

'Paystub' Loans Back-- In Time For Holidays

By William Launder

The emergence of the "paystub loan," a low-documentation variation of the tax refund anticipation loan, was a consumer finance lightning rod last tax season, with criticism of the product coming from activists and even some tax preparers.

Criticism can still be heard, but the product looks like one that is going to be around a while. Indeed, the offers have accelerated as versions of the loans timed for the holiday season have appeared.

Jackson Hewitt Inc. released its Holiday Express Loan Product, or HELP, in mid-November, and H&R Block followed suit later in the month with its Instant Money Advance Loan. The release dates were well ahead of last year's and, in Block's case, acknowledged that a product it has said it would rather not offer has had a significant business impact.

Block telegraphed its intention to go head-to-head with Jackson Hewitt in offering the product during a June conference call with investors. Chief executive Mark Ernst said Block had lost 250,000 customers during last tax season, partly to Jackson Hewitt's product, which he called "a disconcerting development in the tax preparation industry."

But Mr. Ernst added that Block would consider copying its rival's model to remain competitive. "We will, if necessary, aggressively respond in a manner consistent with our values, professionalism, and concern for our clients' financial needs," he said.

Liberty Tax Services, a Virginia Beach tax preparer, estimated it lost 50,000 to 60,000 customers last season to the popular Jackson Hewitt paystub loans. Chief executive John Hewitt (who co-founded Jackson Hewitt before departing and starting Liberty) said he disapproves of holiday and other paystub loans; he compared their high fees to cash-advance, payday loans. But like Block, Mr. Hewitt said he felt compelled to offer the product in order to stay competitive. "If my franchisees weren't clamoring that they are losing business, I wouldn't do it," he said.

Unlike traditional refund anticipation loans, the holiday and other paystub loans are unsecured and do not require a W-2. Applicants are eligible to get \$200 to \$1,500 in person at Jackson Hewitt and Block sites by estimating their anticipated tax return and showing a pay stub or previous tax return as proof of their ability to repay.

Like many short-term loans, the products carry transaction fees that when annualized produce rates that go well into the triple digits, a sore point for fair-lending advocates. The combination of quick availability and holiday-related pressure to spend has led some to see even more trouble in connection with the products.

Jackson Hewitt charges a \$60 base fee for its loan. Block said its fees, charged as a percentage, are 40% to 90% less than those of its competitors.

Chris Keeley, a spokesman for Neighborhood Economic Development Advocacy in New York, said, "These loans are marketed to that anxious feeling a lot of people have" during the holidays. They target "certain borrowers at what can be a very distressing time of year," he said.

Jackson Hewitt is "basically lubricating the slope" for other holiday lenders, Mr. Keeley said, by offering loan products that rivals must copy to stay competitive.

Scott Schneeberger, an analyst at CIBC World Markets in New York, said that Block, a Kansas City, Mo., company, was forced to offer a similar product "to maintain competitiveness and retention of prior-year customers."

Mr. Hewitt said Liberty would not offer holiday loans in combination with a regular paystub or refund anticipation loan. Though Block said customers cannot be approved for a Block holiday and refund anticipation loan during the same season, it is possible for people to borrow from multiple companies.

"The combined fees are extraordinary," Mr. Hewitt said. Block spokesman Dan Smith differentiated the company's Instant Money Advance Loan from refund anticipation loans, saying that the former is not secured with a tax refund and could also be paid back with a check or credit card. Fees on the Instant Money Advance Loan are about half those charged on competitors' products, he said, and the "loan amount is based on the borrower's ability to pay back and credit history."

He further differentiated the company's loans from payday loans, saying that borrowers are not required to hand over a post-dated check, are only eligible for one Instant Money loan per tax season, if qualified, and must be approved based on credit history by HSBC Holdings PLC, which funds the loans.

Jackson Hewitt did not return calls seeking comment. Spokeswomen for HSBC U.S. and Santa Barbara Bank and Trust, two banks that fund paystub and refund anticipation loans, did not respond to calls by press time.

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