

HSBC to End Two Criticized Tax Refund Loan Plans

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By [Harry Terris](#)

HSBC Finance Corp. said Thursday that it plans to discontinue two particularly controversial breeds of tax refund anticipation loan.

Brendan McDonagh, the longtime veteran of the London parent company who was put in charge of HSBC Finance on Feb. 22, said dropping paystub and holiday loans is part of an effort "to do things right by our customers."

"One of the things we've made quite clear, particularly in the first few weeks here, is that going forward HSBC Finance will have the best-value products and services for its consumers. And this is one step in that direction," he said.

The move may set the stage for a decline in "paystub" and "holiday" loans, neither of which are secured or require a W-2 form.

That may depend on how Jackson Hewitt Tax Service Inc., the leading marketer of these loans, and Pacific Capital Bancorp, the other major funding source for them, respond.

A consumer advocate applauded the decision, which is the first major product change undertaken since a management shake-up three weeks ago at the Prospect Heights, Ill., unit of HSBC Holdings PLC.

Traditional refund anticipation loans, or RALs, marketed by tax preparation firms like Jackson Hewitt in Parsippany, N.J., and H&R Block Inc. in Kansas City, Mo., are extended to borrowers once tax returns are completed. The loans are paid off using refunds delivered by the government.

Jackson Hewitt was the first major tax preparer to introduce an unsecured version of the loans written before the tax filing process begins, and competitors followed suit to avoid losing customers. Holiday advances are typically marketed before Christmas; paystub loans, in late December and January.

"There's been a lot of public debate about the appropriateness of these products, and frankly we've taken the view that ... it's in the best interests of everybody that we, with the beginning of the next tax season, discontinue" them, Mr. McDonagh said.

"We would like to think that the industry would follow this lead to say that really these types of products" are "not in the best interests of the consumer," he said.

John Hewitt, the CEO of Liberty Tax Service in Virginia Beach (which he founded after leaving Jackson Hewitt), welcomed the announcement as a likely precursor of the wider eclipse of paystub and holiday lending.

"I've been saying for the last 13 or 14 months that I don't like those products at all," he said, "and I think it's just piling on customers with extra fees and extra visits to the office, and I hope they went away."

Credit losses on the products make them unprofitable, Mr. Hewitt said, and their proliferation was driven by a fear of losing tax preparation customers. The retreat is well-grounded in business considerations, he said. "It's just too risky, too fraught with fraud, and just too many fees for the customer."

Pacific Capital in Santa Barbara, Calif., has offered the loans through Jackson Hewitt and Liberty Tax. Calls to Pacific Capital and Jackson Hewitt were not returned by press time.

H&R Block said it supported the HSBC decision and that it had introduced its pretax-season loan only in response to offerings from competitors. The company said it will continue to offer refund anticipation loans.

"A number of the tax partners have stated publicly ... that their commitment to these products is more around the fact that competitors were providing them," Mr. McDonagh said.

Sarah Ludwig, the executive director of the Neighborhood Economic Development Advocacy Project, called HSBC's decision "very good news for low- and moderate-income people. It's great that they recognize the abusive nature of the paystub and holiday loans, in particular, because those were really off the charts."

Ms. Ludwig said she hopes and expects that the move is "the first step in their dismantling the RALs business," pointing to a press release in which HSBC said it "will work with its tax partners to significantly modify agreements in order to ...[offer] only the most value-added tax products."

There is little room for lenders to add value, she said, in an environment where the government distributes tax refunds about seven to 10 days after returns are filed.

Though Mr. Hewitt said the traditional refund anticipation loan is a simple exchange of a fee for speedier access to cash by borrowers sometimes in immediate need of funds, Ms. Ludwig pointed to the concentration of the product's sales in minority neighborhoods.

Mr. McDonagh was closely involved in the taxpayer financial services business line for some time in his previous job as chief operating officer at HSBC Bank USA. He took over direct responsibility for the tax business a few months ago.

Last month he succeeded Bobby Mehta, who resigned as the CEO of HSBC Finance. "Perhaps the fact that I'm now chief executive [means] I was in a position to accelerate" the product change, Mr. McDonagh said.

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