



Borrowed Time: Use of Refund Anticipation Loans Among EITC Filers in Native American Communities

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May 13, 2009

Refund Anticipation Loans (RALs)

- Provided through commercial tax preparers to advance a tax refund quickly
- Because of high cost and short-term of loan, APRs range from 50-500% (\$100 RAL fee plus \$150 tax prep fees—add'l misc. fees also possible)
- As refund turn-around time speeds up, benefit is diminished





Why Focus on Impact of RALs on EITC Recipients?

- Earned Income Tax Credit: largest federal government anti-poverty program
- EITC lifts 5 million above poverty line with ~\$45 billion in refunds going to 23.1 million families
- Nearly two-thirds (63%) of RAL users are EITC recipients, even though only made up 17% of tax filers





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Research Questions/Designs

- Are Native communities disproportionately impacted by RALs? What is the cost?
- 2005 county level data, for EITC recipients (most likely to receive a RAL, helps to control for income differences)
- 10 states studied with relatively high concentrations of Native Americans/Native lands
- Focus on counties with reservation lands and at least ten percent of the population Native American



**Key Finding: in all but one state (WA),
more RAL usage among EITC recipients
in Native population counties**

<i>% of EITC recipients getting RALs</i>	Native County	Non-Native County
North Dakota	48%	4%
South Dakota	60%	12%
Montana	41%	12%
Minnesota	28%	12%
Oregon	33%	18%
Arizona	37%	21%
Wisconsin	20%	12%
Oklahoma	36%	28%
New Mexico	28%	24%



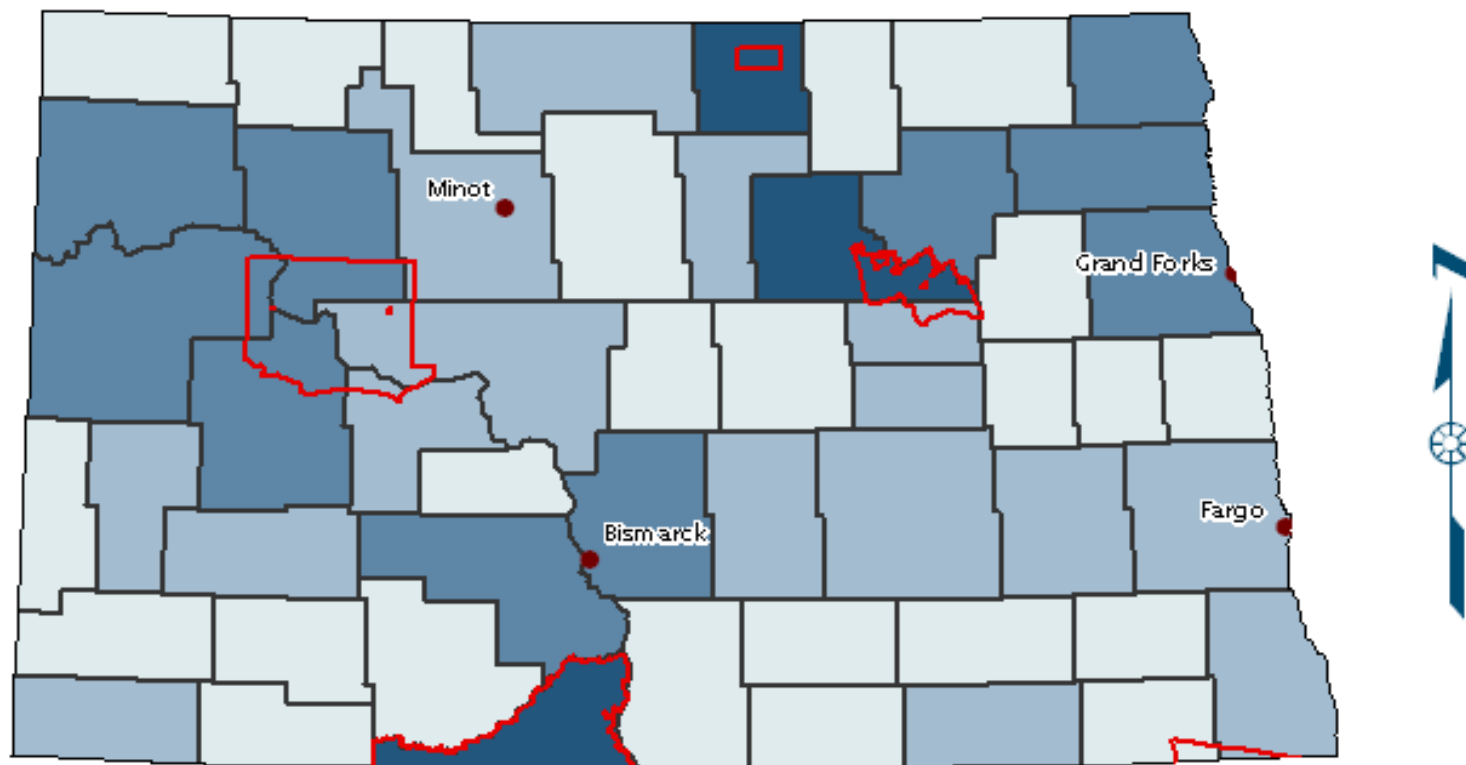
Key Finding: As Native population increasing, RAL usage rises

- In 6 states, a moderate to strong positive correlation between Native American population and RAL usage
- MN and OR— weaker, but significant correlation
- NM and WA—no significant correlation

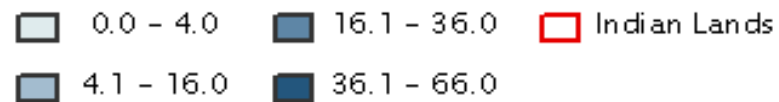
Arizona	.85
North Dakota	.78
South Dakota	.78
Montana	.72
Wisconsin	.70
Oklahoma	.63



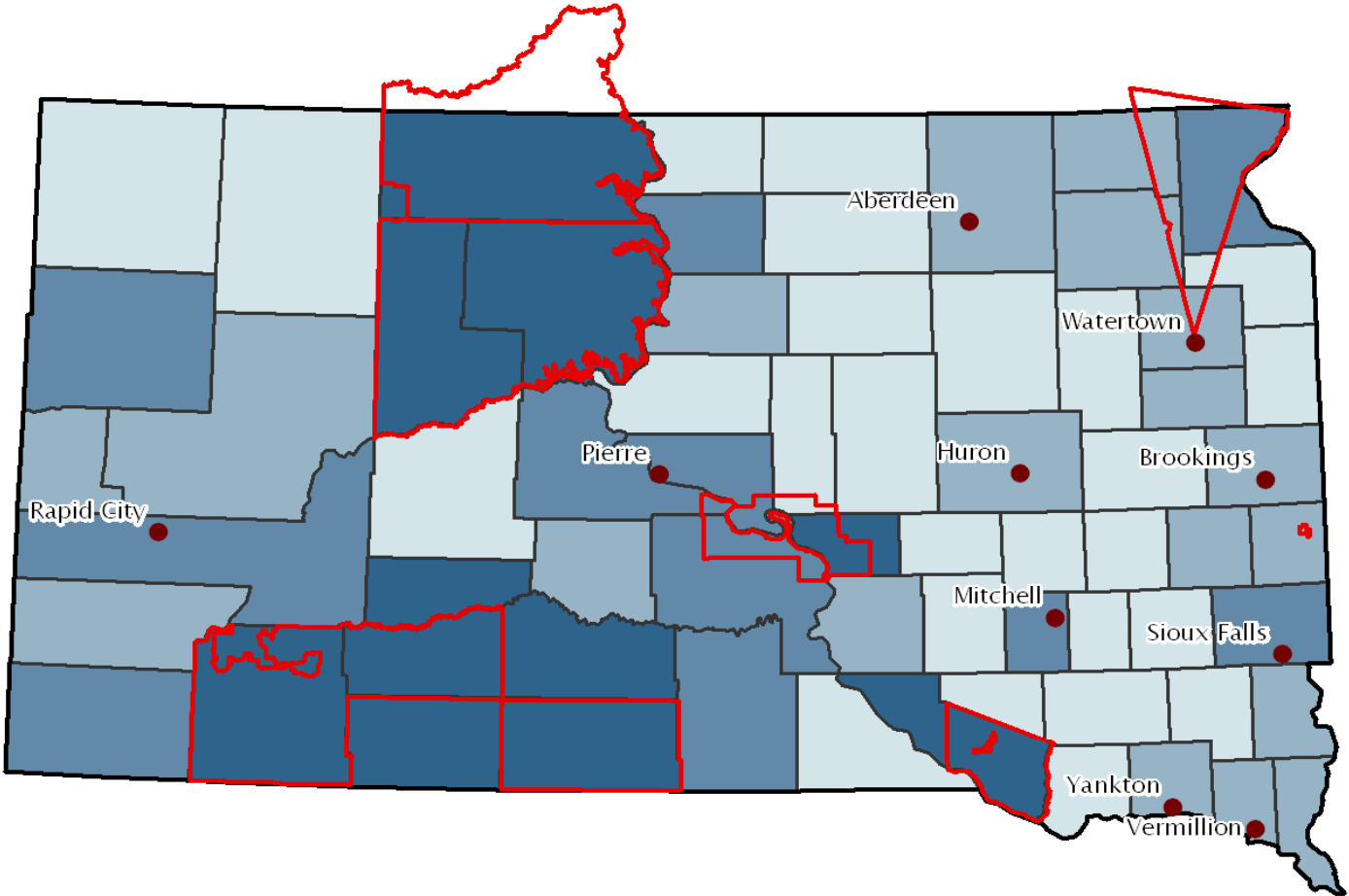
Refund Anticipation Loans in North Dakota, 2005



As Percent of Total EITC Filers



Refund Anticipation Loans in South Dakota, 2005

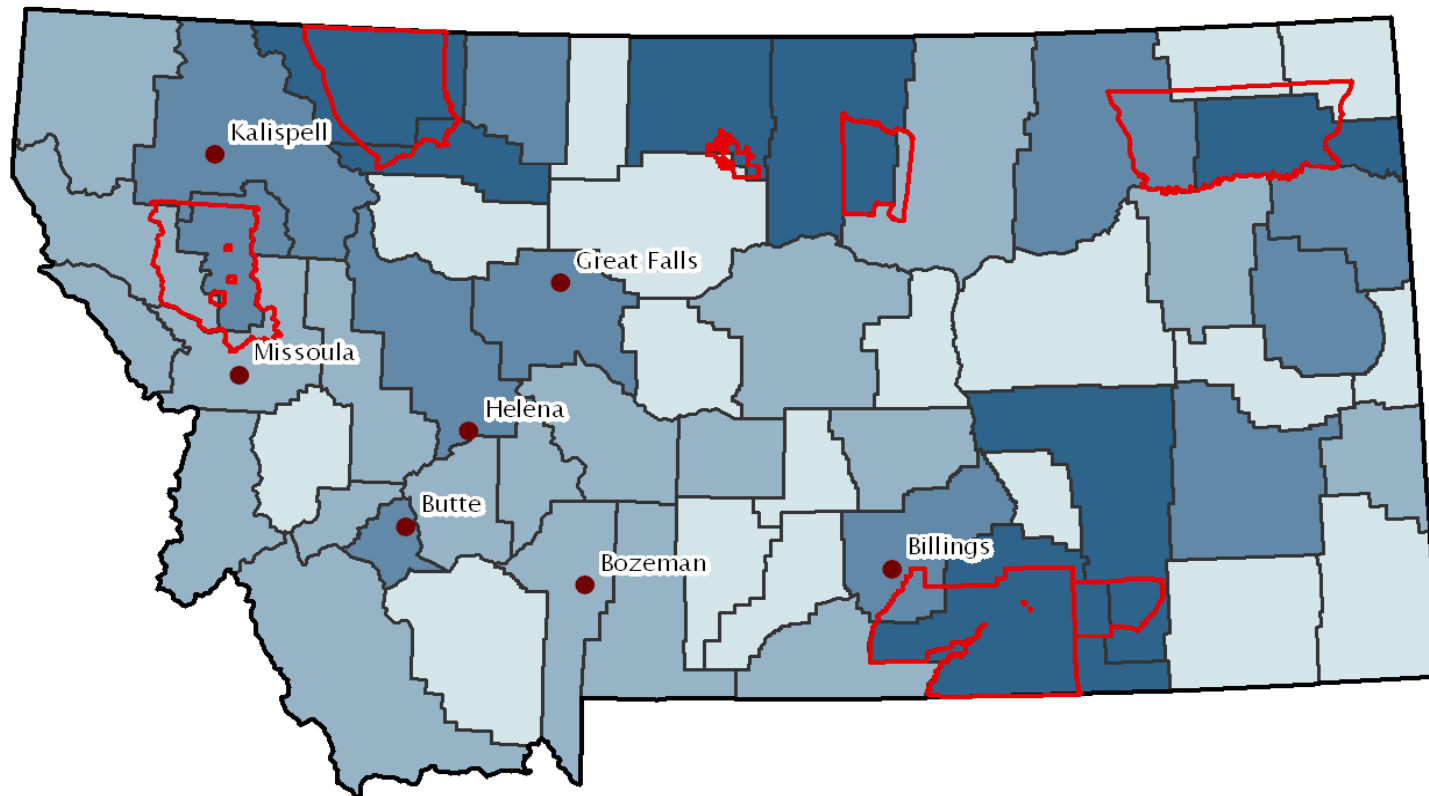


As Percent of Total EITC Filers

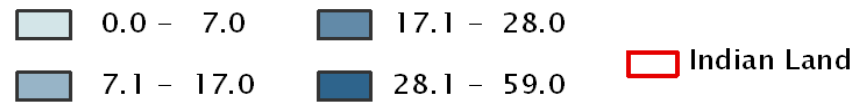
- 0.0 - 10.0
- 10.1 - 24.0
- 24.1 - 45.0
- 45.1 - 78.0
- Indian Lands



Refund Anticipation Loans in Montana, 2005



As Percent of Total EITC Filers



Key Finding: RAL usage is extremely high in some counties

County Name	Percent of EITC Filers Using a Paid Preparer Getting a RAL	Percent Native American Pop.	Reservation
1. Buffalo County, SD	91%	82%	Crow Creek
2. Todd County, SD	83%	86%	Rosebud
3. Shannon County, SD	81%	94%	Pine Ridge
4. Sioux County, ND	75%	85%	Standing Rock
5. Benson County, ND	73%	48%	Spirit Lake



Key Finding: Significant loss of EITC funds from RAL/tax prep fees in Native communities

	EITC refunds	Number of RALs	Cost of RALs	Cost of RALs and tax prep	Share of EITC refund drained
North Dakota	\$ 8.6M	2,755	\$275,500	\$688,750	8%
South Dakota	\$ 18.5M	5,528	\$560,800	\$1,402,000	8%
Montana	\$ 24.0M	5,441	\$544,100	\$1,360,250	6%
Arizona	\$ 79.6M	15,641	\$1,564,100	\$3,910,250	5%



Recommendations

- Conduct public education campaigns in Native communities
- Create more VITA sites offering free tax preparation and asset building opportunities
- Enact rate caps on RALs and other high-cost loans, similar to Military Loan Act's 36% APR limit



Questions? Comments?

- The report and additional data tables are available at: www.firstnations.org (under “Research” tab)
- For more information, contact:

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**This research was funded by the Annie E. Casey
Foundation**

