



Consumer Federation of America



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Consumer Advocates Applaud FDIC Action Against Unsafe and Unsound Refund Anticipation Loans

Advocates at the National Consumer Law Center (NCLC), the Community Reinvestment Association of North Carolina (CRANC), and the Consumer Federation of America (CFA) applauded the announcement that the FDIC has notified Republic Bank & Trust of Kentucky that the bank's high cost refund anticipation loans (RALs) are "unsafe and unsound."

"With the FDIC's decision, RAL lending may be effectively over," declared Chi Chi Wu, NCLC Staff Attorney. "The FDIC-regulated banks were the 'last man standing' in making RALs. Now the FDIC has signaled that it too is forcing these last few banks out of the RAL business."

The FDIC's action follows on the heels of a similar action by the Office of Comptroller of Currency, which issued a regulatory directive on Christmas Eve against HSBC (H&R Block's RAL partner bank) prohibiting that bank from making RALs. Consumer advocates also had applauded that action. In April 2010, JPMorgan Chase voluntarily exited the RAL market, leaving only Republic and two other FDIC-regulated banks as the last RAL lenders. Republic is the RAL lender for Jackson Hewitt and Liberty Tax Service, the second and third largest tax preparation chains in the country.

"This may be the last nail in the coffin for RALs," stated Adam Rust, Research Director for CRANC. "If so, we will be glad to see the death of these high cost, high risk loans."

RALs are one to two week loans made by banks and offered by tax preparers, secured by the taxpayer's refund. RALs can be expensive; this year, Republic Bank is charging \$61.22 for a RAL of \$1,500, which translates into an APR of 149%. RALs target low-income taxpayers, especially recipients of the Earned Income Tax Credit, a special tax break for working poor families. In 2009, RALs skimmed over \$600 million from the refunds of 7.2 million American taxpayers.

“We are pleased that the bank regulators may have effectively put an end to loans that siphon off hundreds of millions in taxpayers’ hard-earned money and federal benefits meant to lift hard-working Americans out of poverty,” said Jean Ann Fox, Director of Financial Services for CFA.

News of the FDIC’s action was released in an SEC filing by Republic yesterday, after the close of the business day. The FDIC’s decision that RALs are unsafe and unsound is based upon the termination of the Debt Indicator by the IRS in August 2010. The Debt Indicator was an IRS-provided service that helped tax preparers and banks make RALs by notifying them if the borrower’s refund would be intercepted by the government for certain debts. Republic’s SEC filing notes that the bank has 60 days to request an Administrative Hearing and could ultimately appeal the FDIC’s action in federal court.

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National Consumer Law Center® is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as organizations, who represent low-income and elderly individuals on consumer issues.

The Consumer Federation of America is an association of nearly 300 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy and education.

The Community Reinvestment Association of North Carolina is a nonprofit agency that promotes and protects community wealth.