

Caribbean Life

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Tax-time, multimillion-dollar rip-offs

Tax refund anticipation loans (RALs) siphoned \$54.7 million from the pockets of low income New Yorkers in just one year, according to a recent report issued by the Neighborhood Economic Development Advocacy Project (NEDAP), a New York City-based financial justice group.

Based on its analysis of recently-released IRS data for tax filing year 2007, NEDAP found that RALs were overwhelmingly concentrated in New York City's low- and moderate-income neighborhoods of color. RALs drained millions of dollars from neighborhoods in the South Bronx, Central and East Harlem, and Central and Northeast Brooklyn. The report includes maps that show the percentage of tax returns with a RAL, and fees paid, by zip code.

RALs are high-cost loans, secured by taxpayers' projected tax refunds and Earned Income Tax Credits (EITC). Aggressively mar-

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keted to lower income taxpayers as a way to obtain fast cash, RALs carry interest rates from 50 percent to 500 percent, according to the National Consumer Law Center and Consumer Federation of America. "RALs are nothing more than a junk loan product designed to drain assets from the working poor," said Sarah Ludwig, co-director of NEDAP, which has published an annual report on RALs since 2006. "Tax preparers lure customers with the promise of these rapid refunds, but people can now get their full tax refunds and tax credits from the IRS within a matter of days," she added.

According to the report, some of the world's largest financial institutions, including HSBC and JPMorgan Chase, dominate the RALs market. As national banks, they cir-

cumvent New York State's usury law, which limits the interest rate on small loans to 25 percent. Tax prep outfits, including H&R Block, Jackson Hewitt, and independent tax preparers, serve as brokers for these lucrative loans.

The report includes specific recommendations for policy and legislative

reforms, and calls on the Office of the Comptroller of the Currency, the national bank regulator that oversees virtually all of the banks that make RALs, to crack down on the industry.

NEDAP recommends that low income New Yorkers call 311, the City's info line, to find free tax prep sites throughout the five boroughs. "There are hundreds of sites in New York City that provide free,

high-quality tax preparation to EITC recipients and other working families," said Alexis Iwanisziw, a program associate at NEDAP and co-author of the report.

"RALs represent just one of a spectrum of abusive, high-cost credit products that target low income people. In the debate over financial regulatory reform, eliminating predatory RALs and other financial abuses should be a no-brainer,"

Ludwig said.

NEDAP's report coincides with reports on RALs issued by groups around the country, including California Reinvestment Coalition, Community Reinvestment Association of N.C., and the Chicago-based Woodstock Institute. The Consumer Federation of America and National Consumer Law Center also issued annual findings on RALs, highlighting national data.