



# Tax Refund Anticipation Loans Return, But Who's Paying the Cost?

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Published February 08 2016, 2:40pm EST

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## New Twist on an Old Product

Liberty Tax Service, a tax-preparation firm with more than 3,000 offices nationwide, has started offering interest-free loans to customers who are awaiting tax refunds from the IRS. Here are more details on the loans

<b>Loan Amount:</b>	\$350 or \$750
<b>Repayment Method:</b>	Deducted from the tax refund
<b>Loan Term:</b>	Usually 21 days or less; depends when tax refund is received
<b>Financial Partners:</b>	Republic Bank & Trust Co.; MetaBank
<b>Other Terms:</b>	Taxpayer is not on the hook if the refund fails to cover loan amount

Source: Liberty Tax Service

Is there a free lunch after all?

A new breed of tax refund anticipation loans is testing that age-old maxim, with supporters saying that free really does mean free and critics suggesting that the products' 0% interest rates are masking the actual costs.

The loans — which are available at two large national chains, Jackson Hewitt and Liberty Tax Service, as well as smaller tax preparers — allow consumers to receive part of their tax refund in advance of its arrival from the Internal Revenue Service. Many of the stores that offer the loans cater to low-income taxpayers, who are more likely than wealthier consumers to need their tax refunds as soon as possible.

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Unlike an earlier generation of refund anticipation loans, which was driven to near-extinction by banking regulators, the latest version is being advertised as free to consumers. Banks and other lenders supply the loans, but fees are now paid by the tax preparers.

Among the lenders offering the loans is Republic Bank and Trust, a Louisville, Ky., community bank that had been one of the nation's top refund anticipation lenders until it was essentially forced out of the business in 2012. It is partnering with Liberty Tax Service and other smaller preparers, charging them \$35 for each approved loan.

Under the terms of their agreements with Republic, the preparers are prohibited from passing that cost along to borrowers, who will often already owe several hundred dollars in tax preparation fees. It's that twist — under previous models borrowers typically paid the loan fees — that has made regulators more comfortable with refund anticipation loans.

"It's a product that obviously consumers like and want so far, so we're happy that we're

able to offer it," said John Ripper, the chief risk management officer at the \$4 billion-asset Republic.

For Liberty Tax Service, which is offering the product for the first time this year, interest-free loans are a way to attract and retain customers, said company spokeswoman Martha O'Gorman.

She argued in an email that Virginia Beach-based Liberty does not need to pass the loan fees on to customers because the company expects the new revenue generated from additional business to exceed the fees being paid to the banks that supply the loans.

But consumer advocates, after many years of battles over high-cost financial products for taxpayers, are skeptical.

"These are advertised as free," said Adam Rust, director of research at Reinvestment Partners, a community development group based in Durham, N.C. "At the same time, you know, nothing is ever really free."

Pricing in the tax-preparation business is opaque, consumer advocates say. This makes it difficult for taxpayers to comparison-shop.

"Preparers might pass along these fees, or charge even more," the National Consumer Law Center and the Consumer Federation of America argued in a recent press release. "Since few consumers get a firm price estimate before having their refund prepared, these hidden fees can be hard to avoid."

Rust said that Reinvestment Partners intends to share its concerns about the loans with federal banking agencies.

The earlier incarnation of refund anticipation loans carried high costs that amounted to triple-digit annual percentage rates, and blossomed into a big business prior to a crackdown by the banking regulators.

Back in 2002, 12.7 million U.S. consumers got one of the loans, according to data obtained by the National Consumer Law Center. By 2014, after banks were driven out of the business, that number had fallen to 35,000.

The high-interest rate loans have not disappeared entirely, but today they are being offered only by nonbanks, and only a relatively small scale.

Republic waged a multiyear battle with the Federal Deposit Insurance Corp. over the refund advances before it stopped offering them after the 2012 tax season.

When Republic revived the short-term loan product, it provided training to tax preparers, who were told that they were not to pass along the \$35 fee to their customers, according to Nelson, the president of Republic Processing Group. He also said that Republic monitors the fees charged by tax preparers as part of its audit program.

Republic officials said they could not discuss the bank's communications with its regulators about the 0% interest product. The FDIC also declined to comment.

The zero-interest loans are different from the higher-priced version in a couple of respects, beyond just their prices.

First, if the tax refund turns out to be smaller than anticipated, the borrower is not responsible for the shortfall, according to several companies that finance or market the interest-free loans. Under the old products, the consumer could be left on the hook.

In addition, the refund advances are now available only in smaller amounts than they used to be. Taxpayers could previously borrow up to \$1,500. Today, both Jackson Hewitt and Liberty Tax Service are capping the loans at \$750.

In addition to Republic Bank, Liberty Tax Service is also offering the 0% interest loans through MetaBank in Storm Lake, Iowa.

MetaBank is regulated by the Office of the Comptroller of the Currency, which last

August released new guidance on tax refund-related products. The guidance states that banks should implement effective controls and review standards for advertising. It also states that banks should provide training programs that address regulatory requirements.

Toni Cranny, a spokeswoman for MetaBank, did not respond to questions about the size of the fee that the \$2.5 billion-asset bank charges, or about any monitoring by the bank.

Jackson Hewitt, another large tax-preparation chain, offers refund advances through 1st Money Center, a nonbank lender in Hurst, Texas.

"Our prices for tax preparation start at \$48 based on the complexity of the tax return, and prices are the same whether the customer receives a refund advance or not," Parsippany, N.J.-based Jackson Hewitt said in an emailed statement.

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"Jackson Hewitt absorbs the cost of the refund advance as a marketing expense in lieu of other promotions, and it's been very successful."

Another lender in the market is Santa Barbara Tax Products Group, a division of Green Dot Corp. The firm charges tax preparers \$35 for each completed loan, which are free to consumers.

The company said in an email that it monitors tax preparation fees "through various means" but did not offer specific examples.



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