



STATE OF NEW YORK
BANKING DEPARTMENT

Beware the Refund Anticipation Loan (RAL)

Should you pay to borrow money that already belongs to you?

Every year at about this time there is a glut of advertising by tax return preparers for what they refer to as “Rapid Refund”, “Fast Cash Refund”, “Express Money”, or “Instant Refund” Some locations even offer a chance to play a game and double your instant refund. These very tempting offers are for you to get your anticipated refund immediately or within a day or two. What many people don’t realize is that there is a high price to pay and that what is being offered is actually a high-cost loan called a Refund Anticipation Loan or RAL.

These loans are borrowed against the amount of your anticipated refund and often include extremely high interest rates and high fees. And if you don’t get your refund or it is smaller than anticipated, you will have to repay that loan.

RALs are Expensive! Do the Math.

RALs are extremely expensive. Loan fees typically range from \$30 to \$90, which translates into Annual Percentage Rates (APRs) of about 60% to over 700%. Some tax preparers also charge a separate fee, often called an “administrative” or “application” fee, ranging from \$28 to \$59 and averaging \$32.

If you include fees in the calculation, RALs can cost you from 70% to 1,700% APR.

It’s Already Your Money

Your tax refund is money that you worked hard to earn. Don’t give it away. Most taxpayers don’t realize that they can have their refund in two weeks or less even without the costly loan. To avoid the temptation of getting a Refund Anticipation Loan and to save money at tax time:

- If you have an urgent bill to pay, ask creditors for more time until the tax refund check comes from the IRS. Don’t take on a new expensive debt to pay an old bill.
- File your tax return electronically and have your refund deposited directly into your bank account. This will speed up your refund. Some refunds will be deposited in as few as 10 days.
- If you don’t have a bank account, consider opening one. All banks in New York State are required to offer low-cost Basic Banking Accounts. Visit www.banking.state.ny.us/bba.htm for more information on these accounts. Be aware that if you go to a check casher they can and may charge an extra fee to cash RAL and tax refund checks.
- AARP Tax-Aide helps people of low- to middle-income, with special attention to those 60 and older, with taxes and refunds. To locate the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit <http://www.aarp.org/money/taxaide/>
- Free tax preparation programs called Volunteer Income Tax Assistance or VITA sites can be found in libraries, community centers, and other locations during tax time. They can help low- and moderate-income taxpayers file taxes electronically. For the VITA site near you call 1-800-TAX-1040 or visit www.tax-coalition.org