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Quick cash at a high price

EDITORIAL

During the tax season, some people turn to Refund Anticipation Loans (RALs) for instant money. But lack of awareness about RALs, along with concentrated marketing and little regulation, is blowing cash out of the hands of families.

An RAL is an extremely high-interest loan against an expected refund. In 2005, the National Consumer Law Center reported that two-thirds of the people who had used RALs did not know they were loans.

Tax preparers arrange these rapid loans at the time they file income tax returns for clients. The loans are funded by banks like HSBC and JP Morgan Chase. As part of landing the loan, the tax payer authorizes the Internal Revenue Service to send their funds directly to the lender.

Working families looking forward to their refunds and tax credits find their hopes dashed by high fees and annual interest rates anywhere between 40 to 700 percent. According to the Neighborhood Economic Development Advocacy Project (NEDAP), in 2004, New Yorkers lost more than $92 million of their tax refunds and credits through RALs.

Those most affected are those who can least afford to lose money. Approximately 77 percent of people who received RALs were low-income. And RALs are overwhelmingly offered and used in Latino communities.

New Yorkers for Responsible Lending advocates for a state law that would force banks to comply with local consumer protection laws. In New York, a lender cannot make more than 25 percent interest on small loans.

The state legislature should immediately put a bill on track that will end this interest abuse. Tax payers should request the “tax payers’ bill of rights” by calling 311 or visiting www.nyc.gov/dca.

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