

TESTIMONY BEFORE THE HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES  
REGARDING REFUND ANTICIPATION LOANS (RALs) (HB 4166)

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Good morning Mr. Chairman and members of the committee. Thank you for the opportunity to speak to you this morning about refund anticipation loans (RALs) and to voice our support for HB 4166, which will help educate Michigan families and protect their pocketbooks.

My name is Alicia Guevara Quintero and I am the policy analyst for the Community Economic Development Association of Michigan (CEDAM). CEDAM is a nonprofit organization representing over 370 organizations and individuals committed to rebuilding our neighborhoods and revitalizing communities throughout Michigan. We are a voluntary association of primarily community development corporations (CDCs), community action agencies, and other nonprofits that provide affordable and supportive housing to our neediest citizens, encourage downtown and commercial corridor revitalization, provide workforce and entrepreneurship training, and help families develop and maintain assets to better their lives. Our members provide these services in every county in Michigan—in urban and rural areas.

Yesterday in conjunction with our Asset Building Policy Project (ABPP), which unites individual-development and community-development policy to create opportunities and assets that will help families and communities achieve lasting financial security, members of CEDAM and the statewide Asset Building Coalition visited their legislators to discuss the impact of the predatory lending practices RALs have on the working families they serve.

Our members provide many services to low- and moderate-income families, including tax preparation through Volunteer Income Tax Assistance (VITA) programs. They see families struggling to make ends meet, especially in today's economy, and would like to help them keep more of their hard earned dollars in their pockets.

Every year during tax season, thousands of Michigan taxpayers pay millions of dollars in fees to receive a high-interest, short-term loan for the anticipated amount of their income tax refund through products called refund anticipation loans (RALs). RALs can cost from \$30 to over \$125 in loan fees, plus in some cases an additional "application" or "document processing" fee up to \$40 at an annual percentage rate (APR) from about 40 percent to over 500 percent. In 2007, approximately 8.7 million taxpayers lost a portion of their refund to RALs, which amounts to about \$833 million in loan fees and another \$68 million in related fees.

RALs, which are offered by professional tax preparers, are often deceptively marketed as "rapid refunds" and not as loans. As a result, consumers are often unaware that the money they receive is a loan and not their actual refund, and that there are some very high costs and fees associated with the loan. This predatory lending practice exposes taxpayers to the risk of unmanageable debt if their refunds do not turn out to be much as the loan—the consumer is responsible for repaying the loan no matter how much their refund is. If the loan is unpaid, then it will go to a debt collector and harm the person's credit.

Furthermore, RALS target low-income and working poor families, who need the resources most. IRS data shows that over 60 percent of all RAL borrowers are Earned Income Tax Credit (EITC) recipients, despite the fact that EITC recipients make up only 17 percent of taxpayers.<sup>1</sup> From this data the National Consumer Law Center and the Consumer Federation of America estimate that 5.9 million working poor families spend over \$600 million in RAL fees.

Ultimately, it is up to the consumer to decide whether or not the high costs and fees often associated with RALs is worth the immediate access to their income tax return. In some cases, the immediate need of cash brought on by an emergency may be worth the cost despite conventional wisdom or financial prudence. However, the current lack of disclosure does not always allow a consumer to make an informed decision and this is the intent of House Bill 4166.

To better inform taxpayers, and especially low-income families, we support HB 4166, which would require the disclosure of the following information:

- All interest, fees and hidden costs associated with RALs
- That an RAL is a loan and not a refund
- That the taxpayer could file electronically without applying for the RAL to expedite processing time
- The estimated time a refund would take to be issued by the government (usually 8-12 days)
- That there is no guarantee that the refund will equal what is on the tax form
- That the taxpayer is responsible for the difference if the tax form is not correct

This legislation does not ban RALs. Rather, it seeks to inform consumers so that they can make educated decisions regarding their personal finances and protect themselves from the predatory practices of some less-than-scrupulous individuals in the financial service industry.

There are currently 14 states<sup>2</sup> that have passed laws to regulate RALs—without regulation it is expected that interest rates and fees will continue to rise. And, with so many families experiencing financial hardship in these times, it is important that we ensure that every hard earned dollar is not lost to unnecessary costs and fees. Therefore, we support HB 4166 and encourage your swift action to protect Michigan families.

Thank you, Mr. Chairman and members of the committee, for the opportunity to address you today.

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<sup>1</sup> All data from National Consumer Law Center/Consumer Federation of America 2007 and 2008 RAL Report

<sup>2</sup> California, Connecticut, Illinois, Minnesota, Nevada, New Jersey, New York, North Carolina, Oregon, Tennessee, Texas, Washington State, and Wisconsin