

Chase exits controversial 'rapid refund' lending

J.P. Morgan Chase & Co. follows HSBC lead to quit high-cost, short-term loans to taxpayers in anticipation of refunds.

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Under pressure from consumer advocates, Chase is pulling out of a business that targeted low-income taxpayers with high-cost, short-term "rapid refund" loans.

The one-to-two week loans made by banks and distributed via paid tax preparers drain \$54 million from New Yorkers' refunds each year, according to the Neighborhood Economic Development Advocacy Project. They are most prevalent in the South Bronx and central Brooklyn.



Nationally, the loans skimmed \$738 million from the refunds of 8.4 million American taxpayers in 2008, the group reported. The loans are expensive, with some lenders charging fees that translate into annual percentage rates of 60% to nearly 700%, according to the state Banking Department.

"They're siphoning off people's earnings from the low-income tax credit," says Sarah Ludwig, co-director of the Neighborhood Economic Development Advocacy Project. "Banks hide behind tax preparers while millions and millions of dollars hemorrhage out of neighborhoods because of this product."

According to a report by the National Consumer Law Center, Chase made as many as 1.5 million refund-anticipation loans in 2008. They were facilitated by independent tax preparers who often operate storefronts in low-income communities, though other banks have contracts with tax preparation giants like Jackson Hewitt and H&R Block.

"Refund anticipation loans had been a real sore in our side for a long time, so I'm glad to hear a big player like Chase is out," said Jane Azia, director of consumer protection for the New York

state Banking Department. "There's no issue about Chase doing anything improper, but the product itself is a dangerous one for consumers."

A Chase spokesman said the bank is discontinuing the product immediately to give independent tax preparers time to find a new source for the loans in time for next tax season.

"It is not a strategic fit with our business," the spokesman said.

The need for the loans has waned as more consumers file electronically and can get their refunds quickly via direct deposit without paying extra fees and sky-high interest rates.

HSBC previously indicated it will exit the business when its current contracts expire. As Chase follows suit, it means the two biggest providers of the loans are stepping aside. A few smaller banks are still in the picture, but Ms. Ludwig says the departure of the two financial giants "deals a blow to the whole product."

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