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Research Group Discusses Payday Advance-Like Holiday Loans, Recommends Avoidance

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Two nationwide tax preparers are offering new loan products in time for the holidays, backed by future tax returns. To issue a loan, *The Chicago Sun Times* reports, tax preparers use pay stubs to estimate a customer's tax refund.

A local research group thinks this kind of Refund Anticipation Loan is a terrible idea. The Woodstock Institute said the holiday loans, combined with other refund anticipation loans taken at tax time, will eat away hundreds of dollars from individual returns.

"From the looks of this product, tax preparers are moving into the [no faxing payday loan] business," said Marva Williams, senior vice president of Woodstock. "We strongly urge consumers to stay away from these expensive loans this holiday season, just as they would avoid a payday loan."

Holiday Loans

The loans are being offered by Jackson Hewitt and H&R Block. Liberty Tax Services' CEO John Hewitt called the holiday loans "a kind of predatory lending" and said tax preparers at his chain won't do them.

The holiday loans/new kind of payday cash advances are a variation of a tax refund anticipation loan or RAL. An RAL is a short-term loan that's backed by a tax refund. The average cost of a rapid refund loan is \$100, paid by taxpayers to receive their refund money a couple of weeks early.

Annual interest rates on RALs range from 40 to more than 700 percent, according to the National Consumer Law Center.

The new holiday loans act as RALs on top of RALs.

Jackson Hewitt's "Holiday Express Loan Program" or "H.E.L.P." will offer a \$600 loan. If the loan is

approved, the bank fee is \$65. The payday cash loan is due to be paid back in March, and while another RAL isn't necessary, a customer can use another RAL to pay it off at tax time.

H&R Block also offers an "early season" loan product, which started this month, though a company representative declined to comment about it.

CEO Mark Ernst said at a financial conference in November that instant cash loans would be priced 40 percent lower this year.

Woodstock Institute spokesman Tom Feltner said that RALs are mostly used by the working poor, who claim the Earned Income Tax Credit.

That federal tax credit is available to families with two or more children that in 2006 earned around \$37,000, with one child around \$32,000 and with no children around \$12,500.

Feltner said of people claiming the EITC in predominantly minority Chicago area communities, 54 percent took RALs. Of those not claiming EITC, only 17 percent used RALs.

Mark McCarthy, a DePaul University professor of accounting, said he believes these kinds of financial products are on the rise.

"It's another case of consumers going farther and farther out on a limb," McCarthy said. "Anybody with any means won't take advantage of this."

The Center for Economic Progress offers free preparation of tax returns for low-income families. Last year, the Chicago-based group helped families claim more than \$39 million in refunds. Information was not released on its efforts with regular or faxless payday loans.



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