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## Banks Corner the Market on Tax Time Rip-Offs

Around the Kitchen Table Commentary: Debt  
by Sarah Ludwig and Deyanira Del Rio, [NEDAP](#)

New York's loan sharks were sent packing this past tax season, pushed off their turf by a handful of national banks that have cornered the market on usurious loans made against people's income tax refunds. And who can blame the banks, when there's more than a billion dollars to be made each year by siphoning off people's IRS refunds and earned income tax credits, and no one stopping them?

Through partnerships with tax preparation companies, banks like HSBC and JP Morgan Chase now make tax refund loans at 70 percent - 700 percent APR. Sound unbelievable? That's what's being offered in the pitches for "Instant Cash" and "Rapid Refunds" that flood [lower-income neighborhoods](#) during tax time each year. These deceptive ads are calculated to lure in low-wage New Yorkers, many of whom look forward to tax season as the one time of year they have a little extra money in their pockets.

Trouble is, few takers of the so-called "rapid refund" realize they're actually borrowing their own expected tax refund -- at rates that put old-school loan sharks to shame.

Let's say you're due \$2,000 from the IRS. The tax preparer and bank will advance you \$1,773 -- your expected refund *minus* a whopping \$227 in fees. In exchange for this loan, you sign over your actual tax refund to these companies, which collect the full \$2,000 from the IRS.

Multiply these hefty fees by the [650,000 New Yorkers](#) who took out a refund loan in 2002, for example, and you have a cumulative annual drain of more than \$148 million from the pockets of working families, local communities and, ultimately, New York's economy.

Tax refund loans are one in a growing list of high-cost credit and financial services that prey on poor working people and neighborhoods. The vast majority of taxpayers getting a tax refund loan earn less than \$35,000, according to the IRS, and more than half are recipients of the Earned Income Tax Credit, one of the most important anti-poverty programs in the country. Most would qualify for free tax preparation at one of the [hundreds of IRS-certified sites](#) throughout New York State. Many of these sites help people open bank or credit union accounts so they can get their full tax refunds electronically deposited in 7-10 days -- at no cost.

Decades ago, New York State enacted usury laws to combat loan sharking, creating a criminal interest rate cap of 25 percent. But because of [loopholes in banking law](#), national banks are able to circumvent this and other state consumer protections. And large financial corporations, taking

advantage of weakened oversight, have increasingly taken up [practices](#) once unthinkable for any but the shadiest of lenders.

Hundreds of New York community and consumer groups, advocates and responsible lenders have condemned tax refund loans and are calling on Albany to take legislative action. Bills recently introduced in the NYS Assembly and Senate ([A.1971-A](#) and [S.3618](#)) give our elected officials the opportunity to rein in the most abusive features of tax refund loans and bring them within regulatory oversight.

The tax preparers and national banks that make up this industry say they're providing a valuable service to consumers. We say that gouging hard-working New Yorkers at tax time with usurious loans is nothing short of brand-name loan sharking.

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#### Resources:

Maps of refund anticipation loans made by density of people of color in neighborhoods in NYC, Albany, Rochester, Syracuse, Buffalo and other regions in NY state: [http://www.nedap.org/pubs\\_list.htm#rals](http://www.nedap.org/pubs_list.htm#rals)

"Picking Taxpayers' Pockets, Draining Tax Relief Dollars" (NCLC, Consumer Fed Jan 2005) [http://www.nclc.org/initiatives/refund\\_anticipation/](http://www.nclc.org/initiatives/refund_anticipation/)

Neighborhood Economic Development Advocacy Project (NEDAP) [www.nedap.org](http://www.nedap.org)

"H&R Block refund-loan settlement blocked" *USA Today*, May 27, 2005 [http://www.usatoday.com/money/perfi/taxes/2005-05-27-hr-block\\_x.htm](http://www.usatoday.com/money/perfi/taxes/2005-05-27-hr-block_x.htm)

#### Solutions:

Pending New York State Assembly and Senate legislation: <http://assembly.state.ny.us/leg/?bn=S03618> (Senate) <http://assembly.state.ny.us/leg/?bn=A01971> (Assembly)

Model Refund Anticipation Loan legislation: [http://www.nclc.org/initiatives/refund\\_anticipation/ral\\_commentary.shtml](http://www.nclc.org/initiatives/refund_anticipation/ral_commentary.shtml)