

# AMERICAN BANKER

## Refund-Loan Variants Lose Last Provider

Katie Kuehner-Hebert

April 11, 2007 Wednesday

Pacific Capital Bancorp's announcement early Tuesday that it has stopped making controversial holiday and paystub loans appears to be the final blow to products that consumer groups have labeled as predatory.

Its business partner, Jackson Hewitt Tax Service Inc., said shortly after the announcement that it supports Pacific Capital's decision and will discontinue offering the loans to its customers.

Others that had offered the loans - H&R Block Inc., Liberty Tax Service, and HSBC Finance Corp. - also recently stopped making them.

The \$7.5 billion-asset Pacific Capital gave no explanation for its decision, and George Leis, its president and chief executive, did not return calls. In a press release, he stressed that his Santa Barbara, Calif., company will continue to make its traditional refund anticipation loans, which "have proven to be very popular and highly valued among tax filers."

But observers said that the change was not entirely unexpected. Consumer groups have been pressuring bankers to stop making holiday and paystub loans.

"There has been a lot of hand-wringing" by the participating banks "over whether or not this was a desirable product to offer," said Manuel Ramirez, an analyst in the San Francisco office of KBW Inc.'s Keefe, Bruyette & Woods Inc. "Most of the banks began to offer the product to be competitive, but in reality, they were a bit concerned about the risks involved" in making the unsecured loans.

Traditional refund anticipation loans are marketed by firms like Jackson Hewitt and H&R Block and extended to borrowers once their tax returns are completed. The loans are paid off using tax refunds.

Jackson Hewitt was the first major tax preparer to introduce an unsecured version that requires no W-2 and is written before the filing process begins. Competitors followed suit to avoid losing customers. Typically, holiday advances are marketed before Christmas, and paystub loans are marketed in late December and January.

Pacific Capital, operating under the Santa Barbara Bank and Trust brand, has made the loans for the past several years, mainly through Jackson Hewitt.

Consumer groups have maintained that the products carry too many fees and are marketed to low- and moderate-income consumers that can least afford them.

Sarah Ludwig, the executive director for the Neighborhood Economic Development Advocacy Project,

applauded the announcement.

"We had just sent a letter yesterday to Santa Barbara Bank and Trust, signed by about 30 groups, letting them know that they were the last bank left making these loans" on a nationwide basis, "and that they really needed to give up this loan product," she said.

In the short term, analysts said, Pacific Capital's earnings likely will suffer from the decision to stop making the two types of loans, but the company may be better off in the long run.

Analysts expect it to redirect some of its energy, so that future earnings growth would be derived more from its core community banking business and less from refund anticipation loans.

John Pancari, an analyst at JPMorgan Securities Inc. in New York, wrote in a research note Tuesday that the new products, though fast-growing, were a relatively small piece of the company's overall loan portfolio. Last year paystub and holiday loans rose 50%, to about \$86.3 million, but made up only about 1.5% of its loan portfolio. He expects that the decision to stop making the loans to lower next year's earnings by only about 1% to 2%.

Still, Pacific Capital's refund anticipation loan business generally has generated a good deal of its earnings growth. Last year its net income (excluding several nonrecurring items) rose 10%, to \$104.2 million, and a third of that growth came from refund anticipation loans.

Brett Rabatin, an analyst at First Horizon National Corp.'s FTN Midwest Securities Research Corp. in Nashville, said that any slowdown in the refund anticipation loan business is likely to be offset by growth in traditional community banking. That shift will please investors, he said.

Pacific Capital's stock trades at 14 times its trailing earnings and 12.5 times anticipated earnings for this year, below average for a group of small and midcap Western companies he follows.

"To the extent that the core bank profitability is enhanced as the RAL business is deemphasized, the company benefits over the long term," Mr. Rabatin said.

---

This document is provided for "fair use" not-for-profit, educational purposes (and other related purposes). If you wish to use this copyrighted material for purposes of your own that go beyond "fair use," you must obtain permission from the copyright owner. Please contact NEDAP at 212-680-5100, or [info@nedap.org](mailto:info@nedap.org), if you have questions.