

Legislation would shine light on tax refund loans



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Tax season is upon us, and some filers literally can't wait.

These are the people who take out high-priced loans to get their tax refunds several days early. While demand for so-called refund anticipation loans has been dropping, millions of taxpayers — including thousands in Baltimore — still sign up for them.

Maryland is weighing legislation to make sure consumers know what they are getting into with one of these loans by requiring more disclosures. It also would ban certain loan-related fees.

"These are some of the ugliest loans in the consumer market. It's time we did something about them," says Del. C. William Frick, a Montgomery County Democrat and lead bill sponsor. "With the difficult economy, I fear these will become more attractive to more people this tax season."

Refund anticipation loans are basically one- or two-week loans tied to your anticipated tax refund. You can get your money in one or two days, or the same day if you pay extra. The loan is repaid once the IRS deposits the refund in the bank.

Consumer advocates for years have railed against these loans, arguing taxpayers would be better off filing returns electronically and waiting about 10 days for the IRS to deposit the refund in their account.

Those warnings may be having an effect. A report released on Friday by the National Consumer Law Center and Consumer Federation of America found that the number of loans and the fees have come down. Figures for 2008, the latest available, show that

8.4 million taxpayers took out a refund loan, down by 300,000 from 2006.

And the price of the typical \$3,300 loan has dropped from \$100 or so in 2007 to \$65.

But Jean Ann Fox, director of financial services for the Consumer Federation, says "they are still high-cost credit, even if the rates are coming down."

Once you factor in a fee to open an account, the effective annual percentage rate on loans range from 50 percent on a \$10,000 loan to nearly 500 percent for \$300, the groups reported.

That rate can be even higher if you take into account other fees added on. Some companies charge \$25 to \$39 extra to get a loan the same day. And some small tax preparers add on an administrative fee ranging from \$25 to several hundred dollars, the groups said.

Altogether, consumers in 2008 paid about \$800 million in loan and other related fees, the groups found.

Nationally, the number of loans might have dropped, "but not for the lowest-income consumers, the folks we are concerned about," says Joanna Smith-Ramani, director of the Baltimore CASH Campaign, which offers tax help to lower-income households.

The latest figures for Maryland show that 5.5 percent of tax filers here took out 143,268 loans in 2006, according to Brookings Institution, the think tank. In Baltimore, nearly 36,000 taxpayers — or 14 percent of filers in the city — took out a refund loan.

The legislation in Maryland's General Assembly seeks to make the cost of these loans clear.

Those pitching loans would be required to prominently display fees and give examples of the annual percentage rate on loans. They also would have to disclose that taxpayers could get their refund in 8 days to 15 days without a loan if they file electronically and have refunds directly deposited in their accounts.

Consumers applying for a loan also would get written and verbal disclosures, and they would be reminded again they could avoid fees by not taking out a loan and still get their refunds quickly.

A key provision in the bill would prevent tax preparers from adding an application fee or other charge on top of what the lender charges for the loan, says Chi Chi Wu, staff attorney for the National Consumer Law Center.

The Maryland legislation has support from H&R Block, one of the biggest players in refund loans. In an e-mail, Block wrote:

"We are working with the bill's sponsor, and he's accepted some of our ideas. We plan to support the bill as it's in the best



interest of consumers and the tax preparation industry.”

If the legislation passes, it won't take effect until Oct. 1, long after most Marylanders have filed their returns this year.

This season, Marylanders with income of up to \$49,000 can get free tax help from non-profits. Call 800-492-0618 for locations. Or, those with income of up to \$57,000 can file for free using IRS FreeFile at irs.gov.