

# *United States Senate*

**FOR IMMEDIATE RELEASE**

February 11, 2007

## **WITH PRESIDENT BUSH SET TO SIGN THE ECONOMIC STIMULUS PACKAGE THIS WEEK ...**

### **GRASSLEY, SCHUMER WARN PAYDAY LENDERS: STAY AWAY FROM AMERICANS' REBATE CHECKS**

*With Uncle Sam About To Mail Rebate Checks To Help Jumpstart Economy, Scams May Emerge  
Promising Money Up Front—But With a Catch*

*In Letter, Senators Urge Top Payday Loan Companies And Tax Preparers To Steer Clear of  
Predatory Tactics*

*Similar to So-Called “Refund Anticipation Loans,” Payday Loans on Rebate Checks Could  
Carry Interest Rates Far Higher Than 100%*

WASHINGTON, DC—With Congress passing an economic stimulus package last week that the President is expected to sign on Wednesday, U.S. Senators Chuck Grassley and Charles E. Schumer today warned the nation’s leading tax preparers and payday loan companies to steer clear of so-called “instant rebates” that could bilk Americans out of huge portions of their rebate checks.

The senators said today that families who should receive large rebate checks in the next few months need to beware promises of upfront loans that promise refunds without the wait, but that come with massive interest rates and hidden fees. The senators noted that taxpayers – particularly families with children that are due to get back the largest amounts – could lose out on hundreds of dollars if lured by these payday loan companies.

Grassley said, “These rebates are meant to put money in people’s hands, not increase their debt. Taxpayers should understand that refund anticipation loans are just that – loans. As loans, they can carry very high interest charges that make them a very bad deal for the taxpayer. The companies that offer these loans need to stand down and not try to exploit an economic downturn for their gain at taxpayer expense.”

Schumer said, “We’ve all seen the catchy slogans and colorful advertisements for RALs: Simply sign a form, pay a fee, and walk out with cash against your coming refund check. Well, we don’t want something similar to happen with these rebate checks. These checks are meant to be a shot in the arm for taxpayers who are struggling, not open season for scam artists. Tax preparers often charge interest rates for these loans that can run on well into triple figures, all for the privilege of getting money a few days or weeks earlier. The American people are getting a boost from us and desperately need that check as soon as we are able to provide it to them. In fact, many families are so cash-strapped, I am worried that they may not even wait for the IRS to send them a check but instead turn to a payday loan or similar product.”

In their letter, which was sent to the chairman of the Financial Services Centers of America as well

as tax preparers like H&R Block and Jackson Hewitt, the senators demanded that these companies not “take any actions that will be harmful and undermine the intended goals of the legislation of getting the full amount of the tax rebate into the hands of individuals who will increase spending in the economy.” Schumer and Grassley added, “We will be monitoring this matter closely and will look to federal and state regulators to fully examine this issue if there are any improprieties.”

On Thursday, both the House and Senate passed a stimulus package that rushes rebates of \$600 to \$1,200 to most taxpayers and \$300 checks to disabled veterans, the elderly and other low-income people. President Bush indicated he would sign the measure on Wednesday.

Grassley and Schumer today warned Americans to avoid anticipated scams where tax preparers and payday loan vendors promise rebate checks up front or instantly because these deals usually carry huge interest rates and hidden fees. Companies, like H&R Block and Jackson Hewitt, typically offer such advances on taxpayers refunds, called “Refund Anticipation Loans” or “RALs”. The IRS has publicly expressed concerns that because these are the largest rebate checks ever issued, these companies are likely to push these scams right away.

RALs are high cost loans secured by and repaid directly from the proceeds of a taxpayer’s refund from the IRS. In the case of the stimulus checks, consider a married couple with two children, expecting a \$1,600 check in May, and a RAL provider or loan vendor promises to give them \$1,400 in March instead. This means they are being charged an interest rate of 87 percent and this doesn’t include any hidden processing fees and taxes that typically come with these loans.

The IRS has already announced that it may ban the practice altogether by next year.

A copy of Grassley and Schumer’s letter appears below. The letter went to the following companies:

Kenneth E. Compton  
President and Chief Executive Officer  
Advance America, Cash Advance Centers, Inc.  
135 North Church Street  
Spartanburg, SC 29306

Jared Davis and David Davis  
Chief Executive Officers  
Check 'n Go  
5155 Financial Way  
Mason, OH 45040

Jay B. Shipowitz  
President and Chief Executive Officer  
Ace Cash Express  
1231 Greenway Drive, Suite 600  
Irving, TX 75038

Alan Bennett  
Interim Chief Executive Officer  
H&R Block  
1 H&R Block Way  
Kansas City, MO 64105

Mr. Joe Coleman, Chairman  
Financial Services Centers of America  
Court Plaza South, East Wing  
21 Main Street, 1<sup>st</sup> Floor  
Hackensack, NJ 07602

Michael C. Yerington  
President and Chief Executive Officer  
Jackson Hewitt  
3 Sylvan Way, Box 264  
Parsippany, NJ 07054

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February 11, 2008

Dear Sir,

We are writing to the leading organizations and businesses in the tax preparation, payday loan, and check cashing industries to express a concern that we have relating to the economic stimulus package passed by Congress last week.

As you know, the lion's share of the stimulus package is a rebate check that will go to all working families: a maximum of \$600 for singles and \$1,200 for married couples, as well as \$300 per child. In addition, the legislation includes a modification by the Senate that will provide checks to low-income seniors and disabled veterans (or their widow/er). This will provide a much-needed benefit to these families and help encourage spending. These checks will begin to be mailed once the busiest part of the 2007 tax filing season has ended, probably by mid-to-late May, and it may take ten weeks for all of the checks to be mailed. We are working closely with the Internal Revenue Service to make sure that the checks can be processed as quickly as possible.

These rebate checks are meant to be money in the pockets of working families, veterans, and seniors – not money in the till for tax preparers or payday loan vendors. We are determined that members of your industries not take any steps to publicize or otherwise encourage working families, veterans, or seniors to take a loan or other credit arrangement based on the rebate checks approved by Congress. Such actions will be harmful and undermine the intended goals of the legislation – namely, getting the full amount of the tax rebate into the hands of individuals and families who will spend the money and provide a short-term boost to the economy.

Here are a couple of examples to clarify our concern. Consider a married couple with three children that is expecting a \$2,100 check in June. Clearly, it is not the intent of Congress that a payday lender, tax preparer, or other entity would offer that family \$1,600 in April in exchange for the \$2,100 check two months later. Such an “advance” of the rebate would represent a loan at an annualized interest rate of 190 percent. Or consider a single mother with two children that pays a \$200 fee to get her rebate back 60 days faster – which amounts to a 122 percent interest rate on the \$1,000 loan she receives. Clearly, it is the intent of Congress that these checks should go into the pocketbooks and checking accounts of working families – not to enrich unscrupulous lenders. We will be monitoring this matter closely and will look to federal and state regulators to fully examine this issue if there are any improprieties.

In addition, we are particularly concerned that tax-exempt entities that engage in payday loans not engage in this behavior. We view such actions as raising legitimate concerns about whether such an effort would be in keeping with their tax-exempt status.

Thank you for your time and courtesy on this important matter.

Sincerely,

Senator Chuck Grassley

Senator Charles E. Schumer

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