leadership on the Alaska Senate Joint Armed Services Committee, Senator Olson's leadership on the Senate Finance Committee, and both of your leadership on the Senate Community & Regional Affairs Committee, we hope you understand the financial market realities faced by military personnel and their families, realities that are left untouched by arbitrary APR caps. It is not that junior military personnel, [earning just \\$32,000 a year](#), are forced to accept some arbitrarily high interest rate to access the capital they need because lenders have non-market financial power over them (lenders do not impose non-market rates on these military personnel and their families), it is because of the pittance they are paid and their lack of good credit history that pushes them to alternative lenders for the credit they need to make ends meet.

And imposing an arbitrary non-market rate cap on such loans does not magically bring those loan rates down - it simply drives the lenders out of the market, because it makes no economic sense to lend to these military families (or any consumer with similar credit history and risk) at arbitrarily low interest rates at which the lenders will lose money. This forces these military families to instead miss utility and car loan payments, bounce checks, and pawn personal possessions to make ends meet. It also places their financial readiness for military deployment, their security clearances, and their perceived suitability for continued military service, all at risk.

Despite the evidence presented below, these rate caps are simply arbitrary numbers picked for political expediency that empirically fail to improve military financial readiness. Advocates persist in claiming the federal government's imposing a 36% rate cap for military personnel and families through the MLA somehow indicates the efficacy of such a rate cap, as well as the general policy of imposing non-market rate caps for relieving financial distress of low-income consumers. In other words, a flawed logic model of, "if it's good enough for the military, it should be good enough for everyone."

But it's not been good for the military, and it won't be for Alaska's credit consumers either. [Economists from the U.S. Military Academy at West Point did an extensive study](#) of the MLA's impact on military servicemembers and found no evidence of short-term nontraditional credit loans adversely affecting their financial readiness, and, indeed, found considerable evidence that access to short-term loans improved military financial readiness.

Similarly, Harris Insights, a polling company, [surveyed military personnel and spouses](#) as to their financial positions in both 2014 – before the MLA was expanded by Department of Defense regulations in 2015 – and then again in 2019, four years after the expanded regulations. The results were startling: Between 2014 and 2019:

- The number of military personnel suffering financial difficulties more than doubled, increasing from 16% of the force to 34%. In other words, in the time the MLA regulations were put in place, the military went from one in seven in financial difficulties, to one in three;
- The number of military personnel with bills in active collection almost tripled from just under 40,000 to more than 108,000, equivalent to more than half of the entire U.S. Marine Corps; and
- The number of military personnel in bankruptcy or seriously considering bankruptcy exploded from a statistically insignificant number bordering on zero to more than 40,000, more than twice the size of the U.S. Space Force.

Finally, [researchers at the Urban Institute](#) just last year 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."

The bottom line is the *Military Lending Act* has not protected the financial well-being of military personnel and their families. Instead, it put many of them at greater risk of involuntary separation and made them less financially stable, as the West Point study referenced above also points out. You should expect similar impacts on non-military and non-veteran consumers in Alaska where similar arbitrary loan rate caps are imposed.

#### Rates Caps and Access to Capital

Such arbitrary rate caps will also significantly reduce lower-income consumers' access to needed credit. A [survey conducted by the market research firm HarrisX](#) found half of all active-duty

military personnel and their families have been denied credit because of MLA. In addition, the [National Foundation for Credit Counseling \(NFCC\) conducted a survey](#) of servicemembers in 2020, reporting, “This year, 31 percent of active duty servicemembers have taken out a cash advance or payday loan, compared to only 13 percent in 2019. This represents an even more dramatic shift since 2014, when just six percent of active duty servicemembers reported taking out such loans.” Reducing credit options would likely only serve to continue this trend.

And it is no better once these men and women leave the service - veterans and their families also rely on alternative credit to meet their financial needs as they are often unable to successfully obtain credit from banks and credit unions. The [Federal Reserve Bank of New York](#) and the [Institute of Military and Veteran Studies at Syracuse University](#) both show veterans experience similar restrictions to credit access, which can likewise result in increased overdraft fees, late fees, and missed payments – even to the point of disruption of utilities and eviction.

#### Conclusion: Arbitrary Rate Caps Don’t Improve Financial Readiness

At the end of the day, the consumer credit marketplace is competitive, driving lenders to offer competitively priced loans. Despite consumer advocates making specious arguments with cherry-picked data to the contrary, lenders are not imposing non-market rates on military personnel and their families; the real issue is that military personnel – both because of the pittance they are paid and their lack of good credit history – have limited options available, and alternative lenders are often one of the few options available to them. So too with lower-income non-military/non-veteran credit consumers.

The data clearly shows arbitrary rate cap restrictions, such as those imposed by SB 264, will not lower the cost of credit, they will only reduce access to credit. Alaskan military and veteran families will be further limited in their ability to access credit to manage their finances and will be more likely to fall into financial distress. We respectfully oppose this well-intentioned but misguided legislation. Our groups stand ready to work with you in support of this objective and to protect the financial well-being of Alaska’s military and veteran families.

Very Respectfully,

National Defense Committee  
American GI Forum  
Wounded Paw Project

Military Order of the Purple Heart  
Military Veteran Advocacy, Inc.  
Vets 4 Vet Leadership