



COMMUNITY
REINVESTMENT
ASSOCIATION
OF
NORTH CAROLINA

The High Cost of Refund Anticipation Loans in North Carolina

Prepared By

**The
Community Reinvestment Association
of North Carolina**

**Peter Skillern, Executive Director
Adam Rust, Director of Research**

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110 EAST GEER STREET
DURHAM, NC 27701

(919) 667-1557 PHONE
(919) 667-1558 FAX
WWW.CRA-NC.ORG

Executive Summary

Refund Anticipation Loans (RALs) are high cost loans with interest rates ranging from 36% to 700%, depending on the amount of the loan, the fees, and the time it takes to receive a refund. The loans are secured by the anticipated tax refunds due tax filers. The loans are marketed and made through tax preparers such as H&R Block, Jackson Hewitt, Liberty tax service and independent tax preparers in partnership with out of state banks to pre-empt North Carolina's usury limit of 36%.

Preparers are now offering unsecured consumer loans as early as mid-November based on the anticipated tax refund. In the case of Jackson Hewitt, a combination of a holiday loan, paystub loan and traditional RAL for \$2,286.50 could cost more than \$258 in finance charges alone and does not include related fees for tax services or debit cards or temporary check account services.

For the 2004 tax year, more than 443,000 North Carolinians paid more than an estimated \$44,308,000 in fees related to traditional refund anticipation loans (RALs) for tax refunds. An estimated 86% of RAL borrowers were low income households and 64% of RAL borrowers are recipients of the Earned Income Tax Credit, a federal anti-poverty program. If 25% of current RAL users also use Holiday and PayStub RALs, getting refunds early may cost an additional \$11 million in fees.

While 11% of all North Carolina tax filers applied for a RAL, some zipcodes show that 42% of taxfilers applied for a RAL. These neighborhoods have a higher level of EITC recipients, have a higher percent of minority residents, and have lower household incomes and lower levels of homeownership. These are often the poorest of neighborhoods. Yet just three zip codes generated more than \$400,000 of fees each. While rural areas have the highest rate of RAL use, urban areas have the most RAL users.

The largest tax preparer and refund anticipation lender is H&R Block with almost 1 in 4 of the market's store locations. Tax preparers large and small make RALs in North Carolina through a partnership with out of state banks to use federal pre-emption of state consumer finance act that limits interest rates to 36%. This is very similar to the bank/payday lender partnership that was recently ruled illegal by the North Carolina Commissioner of Banks.

The Community Reinvestment Association of North Carolina (CRA-NC) asserts that too many North Carolina taxpayers are paying too much to receive their own money from the government. Unfortunately, these are often low income families who least can afford these loans that offer little benefit. The RALS take more than \$28 million from an anti-poverty program. They violate North Carolina consumer protection laws.

We call for reforms that range from improving the price, terms and conditions of the products; to ending the bank/RAL partnership; to the elimination of all types of Refund Anticipation Loans based on state and federal tax refunds and benefits.

The High Cost of Refund Anticipation Loans in North Carolina

Refund Anticipation Loans (RALs) are high cost loans with interest rates ranging from 36% to 700%, depending on the amount of the loan, the fees, and the time it takes to receive a refund. The loans are secured by the anticipated tax refunds due tax filers. The loans are marketed by national tax preparers such as H&R Block, Jackson Hewitt and Liberty Tax Services, in addition to independent mom and pop tax preparation companies. The loans are made at the time of filing a tax return with the repayment of the loan secured by the anticipated tax refund.

When preparers agree to advance a filer his or her refund, they do so after checking with the IRS on the presence of any outstanding tax liens. If a filer has an outstanding tax debt, then the preparer can hold back on paying out funds. This protects the preparer, as the IRS would retain the refund to the extent that it can make up for any outstanding debts. Debt inquiries to the IRS are also the means for tracking RAL usage in the Stakeholder Partnerships, Education and Communication Return Information Database (SPEC) database. The 2004 SPEC database is the basis for this study.

In 2005 in North Carolina, there were 492,318 debt inquiries for those applying for these high cost, short term loans. This represents 11% of all returns filed in North Carolina, down from 15.72% in 2003. This is significantly higher than the national average of 8% of all taxpayers taking a RAL.¹ Using a national average that 10% of RAL applications are not approved, the Community Reinvestment Association of North Carolina estimates that there were 443,087 RALs approved.

In 2005, on a national average, these RALs cost \$100 on an average refund of \$2,159. This estimate includes the interest charged by the lender as well as the fee to set up an account. This cost is higher if borrowers pay a premium of \$20 to \$45 for a loan made the same day. This estimate does not include tax preparation fees that can range from \$100 to \$250. The loan term is based on the difference between when the loan is made and when the lender receives the borrowers' tax refund as a repayment in 8-14 days. The fee amount, the amount of the loan and the number of days of the loan term create interest rates ranging from 70% to 700%. On the average refund of \$2,150, and average cost of \$100, the fees represent 4.6% of a borrower's refund and an APR of 178%.² Based on an average of \$100 for related loan fees, an estimated \$44,308,700 in RAL fees were generated in North Carolina in 2005.

The federal Earned Income Tax Credit provides low income workers with a credit for each dollar earned. The EITC program is considered to be the country's largest and most successful anti-poverty program.³ In North Carolina in 2004, 319,108 of the 747,436 EITC recipients, (or 43%) applied for a refund anticipation loan. Of the 492,318 RAL applications, 64% were EITC recipients. Of all RAL applicants, 86% were low-income taxpayers.⁴

¹ 'Down, But Not Gone: Quick Tax Refund Loans Continue to Gouge Tax Payers', The National Consumer Law Center and Consumer Federation of America, January 16, 2007
http://www.consumerfed.org/pdfs/RAL_2007_RALs_early_release.pdf.

² Another Year of Losses: High Priced Refund Anticipation Loans Continue To Take a Chunk Out of Americans' Tax Refunds. The National Consumer Law Center and Consumer Federation of America, January 2006, p 7.
http://www.consumerlaw.org/action_agenda/refund_anticipation/content/2006RALReport.pdf

³ EITC Boosts Local Economies, Partners in Community and Economic Development, Vol. 16, No. 3 2006 Federal Home Loan Bank of Atlanta (www.frbatlanta.org)

⁴ Data from IRS Stakeholder Partnership, Education and Communication (SPEC) Return Information Database for Tax Year 2004, January 2006.

Utilizing these figures, more than \$44,308,000 is being drained from North Carolinians' tax refunds. Of this amount, 86% or \$37,244,000 million dollars are from low income households and 64% or \$28,357,000 of the total fees are from households receiving an Earned Income Tax Credit. This is an economic leakage among those households that can least afford it. The fees charged for RALs are working against the public purpose of the EITC's anti-poverty goals.

Going From Bad to Worse – Holiday and Paystub RALs

In 2006, Jackson Hewitt offered its Holiday Express Loan Program (HELP) to its clients and marketed it heavily to the public. Santa Barbara Bank and Trust charges the following finance charges for the Jackson Hewitt loans. Borrowers could receive a HELP loan of \$488.50 for a finance charge of \$61. The product was offered from mid-November to late December and due mid-February. At the beginning of January, clients could borrow another \$1,798 for \$102 in finance charges under the Money Now loan with the principal again due mid-February.⁵ Additionally, borrowers prepaid a non-refundable \$50 for their tax preparation by Jackson Hewitt offering a disincentive for using free Voluntary Income Tax Assistance sites or lower priced competitors. When the taxes are prepared by Jackson Hewitt with the W-2 forms, clients can get a traditional refund anticipation loan to pay off the existing loans plus any additional refund for a \$95 finance charge plus additional fees. Thus a loan of \$2,286.50 could cost more than \$258. This does not include tax service fees, optional debit card fees or temporary bank account fees.

The Community Reinvestment Association of North Carolina, Woodstock Institute, California Reinvestment Coalition, Neighborhood Economic Development Project of New York, New Jersey Citizen Action held a press conference and protest at Jackson Hewitt's headquarters January 16 to protest this consumer lending product. Governor Easley issued a consumer warning regarding the high cost of refund anticipation loans. The North Carolina Treasurer Richard Moore and advocates have requested an investigation by the North Carolina Commissioner of Banking into these practices. The Commissioner has established a public education website and provided public service announcements on radio.

H&R Block offers an Instant Money Advance Loan that is for one amount. The product is offered in November and runs through January. H&R Block has stated that its fees are based on the loan amount and duration of the loan so that the fee does not exceed 36% APR. This does not include fees if the advance is placed on a debit card or for setting up a bank account for deposit.

The introduction of this finance product will greatly expand its usage, causing greater economic leakage from low income households. If 25% of current RAL users also utilize paystub RALs, and if the cost averages \$100 per loan, CRA-NC estimates that in North Carolina, taxpayers could pay an additional \$11,000,000 in loan fees in anticipation of tax refunds.

⁵ "Pay Stub and Holiday RALs: Faster, Costlier, Riskier in the Race to the Bottom." Consumer Federation of America, Jean Ann Fox, National Consumer Law Center, Chi Chi Wu, December 2006. http://www.nclc.org/action_agenda/refund_anticipation/content/PaystubRALsReport.pdf

Who Uses A RAL?

The IRS SPEC database drills down to the zip code level. By using existing data from the US Census, we can intuit more about the actual characteristics of RAL users. For the most part, we rely upon statistics that describe the median or average of any variable about a zip code – be it percent of minority residents or income.

The results are unusual in their predictability. High RAL usage neighborhoods are ones with more minorities, with low incomes, with lower than average rates of owner occupied homes, and with high concentrations of EITC recipients. With just four variables, we can predict more than 87 percent (adjusted r-squared equals .872) of the variation in the percent of RALs in a zip code.

Results from a regression Model, predicting percent of RALs by zip code

	Beta	t	Sig.
(Constant)		1.436	.151
percent EITC	.946	26.727	.000
percent LI returns	-.139	-4.836	.000
percent Non White	.144	6.960	.000
percent owner occupancy	.018	1.310	.190

A Dependent Variable: percent RALs

In a regression model, the lower the number associated with significance, the more powerful that variable becomes as a predictor. The predictor here is the percent of RALs in a zip code.

The regression model makes a few inferences:

First, *the higher the amount of non-whites in a zip code, the more likely it is that it will be the location for a high percentage of RALs.* This is a very strong relationship. (t=6.96, sig.=.000) Some of the communities with the highest rates of RAL use are in areas within North Carolina’s “Black Belt”. Those include places like Rich Square, Wadesboro, and Ahoskie. RAL use is also high in some inner city neighborhoods in Charlotte with high levels of minority residents. The higher the percentage of white households, the less likely that there is a high incidence of RAL use. This pattern is mapped in

Appendix One: RALs are highly concentrated in minority zip codes.

Second, *owner occupancy matters.* This makes common sense once you know more about the demographics of RAL use. Owning a home is nothing if not a moat against financial insecurity. Paying high fees to get a tax return two weeks quicker speaks of a decision based upon a very high discount rate.

Third, *RAL usage is most frequent in low income neighborhoods.* Poor people use RALs. Again, the same truths about owning a home come up with this variable. It would be hard to not make this conclusion after examining data about refund anticipation lending. The most graphic evidence of that statement can be taken from looking at the map in Appendix Two. That map shows the overlay between zip codes with the highest rates to RAL use and zip codes with the highest rates of low income filers.

Last, *RAL users are more often than not also EITC users*. The EITC has been called the most successful anti-poverty program in the short history of the War on Poverty. The EITC rewards work by giving families that have earned income a refundable tax credit. It is a logical and easy to understand benefit. It can be described as logical because it does not shrink as filers earn more income. It differs from entitlement programs that pay more to workers with lower income. The criticism of those programs is that they effectively discourage workers against seeking more income. The EITC is also simple to understand and easy to administer. It piggybacks on to an existing institution – the tax return – rather than requiring an additional agency.

Impact on Rural and Urban Neighborhoods

RALS are frequently popular in the very neighborhoods that can least afford to spend extra money on fringe banking services. The impact is not just significant on a borrower by borrower level. It extends to entire regions. RALS plague the very parts of North Carolina most impacted by poverty. The map in Appendix Two overlays RAL usage with one measure of poverty – the percent of filers in a zip code that are considered low income. It reflects the inequity in the distribution of income in the United States that so many filers are considered low income. Across North Carolina, almost 63 percent of filers qualify as low income. The hatching marks show zip codes where that rate of low income is more than one standard deviation greater (standard deviation is approximately 10 percent). For the sake of simplicity, that hurdle has been set at zip codes where the rate of low income is more than 75 percent.

We can see that this mostly includes zip codes in the eastern half of the state. A clustering of such zip codes exists in the areas east of Roanoke Rapids, another near Jacksonville, and another in the Sand Hills near Scotland County.

The next table shows the zip codes with the highest rate of RAL usage in North Carolina.

Zip Code	Community	Percent RALs	Pct Low Income RALs	Percent EITC RALs
28119	Wadesboro	42.9%	92.4%	78.3%
27849	Ahoskie	42.3%	93.0%	82.1%
27847	Rich Square	39.9%	94.4%	82.5%
28330	Rockingham	39.5%	86.5%	64.7%
28378	Raeford-Fayetteville	39.3%	90.9%	81.8%
28206	Charlotte	38.6%	94.9%	80.0%
27841	Williamston	38.5%	94.6%	91.9%
28362	Whiteville-Lumberton	38.4%	83.7%	79.1%
28208	Charlotte	38.0%	93.7%	79.1%
28543	Jacksonville	37.9%	95.9%	78.4%

Source: 2000 Census and SPEC

Cities like Wadesboro (Anson County), Ahoskie (Hertford County), Rich Square (Northhampton County) and Rockingham (Richmond County) share one thing in common: they all are places considered among the poorest of the poor in North Carolina. Each is a Tier One County in the rankings of economic distress utilized by the North Carolina Department of Commerce. The fact that the filers in these communities are low income is hardly surprising. In fact, the percent that are low income only clarifies the degree to which RALs strip dollars from the poor.

These communities are some of the poorest in North Carolina. That these RALs are relied upon by a low income demographic is particularly clear in these instances. In some of these communities, more than 19 out of 20 RAL users is a low income tax filer. In every instance but one, more than three of four simultaneously received the Earned Income Tax Credit.

There appears to be a peer effect in the decision to use a RAL. Poor people living in rich communities use RALs much less often than do poor people living in very poor communities. To show that, we banded zip codes into ten different groups by median household income. The next table shows the difference in RAL use in the poorest and the richest zip codes.

Income Level	Among EITC users	Among Low Income Filers
VERY POOR: bottom ten percent	46.2%	27.7%
RICH: top ten percent	26.8%	9.0%

Income: median household income by zip code

What is interesting here is that these findings separate the income of a community from the income of a tax filer – we are comparing the choice to use a RAL among poor (EITC or Low Income) filers in both rich and poor places.

EITC users living in a very poor zip code are almost twice as likely to utilize a RAL as are EITC filers in a rich zip code. Low income filers living in a very poor zip code are more than three times as likely to utilize a RAL as are low income filers living in a rich zip code.

The next table shows the zip codes with the greatest number of RAL applications.

Zip Code	Community	RALS	RALs with EITC	RALs for LI
27834	Greenville	4,792	3,761	4,424
28208	Charlotte	4,517	3,572	4,234
27893	Wilson	4,414	3,385	3,987
27406	Greensboro	4,134	2,682	3,516
27610	Raleigh	4,082	2,781	3,536
27105	Winston-Salem	3,926	2,869	3,582
28314	Fayetteville	3,911	2,195	3,281
27405	Greensboro	3,893	2,678	3,448
28052	Kinston	3,829	2,497	3,294
28205	Charlotte	3,660	2,613	3,401

Sources: 2000 Census and SPEC

Estimates have suggested that RALs regularly cost consumers more than \$100 per return⁶ nationally. CRA-NC's own estimate finds roughly the same cost for consumers in North Carolina. Extrapolating from those, this table suggests that consumers collectively spent more than \$400,000 dollars in each of five North Carolina zip codes.

While rural areas have the areas with the highest rate of RAL use, urban areas have the most RAL users.

Consumer Rationale

In searching for policy solutions, public interest advocates who perceive these high cost loans as contrary to consumer and public policy interests must look at both consumer and industry motivations. Leaders must recognize that for better or worse, consumers utilize RALs at a high rate. Applicants for Refund Anticipation Loans represent one of every ten tax filers (11%) in North Carolina in 2005. Given the high cost of the loans, why are consumers paying for them?

Alan Berube and Tracy Korngblatt of The Brookings Institution offer several theories for this consumer behavior:⁷

- 1) Real or perceived need for immediate cash for low income households.
- 2) Lack of information about the product, specifically its costs and alternatives.
- 3) Windfall effect in treating tax refunds as found money rather than earned and therefore willing to pay a higher cost for immediate cash.
- 4) Inability to pay for tax preparation out of pocket which may range from \$100 to \$250.
- 5) Peer effects - high usage of RALs within the community influences others to do so.

Gregory Elliehasuen of the Credit Research Center of Georgetown University argues that the consumer choice to use a RAL is informed and beneficial, by meeting the consumer credit needs of borrowers who are more likely to be credit restrained and in the marketplace must pay higher costs for credit.⁸

Jean Ann Fox of the Consumer Federation of America and Chi Chi Wu of the National Consumer Law Center disagree with Mr. Elliehasuen, arguing that the majority of borrowers do not understand the cost and that triple digit interest rate loans are not beneficial to borrowers who have credit problems. Additional reasons identified in the survey by the National Consumer Law Center were: "The preparer convinced me to get it, I've always done it this way, My friends or relatives recommended it." One third of respondents selected those reasons for getting a RAL.

Regardless of the reason, there is a concern that these high cost loans drain financial resources from low income households and in particular from EITC recipients which contradicts the public interest purpose of the EITC program in reducing poverty or in state consumer protection laws that establish usury rates.

⁶ Step in the Right Direction (Brookings Institution Report) p 3-4.

⁷ Consumer Use of Tax Refund Anticipation Loans, Credit Research Center McDonough School of Business, Georgetown University, Monograph #37 April 2005, Gregory Elliehausen. Pg 1.
http://msb.georgetown.edu/faculty/research/credit_research/pdf/M37.pdf

⁸ Another Year of Losses (NCLC/CFA Report), Appendix A p 4.

Tax Preparers Large and Small

Based on 2006 NC Commissioner of Banks data, there were 800 companies with 1,588 locations registered as lenders for Refund Anticipation Loans.⁹ A map of the location of 2007 tax preparers prepared by Steve Graves of the California State University is in Appendix Three.

H&R Block had 365 company-owned or franchise locations, or 23% of all RAL-originating locations in North Carolina. Using offices as a market share indicator, H&R Block is assumed to originate 23% of all RALs. We believe this to be a conservative estimate, because an H&R Block office is likely to sell a greater number of RALs compared to independent companies. H&R Block has 35% of the market share of RALs made nationally. H&R Block reported \$182.784 million in RAL income in 2005.¹⁰ This represents 4.1% of the company's total revenue.

Jackson Hewitt and Liberty Tax Services have a significant but lower market share of RAL locations in North Carolina. Jackson Hewitt had 253 locations or 16% of the market share. Liberty Tax Services had 62 store locations or 4% of the market. All of Liberty Tax Services and Jackson Hewitt's locations are franchises. The big three tax preparers have 43% of the store locations. Independent refund providers make up the remaining 57% of the market share of locations, but possibly a smaller share of RALs. Jackson Hewitt reports that its RAL income is 28% of its total revenue, as its business is less diversified than H&R Block's.¹¹

In response to public criticism, lawsuits and regulatory actions, H&R Block reduced its fee structure for the 2007 tax season. Below is a fee schedule of the big three firms and three independent tax providers as compiled by the North Carolina Banking Commissioner. (<http://www.savetherefund.org/>)¹²

⁹ Jackson Hewitt 2005 Form 10-K page 15.

¹⁰ H&R Block 2005 Annual Report, p. 22.
http://library.corporate-ir.net/library/76/768/76888/items/163251/HRB_AR

¹¹ “‘Paystubs’ Reconfigure Tax-Refund Lending Line,” Erick Berguist, American Banker, July 27, 2006.

¹² NC Commissioner of Banks website, Consumer Industries Division, NC Registered Tax Refund Anticipation Loan Facilitators
<https://www.nccob.org/online/RALS/RALSCompanyListing.aspx>

Tax Preparer	Bank partner	Loan Amount	Fees				Total Cost
			Bank Fee for Loan	Bank Fee to Set up Refund Account	Bank Fee to get money by check	Fees to get money on card	
H & R Block	HSBC	\$ 2,000.00	\$ 48.35	\$ 29.95	\$ 21.60	\$ -	\$78.30 to \$99.90
Jackson Hewitt	HSBC or Santa Barbara Bank	\$ 2,000.00	\$ 95.00	\$ 29.95	\$ -	\$30 to \$50	\$124.95 to \$174.95
Liberty	HSBC	\$2,000/\$598	\$ 110.00	\$19.95 to 29.95	\$ -		\$129.95 to \$139.95
Independent #1	JP Morgan Chase	\$ 2,000.00	98.00	\$ 30.00	\$ -	\$ -	\$128.00
Independent #2	Republic	\$2,000/\$1,800	\$ 119.00	\$ -	\$ -	\$ 25.00	\$119.00 to \$144.00
Independent #3	River City	\$2,000/\$1,000	\$ 127.00	\$ -	\$ -	\$ 10.00	\$127.00 to \$137.00

Notes:

- Summary chart prepared by NCCOB, based on disclosures provided by RAL facilitators and phone calls to individual RAL offices.
- Chart shows total cost for same-day or instant Refund Anticipation Loans only. Less costly refund loans may be available in 1-2 days; actual fees may vary from the above chart.
- Total Cost does not include fees for tax preparation (which averages \$150) or other products.

Bank Partners Pre-empt North Carolina Usury Laws

In North Carolina, the Consumer Finance Act limits interest rates on all loans to 36%. Refund Anticipation Loans (RALs) are made by tax preparers through an agreement with out-of-state banks to export their interest rate loans to North Carolina. The tax preparer markets, fills out the application, and services the loan. Additionally, the tax preparer purchases 49% of the loan back from the lending originator. This is very similar to the bank/payday lending partnership with the notable exception that the tax preparer strategically does not purchase the majority interest of the loan above 50%.

Tax preparers and their out-of-state lenders who make these loans in North Carolina do so at rates in excess of the North Carolina Consumer Finance Act cap of 36% interest rate by claiming federal pre-emption of state laws. Those who originate RALs are required to register with the NC Commissioner of Banks, and are required to make some additional disclosures to clients, but have no limiting state regulatory requirements.

The state's largest tax preparer and refund lender, H&R Block, partners with HSBC Taxpayer Financial Services. HSBC has by far the largest market share of RALs as it also partners with Jackson Hewitt and independent tax preparers.

Jackson Hewitt partners primarily with Bank of Santa Barbara, a subsidiary of Pacific Capital Bancorp. Bank One/Chase Manhattan partners with independent tax preparers. The big three lenders are national banks and regulated by the Office of the Comptroller of the Currency.

Three smaller banks - Republic Bank of Louisville Kentucky, First Bank of Delaware and River City Bank of Louisville Kentucky - partner with independent tax preparers. Republic Bank was forced to exit the bank/payday lending business and received a "Needs to Improve" rating on its 2005 Community Reinvestment Act evaluation for

Equal Credit Opportunity Act violations in making RALs. First Bank of Delaware recently ended its partnership with Liberty Tax Services due to the introduction of Paystub RALs. These state chartered banks are governed by the FDIC.

The Role of Volunteer Income Tax Assistance

The IRS maintains data on three sources of volunteer assistance in filing taxes: the VITA program, the military VITA, and AARP/TCE. These voluntary assistance programs help tax filers save millions of dollars in tax preparation fees and avoid the high cost of refund anticipation loans. In 2004, 49,394 tax filers in North Carolina received assistance through one of these programs. Of these, 82% or 40,615 were low income households. More than 8,300 were EITC recipients. 15,551 of the households assisted were elderly citizens.¹³

These are programs that mobilize thousands of volunteers to help primarily low income households file their taxes. Yet as a public policy response, the impact is limited. These VITA programs only reached 1.4% of all tax filers, and 1.9% of all low income tax filers. Of all EITC recipients, VITA programs served 1.1%.

To address the loss of revenue from Refund Anticipation Loans, public policy reform is needed to address the availability, terms and conditions of these high cost loans. Volunteer assistance programs are important and needed but can not ultimately address the scale of the problem without public policy reform.

Policy Recommendations

Recommendations for action that accept RALs as an accepted market product but that seek reform are:

- 1) Creating free tax preparation alternatives through the VITA programs.
- 2) Providing greater consumer education on the cost of RALs.
- 3) Reducing fees and providing better disclosures of RAL costs and alternatives.
- 4) Creating alternative payment methods including deposit services accounts that can receive refunds and promote savings through tax preparers or partnerships with credit unions, CDFIs and banks.
- 5) Strict compliance with applicable state and federal laws.

Recommendations that seek to end Refund Anticipation Loans focus on the need for:

- 1) Having the federal banking regulators end the practice of bank/payday lending partnerships would limit where RALs are made. Currently, the FDIC and the OCC are the two key regulators for the state chartered and national banks who facilitate RALs in states where they would violate state rate caps. For example, the North Carolina Consumer Finance Act would prohibit RALs with interest rates above 36%, if tax preparers are not able to partner with out of state banks. This is very similar to the bank/payday lending partnership that was recently ended in North Carolina.
- 2) Federal legislation that will prohibit the use of tax refunds as the basis of loans. This is the most comprehensive of solutions in providing a level playing field for tax preparers to compete for the tax prep business and not for the Refund Anticipation Loan business. It would effectively end Paystub RALs. With improvements in the IRS'

¹³ Data from IRS Stakeholder Partnership, Education and Communication (SPEC) Return Information Database for Tax Year 2003, October 2005.

ability to make refunds quickly and the ability to split refunds in 2007, concerns about the length of time for the refund and the ability to pay for tax preparation fees can be reasonably addressed.

The Community Reinvestment Association of North Carolina would argue that a strategy that embraces all of these actions is appropriate as we work along a continuum of reforms that will improve the price, terms and conditions of consumers receiving their tax refunds and Earned Income Tax Credits or that reduce or eliminate the RALs being made.

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“Another Year of Losses: High Priced Refund Anticipation Loans Continue To Take a Chunk Out of Americans’ Tax Refunds.” The National Consumer Law Center and Consumer Federation of America, January 2006.

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Jackson Hewitt 2005 Form 10-K page 15.

NC Commissioner of Banks website, Consumer Industries Division, NC Registered Tax Refund Anticipation Loan Facilitators

<https://www.nccob.org/online/RALS/RALSCompanyListing.aspx>

Data from IRS Stakeholder Partnership, Education and Communication (SPEC) Return Information Database for Tax Year 2003, October 2005.





