

For Immediate Release: January 26, 2010

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State Rep. Darrin Williams and consumer advocates issue warning about the use of fund anticipation loans

*Act 1402 passed by the 87th General Assembly requires detailed disclosures on refund
anticipation loans and establishes penalties for prohibited activities*

LITTLE ROCK—State Rep. Darrin Williams joined consumer advocates on Tuesday to warn Arkansans against taking out refund anticipation loans and to highlight Act 1402 of the 87th General Assembly, which regulates those that facilitate such services.

Refund anticipation loans (RALs) are bank loans secured by a taxpayer's anticipated income tax refund. They typically last anywhere from one to two weeks until the taxpayer's actual IRS refund repays the loan, and they usually carry extremely high interest rates and fees. The predatory nature of such loans, typically aimed at low-income families, moved State Rep. Darrin Williams (D-Little Rock) to sponsor legislation requiring businesses to educate their customers about the exorbitant fees that go along with such a loan.

“Around tax time, many of these businesses pop up in low-income communities offering ‘fast cash’ or ‘rapid refunds,’” said Rep. Williams. “But what they’re really offering is a fast way to rip off the consumer. Arkansans need to be aware that they can get their tax refund in 8-15 days without taking out a loan or paying extra fees.”

During the 87th General Assembly, lawmakers unanimously passed Act 1402, also known as The Refund Anticipation Loan Act, which requires those offering refund anticipation loans to make detailed written and oral disclosures to customers prior to making such loans. The Act also prohibits them from engaging in activities such as requiring a customer to take out a loan in order to have their taxes prepared, charging “add-on” fees above those charged by the bank, and misrepresenting facts or conditions regarding a refund anticipation loan.

During last year's tax season about 8.4 million people took out a refund anticipation loan. Americans paid approximately \$738 million in loan fees, plus an additional \$68 million in other fees associated with this business. This means that ripping off the consumer is a big business, even in Arkansas.

“Arkansas working families are spending thousands of dollars on unnecessary tax preparation services and refund anticipation loans,” said Pat Bodenhamer, State Tax and Budget Outreach Director for Arkansas Advocates for Children and Families. “This is money that could be put into the pockets of working families to save for their children's education, a down payment on a new home, or even the most basic of necessities such as buying groceries.”

Research also shows that African American communities are hit the hardest when it comes to these predatory loans. A report from Arkansas Advocates for Children and Families titled *Rapid Refunds* notes that of the top 10 counties with the highest percentage of tax filers using RALs in 2006, all but one are located in the Delta, and all have far higher levels of poverty and African-American residents than the rest

of the state. These counties include Phillips, Crittenden, Saint Francis, Mississippi, Lafayette, Hempsted, Desha, Lee, Chicot and Jefferson.

Most families targeted by this industry would be much better off taking advantage of the federal government's Earned Income Tax Credit, or EITC, which often wipes out any tax liability for working families and in some cases sends money back to them in the form of a cash refund.

"In these difficult economic times, we need to make sure that every eligible Arkansas working family gets the full benefit of the EITC, one of the most effective anti-poverty measures in our nation," said Bodenhamer. "The IRS free tax preparation sites, or Volunteer Income Tax Assistance (VITA) sites, as well as those offered by other volunteer tax services such as those through AARP, can help families claim the EITC. These sites won't offer high-priced refund loans or charge the stiff preparation fees that too many private tax firms charge."

For more information on locating a VITA site, the public can call 1-800-829-1040 or visit www.irs.gov.

Jane Fisher of the Internal Revenue Service noted that the EITC Working Coalition is sponsoring a 'Super Saturday' kickoff event where qualifying Arkansans can come out and get help with their taxes, as well as learn about other helpful services available to them. The event will be held at the Workforce Development Center, a member of the coalition which is made up of a variety of federal, state, and community organizations working to promote EITC in Arkansas.

Numerous organizations in the state supported the passage of Act 1402 including Arkansas Advocates for Children and Families, the Arkansas Trial Lawyers Association (ATLA), Arkansans Against Abusive Payday Lending and AARP.

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