

## HSBC takes over tax refund loan business run by Household

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HSBC Bank USA didn't waste any time putting its new national bank charter to use.

The Buffalo-based bank, which is moving its formal headquarters to Delaware, said it is taking over the lending portion of the tax refund anticipation loan program long run by its affiliate, Household International.

The move is designed to save Household money, while using HSBC's national charter to easily operate businesses across state lines. It's part of the effort by the two companies to merge operations and work together since HSBC Holdings Plc bought Household in 2003 for \$15.5 billion.

It also may bring unwanted controversy and attention to HSBC's U.S. bank because of criticism of the loans themselves.

### Loans offered by H&R Block

Household, a Prospect Heights, Ill.-based national consumer lender, offers the refund anticipation loans to consumers primarily through tax preparer H&R Block of Kansas City. The company for the past two years had been using Imperial Capital Bank of California to make the profitable loans, known as RALs, since closing its own thrift subsidiary. But that has meant paying an extra fee to an outside company, which the change eliminates.

The legal documents for the loans will now indicate to a consumer - in fine print - that HSBC Bank USA is the lender. But HSBC's name won't appear anywhere else in marketing materials that consumers see. Paul Creatura, managing director and chief executive of Household Refund Lending, said it's really a product designed for H&R Block, not marketed directly to consumers.

The change won't affect HSBC employees or operations.

"It was always the intent, when there was an applicable charter, to move it internally," Creatura said. "Administering it through HSBC and the HSBC brand is a strong testimony to the fundamental belief in the product."

## **Popular with borrowers**

HSBC says the loans are very popular among consumers, with more than one in 10 U.S. taxpayers taking some form of the refund loans in 2003, according to Internal Revenue Service data. Many are return customers who come back year after year, the company said.

But consumer advocates, who criticize the loans as abusive and have even called them "predatory," say the move may hurt HSBC's reputation.

"I'm surprised HSBC wants to sully their good name," said Chi Chi Wu, staff attorney at the National Consumer Law Center in Boston. "It makes them more of a target when we advocate against RALs."

The new arrangement is the first major benefit of HSBC's new charter since federal regulators approved the company's request to become a national bank. The purpose of the charter change and move to Delaware is to make it easier for HSBC to operate in multiple states under one regulator and one set of rules, while expanding some of its businesses nationally.

By locating in Delaware, HSBC Bank USA's lending anywhere in the country will now be governed by that state's laws, which are considered among the most favorable in the country for banking. In particular, Delaware has not had any cap on interest rates or fees since 1981. By contrast, New York state law bars interest rates over 25 percent on small loans.

And the national charter means the bank - and Household's RALs - won't be subject to states' regulators and law enforcement. Federal bank regulators have even ordered states to stop interfering with the operations of national banks, much to the irritation of state officials and consumer activists.

"All a company has to do is hook up with a national bank or thrift and it can run roughshod over a state's consumer protection laws," said Sarah Ludwig, director of the Neighborhood Economic Development Advocacy Project in New York. "This is how our banking system is set up. Household can use HSBC's national charter to do the same circumvention of our state's law that it did with Imperial."

## **Loans can be costly**

Refund anticipation loans are short-term loans for a few days or a couple of weeks based on the expected value of a tax refund. The loans are legal and are automatically repaid when the IRS deposits the refund electronically in an account set up by the lender. The loan still has to be repaid if a refund is denied or delayed.

Loan fees, which are set by the lender, can range up to \$100, and translate to annual percentage rates of several hundred percent or even more than 1,000 percent when other fees are included. According to the National Consumer Law Center, consumers paid \$1.14 billion in fees for such loans in 2002, up from \$907 million in 2001 and \$810 million in 2000.

Household and Block say they clearly disclose the terms of the loans and other refund alternatives to consumers, and offer a money-back guarantee within 48 hours if a customer wants to back out. They say the loans meet a demand for faster access to cash, and are actually cheaper for every \$100 than alternatives like taking a cash advance from a credit card.

"Clearly it's something that consumers have chosen," said HSBC Bank USA spokeswoman Kathleen Rizzo Young. "We just have to continue educating people about it."