



Refund Anticipation Loans

*Habitat for Humanity - New York City has initiated a citywide education campaign to raise awareness of predatory lending practices targeted to Habitat homeowners and all low-income New Yorkers. Our goals are to shine a light on deceptive practices and provide better alternatives so New Yorkers can keep more of their hard-earned wages for necessities such as food, medical care—and **housing**.*

WHAT IS A REFUND ANTICIPATION LOAN (RAL)?

You may have seen the advertising signs that come out every tax season: Rapid Refund! Instant Money! Get Cash Fast! These slogans advertise “**Refund Anticipation Loans,**” also known as rapid tax refunds.

Refund Anticipation Loans (or RALs) are short-term, extremely high-interest loans, based on a taxpayer’s expected income-tax refund. At first glance, RALs may seem very attractive—especially to cash-strapped taxpayers—because they promise to deliver the anticipated tax refund immediately. But what many consumers don’t realize is that RALs carry hidden costs, including high fees and interest rates.

In fact, RALs:

- Are loans made by banks, which must be repaid, not cash advances on the expected return;
- Carry deceptively high interest rates—as high as 67% to 500% annually;
- Usually charge for unnecessary services that can add up to hundreds of dollars.

Is the fast turnaround worth the cost?

Taxpayers typically receive their RAL loan within one to three days. By comparison, people who file their taxes electronically can receive their refunds directly from the IRS in approximately five to 14 days (or sooner) if they have a bank account or credit union account into which their money can be deposited.

RALS TARGET LOW-INCOME TAXPAYERS

RAL providers target low-income taxpayers and communities for these under-regulated loans—seeking out people most likely to have limited savings and most in need of immediate cash.

At the top of the target list are families and individuals who claim the federal Earned Income Tax Credit (EITC). The EITC is designed to supplement the earning of low-wage workers to help them maintain jobs and pay for necessities. This tax credit makes tempting prey for predatory RAL providers.

Nearly one in five New Yorkers who claim the EITC also receive a RAL loan each year, meaning that a substantial portion of the EITC benefit for hardworking families ends up in the pockets of banks and unscrupulous tax preparers.

HOW DO RALS WORK?

Taxpayers are charged bank fees and interest to take out a RAL, including tax preparation and filing fees. **Based on a 2009 VITA Survey conducted by the New York City Department of Consumer Affairs, Office of Financial Empowerment, 43% of respondents claimed to have paid between \$100 to \$300 for a RAL, while 19% reported paying \$500 or more for a RAL.** The refund arrives in one to three days, but is deposited directly to a dummy account. Using this money as collateral, a partner bank gives the taxpayer a short-term loan.

Most RAL borrowers believe the money they receive is simply an advance on their refund—or the actual refund itself. Too often, they are unaware that they've taken out a bank loan, despite laws that require full disclosure to people seeking RALs.

If the refund arrives promptly and if it is for the amount expected, these loans can be paid off promptly. In this case, the RAL recipient has lost only the expense of the fees and the short-term loan interest.

However, if a problem arises with the taxpayer's anticipated return—the results can be devastating.

If your tax refund is denied, smaller than anticipated or paid to other creditors (such as the IRS for past taxes or to your ex-spouse for child support), you will still owe the bank the loan, your credit rating will be hurt and the bank may send a debt collector to your door. And any delay in repayment adds up quickly at APRs as high as 67% to 500%.

The taxpayer—not the deceptive tax preparer—is left holding the bag.

ARE RALS LEGAL?

RALs are legal in New York State. Other states have passed laws regulating RALs through disclosure requirements, as have some municipalities, including New York City. Disclosures are an important first step, but do not address the practice of providing high-interest loan products to low-income borrowers.

A tax preparer is required by both city and state law to give each customer a free, current and legible copy of the Consumer Bill of Rights Regarding Tax Preparers. To see this document visit: <http://www.nyc.gov/consumers>.

The 2009 state budget package contained strong new regulations on RALs, including:

- Tax preparer registration and licensing.
- A ban on receipt of fees and interest by RAL tax preparers. (Although the bank making the loan will still charge fees and maintain high interest rates.)
- Strengthened disclosure requirements.

These new regulations went into effect at the end of 2009.

RALS IN NEW YORK CITY:

- In 2007, RALs took more than 54.7 million in interest and fees from the pockets of New York City's lowest-income communities;
- Approximately 81% of all New Yorkers who received a RAL were low-income;
- Following national trends, low-income neighborhoods in New York City are hit disproportionately hard. The 20 zip codes with the highest portion of RALs have a median household income of only \$20,500;
- RALs are concentrated overwhelmingly in predominantly African-American and Latino neighborhoods.
- The total number of RALs made in New York City decreased between 2006 and 2007, from 194,004 to 188,527.

HOW NEW YORKERS CAN AVOID PAYING THE HIGH COST OF A RAPID REFUND

To avoid paying unnecessary fees for a rapid refund, the following options are available:

- Open a bank or credit union account – this will allow refunds to be received by direct deposit;
- Don't go to check cashers – extra fees are charged to cash tax refund checks;
- File tax returns by E-File or Free File On-Line – this can speed up the tax refund, especially if the IRS deposits the refund directly into a bank or credit union account;
- Delay paying bills or ask for extensions, if possible, to avoid adding the cost of RAL fees onto current debts;

FOR ADDITIONAL INFORMATION ON RALS, PLEASE VISIT:

Habitat for Humanity NYC: <http://www.habitatnyc.org/>

Neighborhood Economic Development Advocacy Project: <http://www.nedap.org/>

The Center for Responsible Lending: <http://www.responsiblelending.org/>

The National Consumer Law Center Inc: <http://www.consumerlaw.org/>

Americans for Fairness in Lending: <http://www.affil.org>

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