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## **DEBT COMES GIFT-WRAPPED IN NEW QUICK-LOAN PRODUCT**

Consumers beware the new generation of 'refund anticipation loans' promising tax refunds before tax season, for a high price.

By Jimmy Vielkind

On the Jackson Hewitt Tax Service Web site there's a photo of a little girl clasping a red-and-green wrapped present, smiling as a flashing banner exhorts: "Don't wait until tax time!" Would-be clickers are promised up to \$400 from the company's "Holiday Express Loan Program."

On the street in East Harlem, a banner outside H&R Block asking "Need money for the holidays?" flaps in the breeze next to a sign advertising an "instant money advance loan," beckoning shoppers inside from the busy 125th Street corridor.

Both programs are part of a new trend of short-term, high-interest holiday "paystub loans" being offered through income tax preparation companies, whether independent operations or franchises of larger chains like Hewitt and Block.

The loans offer borrowers quick cash – particularly during the holiday shopping season – on the premise that customers will receive enough money to repay the loan when they get their tax refund next year. But because of fees and interest rates that can reach into the triple digits, consumer advocates warn that such loans are closer to coal in the stocking than presents under the tree.

The early loans also serve as a hook to reel consumers back in for tax season. Jackson Hewitt requires a non-refundable \$50 deposit toward tax preparation services for holiday borrowers, and all loans conveniently come due the same time consumers are looking to file their taxes and secure their refund to pay the initial—no small incentive to return.

"You walk into a tax preparer and it's not even tax season, and you hand them a paystub and some identification," said Chris Keeley, community outreach coordinator for the Neighborhood Economic Development Advocacy Project (NEDAP), describing the new process. "Based on that [estimated] yearly income, they expect and project your refund. Based on that projected refund – and this is before you have your W2 – they'll make you a loan."

NEDAP and other groups – including the New York State Banking Department – are working to raise awareness of the pitfalls of these programs, pointing out that even H&R Block CEO Mark Ernst called on his competitors to stop offering the loans in June, saying "the association of these high-cost pay-stub loans with tax preparation generally is not good for consumers and clearly takes the professional tax services industry into a direction that we should all wish to avoid."

But Ernst failed to persuade his competitors to take the high road, and fearing he'd lose customers, Block began offering loans this year. Others have followed.

H&R Block and Jackson Hewitt both did not respond to requests for comment.

The paystub loans are similar to “refund anticipation loans,” or RALs, that have been offered by tax preparers for several years. Under those programs, consumers show up at storefront offices – disproportionately located in low-income neighborhoods, where people are more likely to patronize tax services than file on their own – with their W2 and other necessary forms and are offered a chunk of cash on the spot based on their potential tax refund. Minus, of course, fees for the preparation and a lump sum for getting money up front.

Lemuel Rittenhour, a 26-year-old handyman from West Harlem, walked into H&R Block the week before Christmas hoping to take out their maximum loan of \$1,500. “I heard about it on the radio,” he said. Rittenhour was denied because of a low credit score. “I wanted to take care of some financial stuff – personal stuff, bills – and do a little Christmas shopping. I guess I’ll just keep working.”

Had he taken the loan, Block would have charged a variable fee corresponding to an annual interest rate of 36 percent. If Rittenhour had paid the loan back one month later on Jan. 20, he would be charged \$45 in interest plus a \$25 check fee that can only be avoided by signing up for an H&R Block debit card.

That’s compared to average credit card interest rates of around 13-15 percent, home equity loan rates around 8 percent, and 30-year home mortgage loans at about 6 percent interest, according to industry analyst [Bankrate.com](http://Bankrate.com).

The new loans are riskier, advocates of responsible lending say, in that they are unsecured by any specified amount of money or collateral and don’t have a concrete due date. There’s also the danger that calculations based solely on a paystub might not accurately determine a borrower’s tax refund.

“These early-season loans allow them to expand the marketing season,” Keeley said. “It just pulls people into these high-cost loans earlier and earlier,” before springtime’s tax season, he said.

NEDAP issued a report in March estimating that New Yorkers paid \$43 million in traditional RAL fees in 2004, and that 77% of these borrowers are considered low-income.

For tax preparers and the banks that underwrite the loans – principally HSBC, Santa Barbara Bank and Trust and JP Morgan Chase – it can be very lucrative. Only Jackson Hewitt offered holiday paystub loans last year, but Block and smaller preparers have felt the market pressure.

Ayazul Qurashi, a private accountant in the Richmond Hill section of Queens, said that he doesn’t like these kinds of loans either, but is offering a traditional RAL to his clients for the first time this year after he started losing customers.

“It’s a bad idea, but sometimes people have no choice,” he said. “As a good accountant, it’s my job to advise my clients against it. Like a good doctor, whose job it is to save people’s lives, it’s my job to save my client’s money. I guess that’s why I don’t have a bigger office.”

- Jimmy Vielkind

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