



## Neighborhood Economic Development Advocacy Project

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### PRESS RELEASE

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## **Tax Preparers and Banks Target Poor with High Cost Holiday and “Pay Stub” Loans**

### **Consumer Alert and Report Expose Industry Rush To Offer New Predatory Product Lines**

The Neighborhood Economic Development Advocacy Project (NEDAP) issued an alert today for low-income taxpayers, warning them about new predatory loans that tax preparers and their partner banks are rolling out to take advantage of people strapped for cash during the holiday season. The alert focuses on risky, new variations on tax refund anticipation loans (RALs), usurious loans made during the tax season based on taxpayers’ expected refund and Earned Income Tax Credits (EITC).

Known as holiday and “pay stub” RALs, the new loans are offered to people before they have even received their W-2s, and are made using a borrower’s pay stub to project how much the taxpayer is likely to get back from the IRS. The loans typically carry triple-digit annual percentage rates.

“Holiday and pay stub RALs are simply a new way tax preparers and their partner banks have found to get low income taxpayers in the door before tax season even begins – and gouge borrowers in the process,” said Sarah Ludwig, Co-Director of NEDAP. “We want to make sure that people understand that holiday and pay stub RALs are extremely high-cost, unsecured loans. They are made without assessing whether the borrower even has the ability to repay the loan.”

NEDAP’s alert coincides with a [report](#) issued yesterday by the National Consumer Law Center and Consumer Federation of America, which exposes the exploitative features of pay stub and holiday RALs.

According to the NCLC/CFA report, holiday and pay stub RALs are especially risky to borrowers because they “are made without the benefit of the final tax information in a W-2 or an actual, full tax preparation session. Thus, the loans may be made based on erroneous or missing information.”

Tax preparation company Jackson Hewitt has been marketing the Holiday Express Loan Program (HELP) loan for several years, available as early as November, and last year introduced another pay stub RAL product, available to taxpayers as of January 2. Taking Jackson Hewitt’s lead, H&R Block, Liberty Tax Service and many independent tax preparers are all expected to introduce their own pay stub RAL products. Holiday and pay stub RALs, like all RALs, are financed by industry giants such as HSBC, JPMorgan Chase, and Santa Barbara Bank & Trust.

[Recent research conducted by NEDAP](#) found that low-income taxpayers in New York City paid more than \$70 million in tax preparation and RALs fees in 2004. Approximately 1 in 4 New Yorkers claiming the EITC borrowed a RAL in 2004.

“NEDAP is calling on governor-elect Eliot Spitzer to help make RALs of all kinds illegal in New York. They are unconscionable, and violate our state’s usury laws,” Ludwig said.