



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
OFFICE OF FINANCIAL AND INSURANCE REGULATION  
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH  
STANLEY "SKIP" PRUSS, DIRECTOR

KEN ROSS  
COMMISSIONER

## BILL ANALYSIS

**BILL NUMBER:** House Bill 4166, as introduced  
**TOPIC:** Refund Anticipation Loans  
**SPONSOR:** Representative Rashida Tlaib  
**CO-SPONSORS:** Representatives: Dan Scripps, Tim Melton, Jon Switalski, Bob Constan,  
Fred Durhal and Douglas Geiss  
**COMMITTEE:** Banking and Financial Services  
**Analysis Done:** March 5, 2009

### POSITION

The Office of Financial and Insurance Regulation supports this legislation.

### PROBLEM/BACKGROUND

Refund anticipation loans (RAL) are high cost, short-term loans secured by a taxpayer's expected refund at the time they have their tax documents prepared for submission to the Internal Revenue Service (IRS). Consumers may pay three fees: one for tax preparation, one for preparer to process the RAL and one to the lender for the loan. The amount of the loan is based on the amount of refund the taxpayer will receive. In this manner, a taxpayer can access the money owed by the IRS without having to wait for the return to be processed and a check issued.

These short-term loans are accompanied by fees and annualized interest rates well beyond rates charged for other types of loans. In essence, consumers borrow their own money at extremely high interest rates. RALs have become a billion dollar business over the last few years. According to the National Consumer Law Center Inc., consumers made approximately 12.38 million RALs during the 2004 tax-filing season. Consumers paid an estimated \$1.24 billion in fees to get quick cash for their refunds.

To the extent RALs are funded through a national bank, Michigan has no regulatory authority with respect to the interest rate the national bank assesses. The National Bank Act authorizes a national bank to charge interest at the rate allowed by the state in which it is located.

### DESCRIPTION OF BILL

This bill creates the Refund Anticipation Loan Act (Act) and requires a facilitator of a RAL to make certain written disclosures to a taxpayer.

Specifically, Section 5 of the bill requires the facilitator to make the following written disclosures to a taxpayer in connection with a RAL:

- A listing of 3 or more representative RAL amounts with the applicable fees and the annual percentage rate charged for each amount listed separately.
- A statement that RALs are an extension of credit and not the taxpayer's actual personal income tax refund.
- A statement that electronic filing of the taxpayer's tax return is available without applying for a RAL.
- A statement providing the average amount of time a taxpayer can expect to receive a refund under different filing and refund options when a RAL is not obtained.
- A statement that neither the IRS nor the Michigan Department of Treasury make any guarantees with regard to refunds.
- A statement that the taxpayer is responsible for the repayment of the loan and applicable fees if the refund is inadequate.
- The estimated time it will take to release the proceeds of the loan to the taxpayer if the loan is approved.
- The amount of the fees charged by the facilitator or lender if the loan is not approved.

Section 7 of the bill additionally requires the facilitator disclose to the taxpayer the estimated total fees and annual percentage rate of the loan before entering into the RAL agreement.

Section 9 of the bill prohibits the facilitator from:

- Requiring the consumer to enter into a loan agreement in order to complete the tax return.
- Failing to complete the tax return promptly after processing the application.
- Engaging in any fraudulent activities with any person in connection with a RAL.

Section 11 of this bill allows the taxpayer to rescind the loan on or before the close of business the next business day by returning the original check issued to the taxpayer or by paying the full amount of the RAL to the facilitator by money order or certified check.

Section 13 provides a person in violation of the Act is guilty of a misdemeanor punishable by a fine of \$500 or 93 days imprisonment or both.

## **SUMMARY OF ARGUMENTS**

### **Pro**

Taxpayers will be able to make informed decisions as they put their trust in the commercial tax preparers who are also facilitators of RALs. This bill will provide consumers with clear price information about the fees and interest rates being charged in connection with a RAL.

### **Con**

None

**FISCAL/ECONOMIC IMPACT**

OFIR has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Regulation:

Budgetary:

Revenue:

Comments:

(b) To the Department of Labor & Economic Growth:

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan:

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State:

Comments:

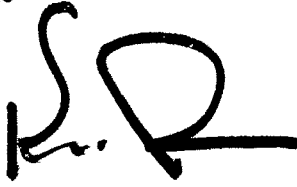
**OTHER STATE DEPARTMENTS**

**ANY OTHER PERTINENT INFORMATION**

A similar bill was introduced in the 2007-2008 legislative session, HB 5903. This bill passed the house last session.

ADMINISTRATIVE RULES IMPACT

None

A handwritten signature in black ink, appearing to read 'Ken Ross', written over a horizontal line.

Ken Ross  
Commissioner

3-11-09

Date