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The Cruellest Month

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Like mushrooms after a spring rain, signs pop up at this time of year in hardscrabble urban neighborhoods across the country, promising quick and easy money. You might get the impression that they mean actual tax refunds from Uncle Sam, but they don't. The advertised cash is really a bank loan made against the expected return, carrying staggering annual interest rates that can range from nearly 90 percent to 1,800 percent, including fees. In the trade it's called a "refund anticipation loan," a RAL. More than half the people who get RALs have incomes low enough to qualify for the federal earned-income tax credit, one of the last shreds of the social safety net. Taxpayers spent an estimated \$1.5 billion for RALs and related fees in 2002.

H&R Block, America's best-known tax preparation service, got a nice piece of the action. In 2001 H&R Block arranged 43 percent of all refund loans, working with big-name institutions like Household Finance, the leading provider of RAL funding. In 2002 H&R Block realized a 57 percent profit on RAL business.

It's a well-thought-out and--thus far--perfectly legal scam, in which the tax professional calculates the amount of the customer's refund and offers an instant refund, which turns out to be a loan provided by a collaborating bank. The customer gets a check for the amount of the refund, all right, but minus a healthy percentage deducted for interest along with an average \$32 fee to the tax preparation service for arranging the loan and another \$25 fee for the lending bank. The National Consumer Law Center estimates that the three fees plus interest on the average refund of \$2,100 add up to \$250. The arrangement even includes a "dummy" temporary account in the taxpayer's name, set up by and for the bank to receive the refund.

Denise Hylton, a 40-year-old health unit coordinator at Tampa General Hospital who earns around \$24,000 a year, had gone to H&R Block for tax preparation for six years, she recalls, before she understood that her "refund" was a loan at 88 percent interest. Last year the federal government owed her \$4,295, but she got two payments that added up to some \$3,800. "They took \$480 out of the first check. That could have been another mortgage payment or money to feed my grandchildren," she laments. Worse yet, she realizes that she lost that kind of money each year she hired H&R Block, a total of at least \$4,000, she estimates.

Organizations like the National Consumer Law Center and the Consumer Federation of America have been monitoring RALs and waging legal battles against them for several years (see www.consumerlaw.org and consumerfed.org). Now the community organizers of ACORN have zeroed in on H&R Block in particular as the biggest RAL offender, both for the volume of

business it does and for what ACORN calls its aggressive and misleading marketing tactics. National ACORN organizer Lisa Donner says customers coming in for tax preparation are given deceptive information to deter them from pursuing less expensive options than RALs, and many, like Hylton, are unaware that their up-front cash is a loan.

ACORN also accuses H&R Block of marketing to the poor, who need their refund as soon as possible, by emphasizing fast cash, playing on the belief that there's an impossibly long lag-time between tax filing and tax refund. That can be true if tax returns are snail-mailed, but electronic filers receive refunds in eight to fourteen days. Donner points out that those getting tax-prep help from H&R Block would likely have their taxes filed electronically. Moreover, IRS-supported Voluntary Income Tax Assistance Program centers offer free or low-cost tax preparation, along with the e-filing that speeds up the refund; ACORN activists leaflet at H&R Block offices to direct low-income taxpayers to the VITA centers.

The ACORN campaign against H&R Block was launched in mid-January, with noisy pickets outside the firm's offices in fifty-five cities by January 31. ACORN hopes to shame H&R Block into dealing more forthrightly with consumers. Philadelphia activists went so far as to occupy an H&R Block office, plastering leaflets inside and out. But ACORN and other advocates are also digging in for the long term, aiming for anti-RAL legislation at the state level using a model developed by the National Consumer Law Center and based on North Carolina's anti-RAL law, the strongest in the nation.

Hylton, now an ACORN leader in Tampa, speaks with spirit about pursuing legislation against RALs. "I consider it legalized loan-sharking," she declares. Of her own losses, she sighs, "I would love to have my money back. For real."

About Bobbi Murray

Bobbi Murray lives in Los Angeles and writes frequently on economic justice issues. [more...](#)

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