

## State agency to probe high-cost tax refund loans

### *Looking into practices targeting minorities*

By Jonathan D. Epstein News Business Reporter  
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The state Division of Human Rights has launched a statewide investigation of major commercial tax preparers, looking at potentially discriminatory practices of targeting minority and military families for high-cost tax refund loans.

The agency on Monday served subpoenas on industry leaders H&R Block of Kansas City, Mo., and Jackson-Hewitt Tax Service of Parsippany, N.J., demanding documents officials previously requested voluntarily. The same request had been made of No. 3 Liberty Tax Service, but the Virginia Beach, Va.-based company already complied on its own.

“There is no room for discriminatory targeting of harmful and abusive products in our state,” said Human Rights Commissioner Kumiki Gibson, a Buffalo native. “We cannot and will not sit still while New Yorkers continue to be victimized.”

The subpoenas, which officials say have the force of law, require the companies to produce the information by April 25.

“We believe it’s a legitimate request, that it’s jurisdictionally sound, and that we have a mandate under the laws of the state to investigate potentially discriminatory business practices,” said agency spokesman Thomas Shanahan. He stressed this is only an investigation and “may not lead to a formal complaint.”

But H&R Block rejected the state’s allegation, and challenged its authority to compile the information it is seeking.

“The state’s allegation that we’re discriminating in marketing these products is appalling and absurd,” said spokesman Dan Smith. “We have a long history and broad client base to prove we serve a diverse community.”

Jackson-Hewitt didn’t respond to an e-mail for comment.

This is the latest attack on the tax preparation industry over so-called refund anticipation loans, whose high costs to working-class, low-income consumers were detailed as part of The Buffalo News series High Cost of Being Poor last June. They have also been widely criticized as abusive in annual studies by the Consumer Federation of America, the National Consumer Law Center and the Neighborhood Economic Development Advocacy Project (NEDAP).

In fact, it was recent reports on the loans by those groups and the Department of Defense that prompted Gibson's investigation last month. The studies asserted that minority communities and military families in particular are targeted.

"I'm glad that they're pursuing this, because obviously there's a big problem in the state," said Sarah Ludwig, NEDAP executive director. "If they have nothing to hide, if they're not discriminating, then they should be forthcoming."

The Division of Human Rights is chartered with taking and investigating complaints by individuals alleging discrimination against protected groups in employment, housing, and credit. It also has the power to initiate its own investigations if needed. Protected groups include minorities and military veterans.

Gibson's investigation is her second since taking office in January, and the first statewide investigation voluntarily launched by the agency in more than a decade. She said it's also the first time that the tax refund loans have been examined from a civil rights perspective, not just a consumer fraud angle.

In looking at the tax preparers, the division is seeking a list of branches and franchises throughout the state over the last three years, broken down by address and ZIP code, so officials can ensure they can see changes.

They also asked for the number of loans generated by location, and information about which outlets or entities, such as newspapers or television stations, the firms use to market their loans and other products.

Gibson said she didn't know if her office would find discrimination, but "we have a duty to look." She said she's also interested in similar issues with predatory mortgage lending, check-cashing and rent-to-own stores, but has not started formal inquiries. "There's no shortage of discriminatory practices against people of color and veterans and seniors," she said.

RALs, as they are known, are marketed by tax preparers as "rapid" or "instant" refunds, but are actually short-term loans of up to two weeks based on the expected value of a federal tax refund. They are automatically repaid when the refund is electronically deposited by the Internal Revenue Service into an account created by the lender, but are still owed even if the final refund comes up short.

Fees range up to \$125, depending on the size and speed of the loan, not including the average \$150 charge for tax preparation itself. Some preparers also charge application or document processing fees of \$40. In all, the fees equate to several hundred percent interest a year, according to consumer groups.

The state initially asked the companies a couple of weeks ago to submit the information, but only Liberty complied. "It seems, at least initially, that they made a good faith effort to comply and respect our voluntary request," Shanahan said.

Liberty was founded and is still run by Hamburg native John T. Hewitt, who also founded Jackson-Hewitt but is no longer associated with that firm. He said Liberty tries to discourage RALs, and has the lowest percent of loans of the three firms.

“I applaud the investigation,” he said. “A lot of these products are predatory, in my opinion.”

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