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Group seeks restrictions on tax refund anticipation loans

Low-income consumers urged to avoid these loans

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A coalition of New York consumer groups on Tuesday teamed up with the state Assembly's lead lawmaker on banking issues to call for legislation restricting tax refund anticipation loans and how much interest can be charged.

Speaking at a press conference in Albany, the advocacy group New Yorkers for Responsible Lending denounced the controversial loans as abusive products that prey particularly on low-income families who can least afford them.

They argued that many consumers who take out the loans don't realize they are borrowing against their tax refund. And they claim consumers are unaware of the total cost of various tax filing and loan administration fees until they get a smaller loan check than they expected.

A January report by the Consumer Federation of America and the National Consumer Law Center found that two-thirds of the borrowers didn't know they were getting a loan.

"Tax refund loans are like paying for an overpriced fast-food hamburger with large bites already taken out: you're paying a lot more to get a lot less a little quicker," said Russ Haven, legislative counsel for the New York Public Interest Research Group in a release.

The group of 110 organizations statewide also urged low-income consumers to instead use free tax preparation services, file electronically, and have their tax refunds deposited directly to their bank or credit union account to speed up the process without getting a loan.

"This is not a rapid refund you're getting. This is not instant money. This is a loan," said Sara Ludwig, executive director of the Neighborhood Economic Development Advocacy Project in an interview. "They get to gouge you so you get your money three or four days quicker. If you're not having an emergency, can't you wait?"

James Pieper, a spokesman for HSBC North America Holdings, which commands about half of the market for refund loans through partnerships with H&R Block and other tax preparers, defended the loans as meeting consumer demand. He also said consumers are clearly told of the fees and the fact that it is a loan, and are made aware of other options.

"We're the industry leader in offering these products in a responsible manner," said Tom Linafelt, spokesman for H&R Block. "These are demand-driven products. Clients want their money fast. If we didn't offer these products, the clients would likely find other, less responsible ways of getting their money fast."

Refund anticipation loans - often called RALs - are legal, short-term loans, usually for 10 days to two weeks, based on the value of an expected federal tax refund. They are automatically repaid when the Internal Revenue Service deposits the refund into an account set up by the lender. But they still must be repaid even if the refund is denied or delayed.

Loan fees can range up to $115, which translates to annual interest rates of several hundred percent, not including extra administrative or application fees. In 2003, about 12.15 million taxpayers obtained RALs and paid $1.4 billion in loan and other fees, according to Consumer Federation and National Consumer Law Center. About $147.7 million came from New York families.

The loans are marketed by tax preparers like H&R Block, Jackson Hewitt, Liberty Tax, and hundreds of smaller tax firms around the country. But they are actually made by out-of-state banks, including Delaware-based HSBC Bank USA, which works with H&R Block of Kansas City. And such banks aren't subject to New York state's usury law that caps interest at 25 percent annually.

So the advocates are going after the tax preparers instead. The groups support the Refund Anticipation Loan Act, a bill sponsored by Assemblywoman Cathy Nolan, chairwoman of the Assembly Banks Committee. That legislation would bar preparers from promoting or offering loans with annual interest rates exceeding 25 percent.

The legislation also would require that tax preparers who offer the loans must register with the state Department of Banking and post a $100,000 bond for each office so that money is available to pay damages to consumers if they are harmed.

Tax preparers would be required to post a detailed list of fees and examples of how much the interest would cost for different amounts of money. And the fee schedule and application must clearly state that the product is a loan that must be repaid, and that there are other alternatives.

Loans for more than 50 percent of the refund and loans on New York state refunds would be banned. Abusive collections practices would be prohibited and consumers would be able to sue for damages.

A similar bill was introduced in the previous session, but did not advance.