

## The fallacy of instant money

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In this economic recession, it seems that most people can't file their income tax returns soon enough. But for families who need money immediately, this urgency—or rather, people looking to take advantage of financial desperation—can lead to severely depleted returns.

Some people turn to Rapid Anticipation Loans (RALs) made available by tax preparers. These short-term loans are fronted on the anticipated tax return. They sound fast and convenient. But because of their extremely high interest rates and fees, they come at a heavy price.

Despite New York State prohibiting small loans with more than a 25 percent interest rate—a rate that is astronomical to begin with—large banks can find a way around. They offer high interest, high fee RALs through tax preparers who serve as their brokers. They can surpass loan interest caps because federal regulations allow them to skirt state laws.

Latinos are among those who are vulnerable to heavy RAL interest rates. In a report issued last month, the nonprofit organization Neighborhood Economic Development Advocacy Project (NEDAP) showed how RALs continue to be highly concentrated in Latino and African American communities. NEDAP found that in 2007 alone, RALs siphoned more than \$54 million from the tax refunds and Earned Income Tax Credits (EITC) of New Yorkers. The South Bronx was the hardest hit by RALs.

NEDAP recommends that the Senate approve President Obama's proposal for the creation of a Consumer Finance Protection Agency (CFPA). The agency would be in charge of monitoring financial regulations and laws affecting consumers and designing legislation that would prevent loan usury.

We urge Senator Christopher Dodd, who heads the Senate committee on banking, housing and urban affairs, to push for passage of the CFPA. We also support NEDAP's recommendations for immediate action, chiefly that the federal government prohibit RALs to EITC recipients. Otherwise, the EITC, which helps families meet the costs of childcare, for example, is basically vacuumed out by banks and tax preparers.

We encourage tax filers to call 311 and turn to credible nonprofit services. Directly depositing returns into a bank account should take no more than 10 days. More importantly, it doesn't involve a high interest rip-off rate.

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