For Immediate Release
January 21, 2009

Contact:
Chi Chi Wu, NCLC, 617-542-8010
Jean Ann Fox, CFA, 928-772-0674

CONSUMERS URGED TO KEEP MORE OF THEIR TAX REFUNDS BY AVOIDING QUICKIE LOANS

Nearly 9 Million Refund Anticipation Loans Made in 2007; Paystub RAL Lending Returns

BOSTON – Some of America's most cash-strapped taxpayers – those from low- and moderate-income families – spent about $900 million in the latest year recorded for what is almost always an unnecessary product: the so-called "refund anticipation loan" at income tax time.

With the opening of another tax season, consumer advocates at the National Consumer Law Center (NCLC) and Consumer Federation of America (CFA) are warning taxpayers to steer clear of refund anticipation loans (RALs), one of the most avoidable tax-time expenses. New figures reveal that RALs drained the refunds of 8.67 million American taxpayers in 2007, costing them $833 million in loan fees, plus over $68 million in other fees. In addition, another 11.2 million taxpayers spent $336 million on related financial products to receive their refunds.

"In tough economic times, quick money may be tempting. But American taxpayers need every dollar of their refunds, and waiting just a week or two will put more money in their pockets," advised NCLC Staff Attorney Chi Chi Wu.

RALs Examined

RALs are bank loans secured by the taxpayer's expected refund -- loans that last about 7-14 days until the actual IRS refund repays the loan. That's a good indication of just how needless most RALs are: Most taxpayers could have their refund in two weeks or less even without the costly loan.

"If you want your refund fast, file electronically and have your refund direct deposited to your own bank account," says Jean Ann Fox, Director of Financial Services for CFA, "You'll generally receive your refund this way within 8 to 15 days."

Using the most recent data available from the IRS, NCLC and CFA calculate that about 8.67 million taxpayers received RALs in the 2007 tax filing season (for tax year 2006). For that year alone, about 1 in 15 tax returns involved a RAL.

In addition, 11.2 million taxpayers received a refund anticipation check (RAC)[1] in 2007, at a cost of about $336 million. Taxpayers who have a bank account can avoid the expense of a RAC (generally

[1] With RACs, the bank opens a temporary bank account into which the IRS direct deposits the refund check. After the refund is deposited, the bank issues the consumer a check and closes the temporary account. Also, if a taxpayer's RAL application is rejected, she is automatically given a RAC at a cost of $30 or so, even though the taxpayer may not have asked for it.

about $30) by having their refunds direct deposited into their account, which is just as fast. H&R Block customers who received the Block Emerald Card in a prior year can have their refunds direct deposited onto those cards, and avoid a RAL or RAC.

Price of RALs

How much will taxpayers pay if they get a quickie tax loan? The price of a RAL includes several components –

- A loan fee ranging from $34 to $130, which is usually broken down into a “Refund Account” fee and a “Bank Fee.”
- Some tax preparers may charge one or more separate add-on fees, sometimes called “application,” “administrative,” “e-filing,” “service bureau,” “transmission,” or “processing” fees. Add-on fees can range from $25 to several hundred dollars. Add-on fees are not charged by H&R Block, Jackson Hewitt or Liberty Tax.

In general, the effective annual interest rate (APR) for a RAL can range from about 50% to nearly 500%. If a $40 add-on fee is charged and included in the calculation, the effective APRs range from about 85% to nearly 1,300%.

RAL loan fees can vary significantly. H&R Block and JPMorgan Chase generally have lower RAL fees. In fact, they claim that these loans bear an effective APR of 36%, which is the traditional small loan rate cap in many states. However, these figures do not include the “Refund Account” fee, which they claim is for the temporary account into which the taxpayer’s refund is later deposited to repay the RAL. If the Refund Account Fee is included, it more than doubles the APR.

Nonetheless, there are some real and significant price differences between various RAL outlets. For example, a RAL in the amount of $3,000, which is typical, costs from $62 to $110. Taxpayers should avoid RALs in the first place; but if they insist on getting one, they should shop around for RAL costs before selecting a commercial preparer.

Preparer/Bank	RAL fee (including Refund Account Fee)	APR (inc. Refund Account Fee)	Application/ Administrative Fee	Total Fee	APR with Application Fee
H&R Block/HSBC	$62.14	77%	None (but addn $20 if a paper check is issued for the RAL)	$62.14	77%
Jackson Hewitt[2]	$105.95 or 110.45	134% or 140%	None	$105.95 or 110.45	134% or 140%%
Independent Preparer /Santa Barbara Bank & Trust	$105.95	134%	up to $40	up to $146	up to 187%
Independent Preparer/JPMorgan Chase	$62	77%	Unknown	---	at least 77%
Independent Preparer /Republic Bank & Trust	$110.45	140%	Unknown	---	at least 140%

[2] Based on pricing by SBBT or Republic.

Tax preparers and their bank partners also offer an “instant” same day RAL for an additional fee, from $25 to $55. Some of the APRs for an instant RAL of around $1,500 are 185% (Block) and 211% (Chase).

Finally, consumers who do not use one of the commercial chains should also ask if the preparer charges any add-on fees. Mystery shopper testing conducted during the 2008 tax season revealed that some independent preparers charge several add-on fees for both RALs and RACs. One preparer charged $324 in add-on fees; several others charged $45. Santa Barbara Bank & Trust allegedly limits tax preparers to $40 in add-on fees; however, the preparer that charged $324 in add-on fees used Santa Barbara as its lender.

Return of the Pay Stub RAL

Last year, we reported the demise of “pay stub” and “holiday” RALs. These were RALs made prior to the tax filing season, before taxpayers received their IRS Form W-2s and could file their returns. Unfortunately, this demise was short-lived. Both H&R Block and Jackson Hewitt are promoting loans made before the tax season based on anticipated refunds.

Jackson Hewitt’s version is called the iPower Line of Credit, up to $500, issued by MetaBank. MetaBank charges a 1.5% fee for the first advance from the line, and a 10% charge per advance thereafter, plus 18% periodic interest. If a taxpayer borrows the entire $500 in the first advance, she would be charged a $57.65 fee. If the iPower loan is repaid in one month, the total fee would be $65.15. A one month, closed-end loan with the same loan amount and fee would have an APR of 177%.

H&R Block’s version uses its Emerald Advance Line of Credit. This is a line of credit that Block had offered previously to its Emerald Card customers, and is available for some customers on a year-round basis, for up to $1,000. This year, however, Block explicitly promoted the Emerald Advance as a tax-related pre-season loan and made it available to new customers. The Emerald Line of Credit carries an interest rate of 36% plus an annual fee of $45. For a $500 advance repaid in one month, the total fee is $60. A one month, closed-end loan with the same loan amount and fee would have an APR of 158%, if the annual fee were to be included in the finance charge (which Truth in Lending does not require). If however, the borrower keeps the line open after tax season, the interest rate is lowered to 9%, but requires either payroll direct deposit to Block’s Emerald Card or a savings account linked to the card.

RALs based on pay stubs present risks to taxpayers, because they are based on estimated tax returns before the taxpayer receives final tax information from a W-2. For example, before filing the tax return, the preparer will not have any information if the IRS is planning to seize all or part of the taxpayer’s refund to pay a child support or student loan debt. H&R Block does state that it conducts underwriting for its loans based on considerations other than the estimated refunds.

In addition, Jackson Hewitt in the past appeared to force pay stub RAL borrowers to return to the same office to have their taxes prepared, preventing these taxpayers from going to competitors or seeking free volunteer assistance. The MetaBank agreement appears to assume the taxpayer will return to Jackson Hewitt for tax preparation and requires the borrower to have her RAL, RAC or tax refund loaded onto the iPower card. In addition, Jackson Hewitt may be charging a $25 or $35 “tax planning fee” for iPower loans.

NCLC and CFA issued a report on pay stub RALs in November 2006, entitled *Pay Stub and Holiday RALs: Faster, Costlier, Riskier in the Race to the Bottom* (www.consumerlaw.org/action_agenda/refund_anticipation/content/PaystubRALsReport.pdf).

Upcoming Report

NCLC and CFA will be publishing their annual comprehensive report on the RAL industry, regulation, and litigation later in February 2009. The report will be available on NCLC's website at www.consumerlaw.org or on CFA's website at www.consumerfed.org.

# # #

National Consumer Law Center® is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as organizations, who represent low-income and elderly individuals on consumer issues.

CFA is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

MYTHS AND MISREPRESENTATIONS ABOUT RALS

The following are some of the common arguments made by RAL industry members about the loans, and rebuttals to each argument:

●*RALs are reasonably priced, because they represent only 3.5% of the loan. Other forms of credit, such as credit card advances and bank overdrafts, are more expensive.*

High cost lenders always like to compare their prices to other forms of abusive credit. RALs with triple digit APRs fall into the same class of predatory small lending as payday loans, car title loans, rent-to-own financing, and overdraft loans that impose very high costs, place valuable family assets at risk, and have very short repayment schedules. Just because there are other predatory products on the market does not justify RAL lending.

The fact that a RAL is only outstanding for 1 to 2 weeks is critical, because the cost of credit directly depends on how long the loan is outstanding. For example, RAL lenders claim that a RAL is cheaper than a credit card cash advance. However, a credit card cash advance can be repaid over a number of months while RALs are repaid in one to two weeks.

●*The APR for a RAL is misleading because it is a flat fee and not the "real" interest rate that taxpayers are charged*.

This also is an argument often used by payday lenders and other fringe lenders in defense of their triple digit APR loans. But the cost of a loan isn't just measured by "periodic" interest, *i.e*., interest that accrues over time. It also includes flat fees. That's why Congress enacted the Truth in Lending Act over thirty years ago - because "interest" can be expressed in so many confusing (and deceptive) ways.

If a lender charges a flat fee, the sooner a loan is required to be paid off, the more expensive it is. Think of interest on a loan like rent for borrowing money. To analogize to an apartment rental, $15,000 may be a reasonable rent for one year, but it is an expensive rental for one week. This is what the APR measures – the expense of a loan based on how long the consumer borrows the money.

●*RALs make credit available to consumers who can't qualify for other sources of credit*.

With RALs, taxpayers are paying to borrow their own money. Taxpayers can get all of their money from their tax refunds, and not pay any expensive loan fees, just one to two weeks later. Nearly two-thirds of RAL borrowers are families who receive a special tax break for low-income workers called the Earned Income Tax Credit, and they need every penny of their tax refunds. These families can get their refunds fast -- and free -- by using electronic filing and direct deposit. In many communities, they can get their taxes prepared for free as well.

Cost is not the only issue. RALs can be a risky proposition. A RAL must be repaid even if the taxpayer's refund is denied, is smaller than expected, or frozen. If the taxpayer cannot pay back the RAL, the lender may send the account to a debt collector. The unpaid RAL could possibly show up as a black mark on the taxpayer's credit record. If the taxpayer applies for a RAL or RAC from a commercial preparer next year, some RAL lenders may instead use her refund to repay this year's unpaid RAL debt.

●*RALs enable taxpayers to avoid paying for tax preparation fees out-of-pocket, because the fee can be deducted from the RAL*.

Low-income taxpayers (who are 85% of RAL borrowers) can get completely ***free*** tax preparation services from Volunteer Income Tax Assistance (VITA) programs. AARP's TaxAide program offers free tax preparation for low-income taxpayers. The IRS Free File program is available for taxpayers who earn $54,000 or less, and RALs are no longer marketed through that program. (www.irs.gov)

Some free tax preparation programs can also help taxpayers open bank accounts, so they can get direct deposit of their refunds. Taxpayers can electronically deposit their tax refunds in up to three accounts with Form 8888. Refunds can be split by depositing into both checking and savings accounts.

The fact that tax preparation fees can be deducted from a RAL also has drawbacks. It enables tax preparers to avoid disclosing to customers up front what tax preparation will cost. This discourages comparison shopping or competitive pressures on tax preparation fees.

Making a RAL simply to avoid paying a tax preparation fee up front means that borrowers are paying around $60 to $110 to avoid a fee that is typically around $160 to $180. That’s another form of very high priced lending.