



# Refund Anticipation Loan Lending in the Chicago Region

Woodstock Institute

January 2007

## How Do Income Tax Loans Strip Wealth?

- Tax loans are high cost, low-risk loans secured by a projected income tax refund. These loans are offered by JP Morgan Chase, HSBC, and Santa Barbara Bank & Trust and arranged by tax preparation companies such as H&R Block and Jackson Hewitt or smaller, “mom and pop” preparers.
- With an average fee of \$100 per tax loan (based on a \$2,150 loan), 196,776 taxpayers in the Chicago region spent nearly \$19 million on tax loans.
- Both H&R Block and Jackson Hewitt offer “holiday loans” and “paystub loans” which allow a taxpayer to borrow money as early as Thanksgiving or early January, respectively, without presenting a W-2. Charging high fees, and often requiring a deposit for future tax preparation services, these loans give taxpayers a chance to get into debt even earlier.

## Who is Impacted by Refund Anticipation Lending?

- Recipients of the Earned Income Tax Credit (EITC) are five times more likely to use RALs than non-recipients in the Chicago region
- Taxpayers in predominately minority communities are over 9 times more likely to use a tax loan than taxpayers in predominately white communities
- South suburban Chicago is heavily impacted by the high cost of tax refund loans. Of the top 15 communities in the Chicago region ranked by RAL usage, nine of these are located in the south suburbs.

## New Predatory Tax Refund Loans

**Holiday Loans:** Holiday loan offered in November at \$70 for \$600 loan

**Money NOW Loans:** Loans up to \$2,900 available December 27<sup>th</sup>

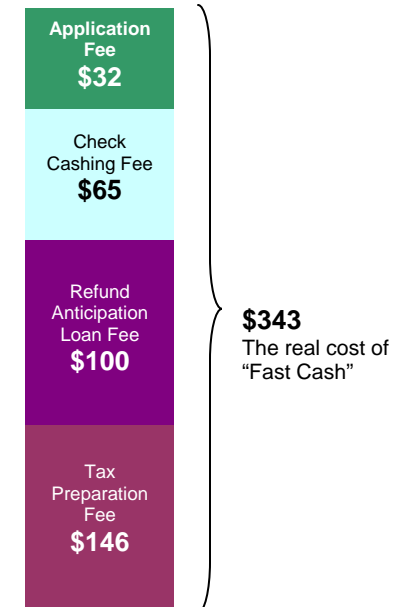
**Table 1. 2003 usage rates for the Chicago Six-County Region by EITC status and tract minority concentration\***

ZIP code	Returns with EITC			Returns without EITC			All Returns		
	Returns	RALs	% Using RALs	Returns	RALs	% Using RALs	Returns	RALs	% Using RALs
Predominately Minority	158,259	86,460	54.6%	225,935	38,532	17.1%	384,194	124,992	32.5%
Highly Minority	85,324	28,703	33.6%	295,042	23,451	7.9%	380,366	52,154	13.7%
Moderately Minority	31,066	6,558	21.1%	201,603	8,219	4.1%	232,669	14,777	6.4%
Predominately White	6,513	914	14.0%	121,523	3,627	3.0%	128,036	4,541	3.5%
No Information	413	91	22.0%	5,234	221	4.2%	5,647	312	5.5%
Chicago region	281,575	122,726	43.6%	849,337	74,050	8.7%	1,130,912	196,776	17.4%

**Table 2. 2003 usage rates for the Chicago Six-County Region by EITC status and tract income levels\***

ZIP code	Returns with EITC			Returns without EITC			All Returns		
	Returns	RALs	% Using RALs	Returns	RALs	% Using RALs	Returns	RALs	% Using RALs
Low-Income	40,348	23,355	57.9%	46,470	7,598	16.4%	86,818	30,953	35.7%
Moderate-Income	195,266	88,056	45.1%	448,910	50,435	11.2%	644,176	138,491	21.5%
Middle-Income	43,593	10,900	25.0%	296,486	14,486	4.9%	340,079	25,386	7.5%
Upper-Income	1,967	324	16.5%	52,333	1,324	2.5%	54,300	1,648	3.0%
No Information	401	91	22.7%	5,138	207	4.0%	5,539	298	5.4%
Chicago region	281,575	122,726	43.6%	849,337	74,050	8.7%	1,130,912	196,776	17.4%

**Figure 1. How Much Does a RAL Cost?**



\*Compiled from 2003 IRS data using ZIP code data from 2000 US Census. The IRS data is the latest available. The Chicago region includes Cook, DuPage, Kane, Lake, McHenry, and Will Counties.