

Spear N.Y.'s tax-loan sharks

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As she vowed upon taking office last year, state Human Rights Commissioner Kumiki Gibson has declared war on predatory lenders - and recently fired the first shot with a pair of lawsuits accusing tax giants Jackson-Hewitt and Liberty Tax Service of illegally targeting black, Latino and military families in New York with high-priced Refund Anticipation Loans.

If successful, Gibson's lawsuits could lead to wholesale reform of the lucrative tax-loan business - and not a moment too soon.

There's no question that RALs - those instant loans offered to filers who expect a tax refund - are a horrible deal for consumers.

"The loans often include exorbitant fees and costs, and rates of up to 700% annualized," according to the state complaint, "even though taxpayers can receive their refunds from the IRS, at no cost, usually within a week to 10 days of filing."

That's true. There's simply no reason to pay triple-digit interest for an advance on money - your money - that the government is going to give back to you promptly anyway.

But thanks to hard-sell tactics, lots of people do just that. Gibson, who sent subpoenas to the major tax-prep companies last spring, says the evidence suggests that refund loans are specifically pushed to black and Latino customers - and to people in the armed services.

"This is a predatory lending practice, plain and simple. They go out of their way to rope in people of color and members of the military," she told me.

This isn't the first time the allegation has been raised. The Neighborhood Economic Development Advocacy Project, a Manhattan-based think tank, has published studies and maps showing an overwhelming concentration of tax-refund offices and loans in communities of color, especially in central Brooklyn and southeast Queens.

From 2002 to 2005, according to NEDAP, people in these neighborhoods collectively paid \$324 million in fees and interest to tax-prep firms - an unconscionable drain of capital from communities and families that need it most.

Sleazy? Yes. Exploitative? Definitely. The question is whether the practice is illegal.

Gibson didn't show me the results of her subpoenas, which will likely be revealed in court proceedings as the case progresses. But she says the evidence is clear.

"We looked at marketing data, information about their locations, customer base, sales of their products," she says. "The evidence suggests targeting disparities."

Pushing high-cost loans based on race would violate New York's human rights law, which forbids discrimination in the granting of credit based on, among other things, race, religion, sexual orientation or military status.

The tax-prep firms deny any wrongdoing.

Gibson's lawsuit "has no merit," says Martha O'Gorman, chief marketing officer of Liberty Tax Service. "We have no plan or any kind of strategy to target low-income, military or ethnic groups in any of our marketing or operational strategies."

It will take months of fact-finding and, perhaps, a trial, to see whether the discrimination charge will hold up in court. That means this year, at least, Jackson-Hewitt and Liberty Tax will be free to charge their outrageous prices.

New Yorkers should avoid taking out refund loans: remember, the government will send your money for free. And to save even more money - and avoid being pressed to take a refund loan - look for one of the dozens of certified nonprofit agencies that will prepare tax filings at no charge for people who aren't rich.

You can find one by calling 311 or by looking at a list of free tax-prep agencies listed on the Web site of the state Human Rights Division (www.dhr.state.ny.us).

And don't forget, the Internal Revenue Service itself prepares tax forms for filers making less than \$50,000 a year.

With an economic recession looming, now is no time to be wasting money on companies that may be breaking the law.

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