



PRESS RELEASE

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NM's Native Community Loses \$12 Million to Predatory Tax Preparers President Obama urged to address refund anticipation loans at NM town hall

ALBUQUERQUE—Approximately one-quarter of the New Mexicans who received an Earned Income Tax Credit (EITC) in 2005 got their tax rebate via a refund anticipation loan (RAL). RALs are very short-term, risk-free loans, with interest rates as high as 500 percent APR, that are targeted toward low-income individuals. They are also widely used in Indian country, according to a new report, **Borrowed Time: Use of Refund Anticipation Loans Among EITC Filers in Native American Communities**, by the First Nations Development Institute and the Center for Responsible Lending.

The total annual cost of these high-interest loans (estimating that each filer spends \$250 on a paid tax preparer and RAL fees) is more than \$12 million – and that's just in New Mexico counties with high Native-American populations. RALs are made through paid tax preparers in order to provide filers with instant tax refunds.

"RALs are entirely unregulated in New Mexico, and tax preparers aren't even required to disclose their interest rate," said Bill Jordan, Policy Director with New Mexico Voices for Children. The report states that, in many cases, filers may simply not be aware that they can access their tax refund at no cost without using a RAL.

"We've been working toward consumer protection on RALs in New Mexico, but legislation in this last session got nowhere," said Jordan. "A lot of legislators believe this issue really needs to be addressed on the national level."

NM Voices for Children would like to see President Barack Obama include the issue of RALs during his town hall meeting this Thursday. The meeting, scheduled in Rio Rancho on May 14, will focus on predatory credit card practices.

"It's time to shine a light on these predatory RAL practices as well, and no one can do that better than the president," said Jordan.

What NM Voices finds most disconcerting about the high use of RALs by EITC recipients is that the fees siphon off most or all of the benefits of the EITC. So money intended to

help low-income families ends up in the pockets of paid tax preparers instead. The EITC, an anti-poverty measure that has long enjoyed bipartisan support, is a refundable tax credit that's only available to low- and moderate-income workers. In New Mexico, 48,363 EITC recipients received RALs in 2005. Another 21,453 New Mexicans who did not receive EITCs also got RALs.

The First Nations report looked at ten states with high Native-American populations. While the use of RALs is often much higher in Native-American populations than non-Native, New Mexico doesn't see as high a disparity between RAL use by Native and non-Native groups. That's because the use of RALs is high in low-income areas throughout the state.

However, counties that have high Native populations, such as Cibola and McKinley, also have very high RAL usage rates. Cibola County has a 40 percent Native-American population and 45 percent of EITC recipients there used RALs. In McKinley County, 74 percent of the population is Native American and 34 percent of EITC recipients used RALs. The total cost of RALs and tax preparers in just these two counties was \$1.5 million in 2005.

The report makes three recommendations: Set up more IRS Volunteer Income Tax Assistance (VITA) sites where low-income New Mexicans can get help with their tax returns at no cost and RALs are not available; cap the interest rate lenders can charge for RALs; and launch an education campaign about RALs in Native communities.

The report by First Nations Development Institute and the Center for Responsible Lending is available online at http://www.firstnations.org/default2.asp?active_page_id=273&top=76

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New Mexico Voices for Children is a nonpartisan, nonprofit organization advocating for policies to improve the health and well-being of New Mexico's children, families and communities.
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