



Neighborhood Economic Development Advocacy Project

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NEWS RELEASE

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PREDATORY TAX-TIME LOANS DRAINED \$52.8 MILLION FROM LOW INCOME COMMUNITIES IN NYC IN ONE YEAR

MYSTERY SHOPPING SHOWS PERSISTENT FEE-GOUGING BY NYC TAX PREPARERS

Usurious tax refund anticipation loans (RALs) siphoned \$52.8 million from New York City's lowest income families in just one year, according to [NEDAP](http://www.nedap.org), a New York City-based economic justice group.

Tax preparation businesses aggressively advertise RALs during tax season, pitching them as a quick and easy way to get one's tax refund. In fact, RALs are high-cost loans, secured by people's tax refunds and Earned Income Tax Credits. Tax preparers partner with banks to make the loans, which carry annual percentage rates of 50% - 500%.

RALs are overwhelmingly concentrated in New York City's low income communities of color. NEDAP found that seven out of 10 RALs were made in majority black and Latino neighborhoods in 2008, the most recent year for which IRS data is available. Eight out of 10 New Yorkers who received RALs were low income, and 61% qualified for the EITC.

Federal agencies have dealt the RAL industry a series of blows over the past year, which experts predict will lead to the demise of these usurious tax-time loans. Crucially, the IRS eliminated the "debt indicator" – which notified tax preparers and banks of possible offsets to the taxpayer's refund, such as past tax debts owed, that could prevent full repayment of a RAL. The IRS's debt indicator essentially served as a credit check on taxpayers, helping to facilitate and fuel RALs.

In 2010, the national bank regulator, Office of the Comptroller of the Currency, directed HSBC, previously the country's largest RALs issuer, to stop making these loans. JPMorgan Chase voluntarily exited the RALs business earlier in the year, spurred by pressure from advocates across the country.

The FDIC has ordered the remaining handful of state-chartered banks that make RALs to exit the business, citing safety and soundness concerns. Kentucky-based Republic Bank & Trust, which issues RALs through Jackson Hewitt and Liberty Tax Service, is fighting the

order. Two other FDIC-regulated banks announced that they will cease making RALs after the 2011 tax season.

Meanwhile, “mystery shopping” by NEDAP this year revealed continued abuses by tax preparers in New York City. Undercover testers visited Jackson Hewitt and Liberty Tax locations in Harlem, Manhattan; Cypress Hills, Brooklyn; and Fordham-Bedford, Bronx.

Testers, who had their 2010 tax returns prepared by the sites, reported that the tax preparers:

- Violated NYC and NYS laws requiring the disclosure of tax preparation and RAL fees;
- Charged shockingly high fees for simple tax returns – up to \$540, in one case;
- Steered taxpayers to refund anticipation checks (RACs), an expensive way to receive a tax refund; and
- Committed errors and possible tax fraud, including advising people to falsely claim dependents.

NEDAP conducted the mystery shopping tests in partnership with the National Consumer Law Center, which issued a [report](#) with detailed findings. NEDAP shared its results with city and state enforcement agencies for further investigation.

NEDAP has extensively documented RALs’ impact on New York City’s low income taxpayers and communities, in a series of [reports](#), and issued a [map](#) showing the concentration of RALs in the South Bronx, Harlem and Central and Northeast Brooklyn.

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