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Consumer Advocates Applaud H&R Block Decision to Forego RALs and Urge Republic, Jackson Hewitt and Liberty to Stop Making High Cost Loans

Consumer advocates at the National Consumer Law Center (NCLC), Consumer Federation of America (CFA) and Community Reinvestment Association of North Carolina (CRA-NC) cheered the announcement by H&R Block, the largest tax preparation chain in the country, that it will not offer refund anticipation loans (RALs) in 2012. “H&R Block did the right thing by deciding to ‘just say no’ to RALs,” said Chi Chi Wu, a staff attorney at the National Consumer Law Center. “We have criticized these loans as high cost and risky for over a decade, and we are pleased that Block has actively decided not to offer them.”

RALs are one to two week loans made by banks and offered by tax preparers, secured by the taxpayer’s refund. RALs can be expensive; earlier this year, one bank charged \$61.22 for a RAL of \$1,500, which translates into an APR of 149 percent. RALs target low-income taxpayers, especially recipients of the Earned Income Tax Credit, a tax break for working poor families. In 2009, RALs skimmed over \$600 million from the refunds of 7.2 million American taxpayers.

H&R Block lost its ability to make RALs in 2011 when its bank partner, HSBC, was ordered by its federal regulator to stop making the loans. Despite its inability to make RALs, Block had a good tax season this year, with growth of 5.6 percent in number of returns prepared and 19 percent increase in new clients. In fact, H&R Block cited these positive results as one reason it decided not to bring back the product in 2012.

Jackson Hewitt and Liberty Tax Service both offered RALs in 2011, and use Republic Bank & Trust as their RAL lender. Consumer advocates urged H&R Block’s competitors and the sole remaining RAL lending bank to follow in Block’s footsteps. “Jackson Hewitt, Liberty Tax and Republic Bank should take a page out of Block’s playbook, and stop making RALs,” urged Jean Ann Fox, CFA’s director of financial services, “Faster refunds from the IRS and direct deposit to taxpayers’ bank accounts or prepaid cards get refunds into the hands of taxpayers without the drain of high-cost tax loans.”

In fact, the FDIC has taken action to stop Republic Bank & Trust from making RALs, and is seeking to impose a \$2 million fine for alleged widespread legal violations in Republic’s RAL program. However, Republic has appealed the FDIC’s action to an Administrative Law Judge and the appeals hearing is not until February 2012. In the meantime, Republic has decided to defy the FDIC and continue to make RALs in early 2012.

“We think Republic’s decision to make RALs for 2012 is both bad for consumers and foolhardy for the bank,” said Peter Skillern, executive director of CRA-NC. “We are astonished that a bank would continue to offer these risky, abusive loans to consumers in the face of an explicit directive by their federal regulator to stop.”

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

The Consumer Federation of America is an association of nearly 300 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy and education.

The Community Reinvestment Association of North Carolina is a nonprofit agency that promotes and protects community wealth.