Understanding the Impact of Alternative Financial Services

A Quick Reference Guide for Employers and Community Organizations

United Way Capital Area

Alliance for Economic Inclusion

AEI

Disclaimer

The intent of the guide is to assist individuals in making positive choices about financial products. This guide does not purport to be exhaustive but rather aims to provide basic guidelines. Individuals should consult with a professional for specific advice.

The resources listed in this guide were intended to be representative of those available to consumers wanting to learn more about particular issues. Internet sites can be frequently updated and content as well as location of specific documents, appearance, etc., are subject to change.

Some content in this guide reflects existing laws and regulations. Such rules are subject to change and whenever necessary, readers are encouraged to contact the appropriate authorities for updated information.

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The views and opinions of the originators expressed herein do not necessarily state or reflect those of UWCA or South Texas AEI.

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FOREWORD

The Texas Alliance for Economic Inclusion (AEI) is a successful initiative to engage financial institutions, community and faith based organizations, governmental agencies and other partners to bring Texas' unbanked and underserved consumers into the financial mainstream. In 2010, the Texas AEI exceeded its goals by opening 41,947 accounts for previously unbanked individuals, expanding the use of small dollar loan and remittance programs, and reaching 21,182 consumers through financial outreach programs.

AEI supports the development of innovative lower-cost financial products and asset-building strategies that provide long-term economic benefits for underserved populations; including savings accounts, affordable remittance products, small-dollar loan programs, targeted financial education programs, and alternative delivery channels. Targeted communities include low- and moderate-income neighborhoods and minority and immigrant communities.

According to the FDIC's 2009 National Survey of Unbanked and Underbanked Households, there are an estimated 17 million unbanked and 43 million underserved persons in the U.S. with little or no current relationship with a financial institution. In Texas, 11.7% of households are unbanked and 24.1% are underserved; both well above the national averages. Economic barriers, such as lack of liquidity to carry account balances and bank fees; structural barriers (e.g., bad prior experiences, ChexSystems, insufficient identification); and experiential barriers (unfamiliarity with or distrust of banks) are the most common reasons why people are unbanked. Instead, they rely on non-bank financial service providers for their financial transactions. AEI member financial institutions provide alternatives to high-cost and often predatory financial products and services.

AEI created this guide to high-cost alternative financial services to educate individuals and organizations about the pitfalls of common financial products and services marketed to low-and moderate-income Texas families. Non-profit organizations and employers often encounter clients and employees in financial crisis. This guide provides tools to understand the financial products that can exacerbate a crisis and offers recommendations of where to go for better financial alternatives.

INTRODUCTION

Finances are a deeply personal matter. Lack of financial wellness or stability has broad-reaching impact on every facet of life including physical and mental health, family relationships and workplace performance. Yet because finances are so personal, individuals tend to struggle silently until their financial situation reaches a crisis point.

- Financial stress, especially long-term, is one of the leading causes of divorce by married couples in the U.S.[1]
- While not causing domestic violence, unemployment and financial stress is considered by experts to increase both the frequency and severity of episodes of domestic violence.[2]
- 1 in 4 American workers – 30 million – experience financial distress as a result of living paycheck to paycheck.[3]
- 80% of financially distressed employees report using work time to worry about and address financial issues.[4]

Today's financial marketplace offers the consumer a broad array of choices in how to handle their financial affairs. Not only are there a host of products and services, there are a multitude of different providers in addition to banks and credit unions, the traditional sources of deposit and credit products.

Accessing mainstream financial services as opposed to alternative financial services will not in and of itself create financial well being; however, doing so increases a consumer's ability to manage their finances in a more efficient, cost effective manner.

This guide provides background information on thirteen (13) financial products and services that may contribute to financial distress. The products and services range from payday and auto title loans to debt settlement services. Each topic is presented as a standalone piece. A resource section at the end of the guide provides information on finding reputable financial service providers and guidance on how to file a complaint against a financial service provider.

[1]Sarah Stuchell, MA and Ruth Houston Barrett, MA. "Financial Distress and the Family." American Association for Marriage and Family Therapy / AAMFT Consumer Update
[2]Stephanie Toone, Staff Writer for the Augusta Chronicle "Domestic Violence Drop May Deceive" based on interviews with State Court Solicitor Harold Jones and Brian Namey, spokesman for the National Network to End Domestic Violence (May 11th 2009).
[3]Financial Education in the Workplace: Motivations, Methods and Barriers – New America Foundation (November 2008).
[4]Jinhee Kim, Benoit Sorhaindo, and E. Thomas Garman, "Relationship between Financial Stress and Workplace Absenteeism of Credit Counseling Clients." Journal of Family Economic Issues (2006).

NON-TRADITIONAL SERVICES/PRODUCTS AT A GLANCE

Service/Product	What is the Problem?	Alternative Solutions
Check Cashing	• Often charge high fees. • Fees could be avoided or reduced by using lower cost alternatives.	• Direct deposit for immediately available funds at no fee. • Shop around for lowest check cashing fees.
Payday Loans	• High loan fees with short re-payment period. • Most borrowers can not pay back in 2 weeks. • Often exceeds 500% APR.	• Borrow from friends, family or charitable organizations. • Loan from local bank or credit union. • Low fee credit card advance. • Build savings for next short-term cash need.
Auto Title Loans	• High loan fees with short re-payment period. • Fees often equal 25% of loan principal ***each*** month, more than 300% APR. • Risk losing vehicle.	• Loan from friends or family. • Loan from local bank or credit union. • Loan from charitable organizations. • Low fee credit card advance. • Build savings for future needs.
Pawn Shops	• If the loan is not repaid, the collateral becomes the property of the pawn shop. • Lose value in excess of loan.	• Secure a part-time job for extra cash. • Pay advance from employer. • Loan from family or friends.
Rent-to-Own	• Items over-priced. • Extra fees. • Missed payment means losing item and money.	• Save first, then purchase. • Layaway plans. • Garage sales, second-hand stores, and classified ads.
Subprime Car Financing	• High interest rates, upwards of 32% APR. • Over-valuation of vehicles. • Autos often repossessed after one missed payment.	• Use public transportation and save for a vehicle. • Credit counseling to improve credit history and score and access prime rate loans.

NON-TRADITIONAL SERVICES/PRODUCTS AT A GLANCE

Service/Product	What is the Problem?	Alternative Solutions
Subprime Credit Cards	• High interest rates. • Excessive fees. • Lower credit limits. • No grace period. • Application and setup fees.	• Secured credit card. • Improve credit through financial education and counseling.
Tax Return Prep and RAL	• High fees. • Refund Anticipation Loan (RAL) APRs 60% to 700%.	• Community Tax Center or Voluntary Income Tax Assistance Programs provide free professional tax filing services.
Credit Counseling	• Some agencies may over promise or charge for services that do not assist customer.	• Self-help. • Shop around for a reputable credit counseling agency.
Debt Management Plan	• Need sufficient income to meet the payment required. • May include high fees.	• Self-help. • Negotiate directly with creditors. • Shop around for a reputable credit counseling agency.
Debt Consolidation	• Requires collateral (usually home equity). • Trading unsecured debt for secured debt. • High fees.	• Contact creditors directly. • Develop a spending plan. • Locate a reputable credit counseling agency.
Credit Repair	• Paying a fee for a service you can do yourself. • Deceptive claims.	• Locate a reputable credit counseling agency for a credit report review and to learn about options.
Debt Settlement/ Negotiation	• Substantial fees for this service with no guaranteed results.	• Negotiate directly with creditors. • Contact reputable credit counseling agency.

CHECK CASHING

Check cashers can be individual store-front providers or interstate chains. They cash personal and payroll checks by charging a significant flat rate or a percentage of the face value for each check presented. Additional services such as bill paying, money orders and wire transfers may be offered for additional fees. Consumers use these services for the following reasons:

- Convenient services and hours of operation (sometimes 24 hours a day, and seven days a week).
- No deposit account relationship between the consumer and the provider is required and therefore, a consumer has no account management responsibilities.
- May require less documentation and also seem less intimidating than a bank or credit union.
- Instant access to funds. With a bank or credit union account, funds are not always immediately available.

What is the Problem?

Check cashers frequently charge fees that are excessive given (1) the amount of work they performed, (2) the costs of the actual services provided or (3) the extent of legitimate risk they are taking by cashing the check. The significant costs for check cashing and fees for additional services could be avoided or reduced by using lower cost alternatives.

What is the Result?

Check cashers charging high fees also impose an opportunity cost on consumers. The more money that is spent on basic financial services that could be obtained at lower cost elsewhere, the less money consumers have to spend or save. High-cost check cashing fees to access hard-earned money are a large price to pay when alternative means are available.

Alternative Options:

- Banks and credit unions frequently offer basic checking accounts with little or no cost when managed correctly. Checking accounts help consumers establish and build long-term mainstream financial relationships that can lead to an increasingly broad array of more affordable deposit, credit and investment products and services. These services meet growing needs that often arise from financial stability and self-sufficiency.
- Shop around for the best price if using check cashers. Look for 1% check cashing services offered at some grocery stores, convenience stores and retail outlets.
- Prepaid cards are offered at retailers and other outlets and could offer lower-cost alternatives when managed correctly. It is important to fully understand the fee structure for these products.
- Additional alternatives are listed in the "Where to Get Help" section.

PAYDAY LOANS

A payday loan is a small, unsecured, high interest, short-term cash loan. In most cases, consumers write a post-dated, personal check for the advance amount plus a fee. The lender holds the check for the loan period and then either deposits it or the consumer returns with cash to reclaim the check. Payday loans are made by payday loan stores, check cashers, pawn shops and some rent-to-own companies. Loans also can be made via the Internet and toll-free telephone numbers. In many cases, borrower must allow electronic access to their account to receive and repay payday loans. Consumers use these products for the following reasons:

- Many consumers are not prepared for financial emergencies – (lack of savings, emergency funds or credit cards).
- Easy and convenient to access.
- Do not require a credit check.

What is the Problem?

Payday loans often trap consumers in repeat borrowing cycles due to the high cost associated with borrowing and the short-term full repayment requirement. If the borrower cannot pay the loan amount in full by the due date, the loan can be renewed by paying the loan fees and interest for another two-week period. Loans and interest average about 20-25% of the loan principal, or often more than 500% APR (annual percentage rate).

What is the Result?

This "cycle of debt" is difficult to escape. Failure to repay can lead to bounced check fees from the lender and the consumer's financial institution. The consumer also may be "charged off" by their financial institution because of bounced checks. When a customer is "charged off" by their financial institution, this is reported on their credit record and financial services are more difficult to obtain at fair prices.

Alternative Options:

- Open a savings account (emergency fund) using direct deposit. Seek financial institutions that offer no/low cost fees to open and maintain a savings account.
- Take advantage of financial education and credit counseling available at financial institutions and nonprofit organizations. A payment plan may be negotiated on existing debt and utility companies may extend due dates without charging a late fee.
- Obtain a secured credit card to cover unforeseen financial emergencies. Many financial institutions offer inexpensive credit cards, when the line of credit is collateralized by a savings account. Building credit will allow consumers to eventually borrow at market rates.
- Take out a cash advance on a credit card. This is an expensive option, but often less expensive than a payday loan.
- Check with employers or nonprofit organizations for payday advances or small dollar loans.
- Look for local emergency hardship programs offered by your place of worship, city or county programs or nonprofit organizations in your community.
- Develop a spending plan (budget) to identify where money is going. Identify ways to reduce spending and start an emergency fund.
- Get a second source of income (hobbies can generate additional cash, get a second job, host a garage sale or sell items on eBay) or work overtime to increase income.
- Review the amount of income tax withholding in your paycheck. If it is not accurate, it is possible you are getting large refunds once per year, instead of a little more each month.
- Consider a loan from friends or family. Get the terms of the loan in writing.
- Additional alternatives are listed in the "Where to Get Help" section.

AUTO TITLE LOANS

Most auto title loan outlets require a free and clear auto title without any liens (no money owed on the vehicle) and a few personal references. They assess the value of the car and generally will provide a loan up to 50% of the value of the vehicle. Though less common, some offer auto title loans if there is already a first lien on the car—for example if the purchase loan has not yet been paid off. Consumers use this form of credit for the following reasons:

- Quick and convenient access to loans.
- Since they do not conduct a credit check, people who are unemployed or have credit flaws generally qualify for these loans.

What is the Problem?

These loans can create ongoing debt that is difficult or impossible to repay. Though the loans are fully secured by a vehicle, the monthly loan fees are very high and the repayment terms can set borrowers up for failure. The loans are generally one month loans with a "balloon payment"—the entire loan plus all interest and fees must be paid off by the end of the month. The interest rate on the loans is quite low, usually just under 10%. The problem is not in the rate, but in the loan fees, which generally amount to one-quarter or more of the loan value.

For example, on a $4,000 loan, the monthly fees alone are often more than $1,000. The APRs on these secured loans are generally more than 300%.

What is the Result?

At the end of 30 days, a borrower has 3 choices:

- Repay the entire loan amount, $5,000 in this example;
- Pay the $1,000 fee to renew the loan for one more month (with the full $5,000 owed at the end of the second month); or
- Lose the car to repossession.

A car is an essential asset to most families, so people work hard to avoid repossession. Borrowers commonly cannot repay the entire loan amount in one month. They end up struggling to make that $1,000 monthly payment to buy another month on the loan. Many borrowers may not be able come up with the full $5,000 in one payment and eventually lose their vehicle to repossession.

Alternative Options:

- Consider a short-term loan from friends, family or an employer.
- Most credit unions offer loans at 18% or lower and will provide lower rates for loans secured by a car.
- There are other lenders that specialize in serving people with credit problems and operate as licensed lenders. Though the rates are high, generally near 100% APR, lenders licensed by the Texas Office of Consumer Credit Commissioner have fee and rate limits and the Commissioner's office can offer assistance if something goes wrong with the loan.
- Additional alternatives are listed in the "Where to Get Help" section.

PAWN SHOPS

A pawn shop loan is a small dollar, short-term cash loan in exchange for something of value; most often jewelry, a firearm, a consumer appliance or a musical instrument. The pawn shop agrees to hold the merchandise for a period of time, usually from 30 to 60 days, at which point the consumer must repay the loan with interest and fees, ranging anywhere from 3-25% of the loan amount. If merchandise is not redeemed within the 30-60 day period, it becomes the property of the pawn shop and they attempt to sell the item. Loans average between $70 and $100, but can be as small as $20 or as high as several thousand dollars depending on the value of the merchandise. Although the loan to collateral (merchandise) ratio varies over time and across pawn shops, a loan of about 30-50% of the resale value of the merchandise is typical. Consumers use this method of credit for the following reasons:

- Strapped for cash and all other resources are exhausted.
- Quick, convenient and confidential way to borrow money.
- No credit check or legal consequences if the loan is not repaid.

What is the Problem?

If the loan is not repaid, the collateral becomes the property of the pawn shop and any value in excess of the loan amount is lost. Appraised values used for pawn transactions result in consumers generally receiving only a fraction of the current retail price of their item.

What is the Result?

Since repayment periods are often short, APRs tend to be very high as compared to credit at banks and credit unions. The term of the loan is typically a full calendar month, although this could be extended. It depends upon the value of the collateral and how much was initially borrowed. The cost of a pawn shop loan will vary between providers, but it will normally cost $20 to $25 per month for every $100 borrowed. Some pawn shops offer reduced rates on larger loans.

Alternative Options:

- Sell the item on eBay or have a garage sale.
- Build up savings (emergency fund).
- Build credit to borrow from mainstream lenders. Conventional installment loans from a bank or credit union are less expensive.
- Keep an open credit card for emergency expenses.
- Secure a part-time job for extra cash.
- Ask for a pay advance from employer.
- Consider a loan from family or friends; get the terms of the loan in writing.
- Seek credit counseling.
- Cut back on other discretionary expenses.
- Additional alternatives are listed in the "Where to Get Help" section.

RENT-TO-OWN

A rent-to-own arrangement starts off as a traditional rental agreement, but the two parties agree to transfer ownership at the end of a specified period of time. The seller benefits from the higher monthly interest rates paid for the item, while the buyer benefits from the less restrictive credit qualifications and immediate use of the merchandise. Consumers use this form of credit for the following reasons:

- A consumer with a poor credit history can usually enter into a rent-to-own agreement with no credit check and only a few references and proof of steady employment.
- Cannot obtain financing directly from merchants, banks or credit unions.
- Can immediately purchase needed appliances, furniture or electronic goods.
- Low weekly, bi-weekly or monthly payments.
- Consumers have the ability to cancel the contract at any time and return the merchandise.

What is the Problem?

Buying merchandise from a rent-to-own store is expensive and consumers often do not understand all of the fees they could pay. Products purchased under typical terms cost two- to five-times more than the same product purchased at a department or appliance store. If the difference between the total payments rent-to-own contracts charge and the fair market value of the product purchased were expressed as an interest rate, it would commonly range from 100% to 300%. In addition to the recurring payments, there are additional costs associated with rent-to-own transactions such as fees that can include: processing fees, delivery fees, set-up/installation fees, in-home collection fees, damage waiver fees (similar to property insurance) and reinstatement fees (charged if a payment is late or missed and the consumer wants to continue renting).

What is the Result?

- Pay significantly more money for products that could be purchased for less elsewhere.
- Monthly payments when totaled, equal far more than the value of the item rented. For example, if a consumer purchases an $800 desktop computer at $32.99 a week for 24 months, the computer actually costs more than $3,100.
- Consumers are not building a positive credit history because the payments are not reported to credit bureaus. As a result, they are not better positioned to access options with more favorable terms in the future.
- Consumers pay hundreds or thousands of dollars to use the merchandise and often have the merchandise repossessed by the rent-to-own business when a payment is missed.

Alternative Options:

- Save the money first, then purchase the product. Set up a savings account with direct deposit.
- Look for bargains or layaway plans at conventional stores to purchase the same product.
- Shop garage sales, auctions, second-hand stores and the classified ads to purchase the product.
- If postponing a purchase is not feasible, conventional loans or purchases on credit cards typically have lower interest rates than rent-to-own stores. Research options at banks and credit unions.
- Additional alternatives are listed in the "Where to Get Help" section.

SUBPRIME CAR FINANCING

Subprime car financing, a type of subprime loan, provides automobile loans for people with low credit scores at an interest rate as high as 32% APR. Most subprime car financing takes place at independent lots and buy here pay here dealerships instead of franchised dealers. Buyers who visit Buy Here, Pay Here dealerships often are in such immediate need that they will purchase almost anything that fits their budget. Most of these vehicles are eight years old or older and have more than 95,000 miles on them. Consumers use this form of credit for the following reasons:

- In Texas, fewer than 5% of roadways are served by public transportation so having a reliable vehicle is a necessity.
- Limited opportunities to receive any other type of financing due to a poor credit score.
- Few lenders are willing to serve poor and credit-challenged consumers who have no relationship with mainstream financial institutions.

What is the Problem?

Opponents of the subprime car financing sector indicate that these lenders have engaged in predatory lending practices such as deliberately lending to borrowers who could never meet the terms of their loans, leading to default and repossession. When purchasing a car from a Buy Here, Pay Here car lot that offers subprime loans, the sales person will not talk about the price of the car or the interest rate of the loan. Instead the monthly or weekly payments will be the selling point. For example, a car will be sold with a weekly payment of $119. Many times individuals do not know how much they are paying for their car, how long the payments will continue or the interest rate on their loan.

Other dangers in subprime car financing include charging high interest rates, not informing the customers about the cost of financing, selling cars for more than they are worth and repossessing the vehicle within a week of missing one payment.

What is the Result?

- Spending thousands of dollars on a vehicle that is only worth hundreds.
- Being charged upwards of 32% APR on a used car.

Alternative Options:

- Take public transportation or participate in carpool groups.
- Use the Ways to Work car loan program (Houston and Arlington).
- Save to pay cash for a car. Set up a savings account with direct deposit.
- Build credit to borrow from mainstream lenders. Conventional installment loans from banks and credit unions are less expensive.
- Additional alternatives are listed in the "Where to Get Help" section.

SUBPRIME CREDIT CARDS

Subprime credit cards are a type of subprime laon. They are issued to consumers with low credit scores or limited credit histories. Subprime cards are commonly issued with low credit limits, typically as low as $250 to $500. Consumers use this form of credit for the following reasons:

- If used correctly, helps to establish or reestablish credit and improve credit scores.
- Meets financial needs during periods of financial distress.
- Facilitate financial transactions, such as renting a car or purchasing items on the Internet.
- With a positive payment history on a subprime credit card, there is an opportunity to upgrade to a prime credit card.
- After 12 to 24 months of positive payment history, the consumer can call the credit card company to renegotiate interest rate, credit limit and rewards.

What is the Problem?

These cards typically carry much higher interest rates than credit cards granted to prime borrowers. They also come with extra fees, lower credit limits, carry no grace period on purchases and could include application and setup fees. A recent advertisement offered a card with a $300 limit, but required a $75 up-front fee. The credit limit is immediately reduced to $225 before any purchases are made. The stated interest rate on this card was 79.9%. Even with this modest credit limit, interest payments could run more than $200 per year if the consumer carried over balances. For cash-strapped consumers already in financial distress, this financial commitment presents a serious repayment challenge.

What is the Result?

The borrower pays a high interest rate as well as fees. If the payments are not paid on time, the consumer can further damage their credit score.

Alternative Options:

- Obtain a secured credit card. A secured card requires the deposit of a stated amount of money to offset the risk associated with a poor credit history. A secured card can give a consumer some purchasing power and the chance to build a positive credit history at a cost that reflects actual repayment risk.
- Build up savings (emergency fund).
- Secure a part-time job for extra cash.
- Investigate overdraft protection plans on bank or credit union accounts.
- Ask for a pay advance from employer.
- Consider a loan from family or friends. Get the terms of the loan in writing.
- Seek financial education and counseling to learn ways to improve personal money management skills that will control spending, increase saving, rehabilitate a poor credit history and build long-term financial stability.
- Additional alternatives are listed in the "Where to Get Help" section.

INCOME TAX RETURN PREPARATION AND REFUND ANTICIPATION LOANS & CHECKS

Many taxpayers do not feel comfortable preparing their own tax return because tax laws are so complex and change frequently. For example, to take advantage of the Earned Income Tax Credit (EITC) – a refundable credit focused on low- and moderate-income families – a taxpayer must analyze a number factors including income, family size, etc. As a result, many taxpayers seek help when preparing and filing their tax returns. Because families that are eligible for the EITC stand to receive significant refunds (the maximum credit for a family with three or more children is $5,666 for the 2010 filing season), tax preparers may charge them excessive fees for preparing and filing a tax return and target them for high-cost products such as refund anticipation loans (RAL) and refund anticipation checks (RAC).

A RAL is a loan from a bank working in partnership with a paid tax preparer, which uses a taxpayer's anticipated refund as collateral. A RAC is a check from the bank partner of a tax preparer in an amount equal to the taxpayer's refund less tax preparation and RAC issuance fees. These products are most often sold to those consumers with lower incomes such as those who are eligible for the EITC, who believe they need the refund monies immediately.

Consumers often use paid tax preparers because:

- Tax laws are complex and paid tax preparers offer convenient services.
- They must file a return in order to receive a refund.

Consumers will take out a RAL or pay for a RAC because:

- Tax preparers will deduct their tax preparation charges from the RAL or RAC amount, so the consumer does not have to pay for tax preparation fees out-of-pocket.
- Consumers who get a RAL receive the loan proceeds usually within 48 hours of submitting an approved RAL application.

What is the Problem/Result?

Tax preparers can make costly mistakes, intentionally or not, such as overstating expenses, understating income and claiming unearned deductions. These mistakes impact the taxpayer's eligibility for credits such as the EITC and may result in a claim for a larger refund than that for which a taxpayer is actually eligible. Taxpayers are responsible for everything on their tax return, even if they cannot read or understand it. If a taxpayer signs a tax return with mistakes, s/he will have to pay for those mistakes, plus interest and penalties.

Many paid tax preparers charge exorbitant fees. Many also promise large refunds and/or base their fee on the amount of the refund. Both practices are illegal. Paid tax preparation services can be found in a variety of businesses from pawn shops to used cars dealerships to check cashing storefronts. All of these specialize in selling goods or services, not in preparing taxes.

If a taxpayer obtains a RAL in order to get their refund monies more quickly, then they owe a bank for the amount borrowed. These loans are expensive, carrying annual percentage rates from 60 to more than 700 percent. **In addition, if the IRS denies or delays the refund or if the refund is smaller than originally claimed on the tax return the loan still must be repaid.** This can lead to credit and collection problems.

In response to the loss of bank financing for their RALs, many paid preparers have resorted to promoting RACs to consumers as an alternative. A RAC is issued to a taxpayer 8 to 15 days after the paid tax preparer files the taxpayer's return. The bank partner of the paid tax preparer issues the check in an amount equal to the taxpayer's refund total less tax preparation and RAC fees. **Taxpayers are essentially paying for a loan to cover their tax preparation fee. As fees become a growing source of profits for the many paid tax preparers, RACs may end up being as expensive as RALs.**

Taxpayers can receive their tax refunds by direct deposit from the IRS within the same time frame as a RAC (8-14 days) without losing a portion of their refund to RAC fees.

Alternative Options:

- E-file with direct deposit. Electronic tax filing speeds up the refund. Taxpayers tell the IRS to deposit the refund directly into their bank or credit union account and get their refund within 8 to 14 days without paying for RAL or RAC. With direct deposit, taxpayers can split their refund and put part of it in a savings account or savings bond to begin building an emergency fund. Some financial institutions partner with VITA and TCE programs (see below) to offer free/low cost banking options for taxpayers who may not have banking accounts.
- Volunteer Income Tax Assistance ("VITA") programs: Use free tax preparation programs like VITA or Tax Counseling for the Elderly (TCE). These programs offer free tax preparation and free e-filing services! Volunteer tax preparers are trained and certified by the IRS to ensure the returns are prepared accurately. See the "Where to Get Help" pages at the end of this Guide for ways to locate a nearby site. You may also contact the IRS at 1-800-906-9887 and 1-888-227-7669 for help in locating the nearest VITA or TCE sites.
- Wait just a little longer. Is it essential to receive a tax refund today? Taxpayers will save $200 or more just by waiting a couple of weeks. If there is an urgent bill, they may ask for more time until the IRS sends the refund. Taxpayers can still get their refunds much sooner and more safely by direct deposit than if the IRS were to mail the refund check.
- Avoid check cashers. They charge up to 7 percent to cash RAL and tax refund checks. Use an account through a mainstream bank or credit union. Some banks partner with VITA/TCE programs to offer free check-cashing options for unbanked taxpayers.

CREDIT COUNSELING

Credit counseling provides consumers advice on managing money and debt, as well as developing a budget. Certified counselors confidentially discuss the consumer's financial situation and help develop a personalized plan to solve problems. These companies may help manage debt by taking one monthly payment from the consumer and distributing the money among several creditors. Consumers use credit counselors for the following reasons:

- Living paycheck to paycheck.
- Having trouble paying bills on time and receiving overdue notices from creditors/collectors.
- Can't seem to create a workable budget.
- Can't seem to save any money.
- Facing financial crisis or distress.

What is the Problem?

Consumers may lack the knowledge or skill to choose a reputable credit counseling agency or service, based on cost and services provided.

What is the Result?

- May pay high fees or receive poor service.
- Do not receive a full range of services.
- May only be able to receive services via the Internet or telephone, with no personal contact.

Alternative Options:

- Self help. Try to negotiate directly with creditors and use online resources.
- Shop around for a reputable credit counseling agency. Services should be offered for free or at low cost and should include advice and education on managing money, debts and budgeting. Counselors should be certified and trained.
- Contact a reputable credit counseling agency. Reputable credit counseling centers can provide guidance at little or no cost. Visit www.nfcc.org for the location of the nearest center.
- Additional alternatives are listed in the "Where to Get Help" section.

DEBT MANAGEMENT PLANS

Debt repayment programs are commonly referred to as Debt Management Plans (DMP). A DMP is designed to help consumers consolidate and payoff unsecured debt. A DMP is one of the services offered by credit counseling agencies. Consumers use DMPs for the following reasons:

- Heavy debt load with growing outstanding balances. A DMP provider may be able to negotiate reduced interest rates, re-aging of accounts and fee waivers from creditors.
- Monthly payments can simplify a complicated financial situation.

What is the Problem?

- A DMP is not the best solution for everyone. Please consider alternatives to determine if another option may be suitable.
- Consumers need to have enough money in their spending plan to meet the payment required.
- Fees can range from nominal to high.
- A DMP typically requires a "set-up" fee as well as a monthly fee.
- Some agencies pressure consumers to sign up for a DMP they can't afford.

What is the Result?

Creditors will ask for the full amount owed, but if a consumer advocates for him/herself, creditors will often agree to some concessions – lower interest rates, waiving fees and/or re-aging accounts that are behind. A successful DMP could take 2 to 5 years to complete.

Alternative Options:

- Contact a reputable credit counseling agency. Reputable credit counseling centers can provide guidance at little or no cost. Visit www.nfcc.org for the location of the nearest center.
- Additional alternatives are listed in the "Where to Get Help" section.

DEBT SETTLEMENT/NEGOTIATION

Debt settlement providers claim that unsecured debt (usually credit card debt) can be paid off for a small percentage of the balance owed. Consumers use debt settlement/negotiation for the following reasons:

- Overwhelmed with large amounts of debt.
- Do not have enough money to qualify for a Debt Management Plan.
- Stressed and looking for an easy solution.

What is the Problem?

Some companies claim to be able to have your debt paid off at 30% to 70% of the balance owed, but there are no guarantees. There are substantial fees for this service – typically a set-up fee, a monthly fee and a final fee, which is usually a percentage of the money reportedly saved.

What is the Result?

- The amount of "forgiven" debt can be added to the debtor's taxable income.
- Consumers may continue to be contacted by creditors or collectors.
- Late fees and interest may continue, causing debt levels to increase.

Alternative Options:

- Try to negotiate directly with creditors before enlisting outside help. This can be done for free.
- Contact a reputable credit counseling agency. Reputable credit counseling centers can provide guidance at little or no cost. Visit www.nfcc.org for the location of the nearest center.
- Consider filing for bankruptcy.
- Additional alternatives are listed in the "Where to Get Help" section.

Beginning October 27, 2010, for-profit debt relief companies who make telemarketing calls or are called by a consumer in response to debt relief advertising are prohibited from collecting fees for their services until:

- The company successfully negotiates, settles, reduces or otherwise changes the terms of at least one of the consumer's debts.
- The consumer makes at least one payment to their creditor after the successful negotiation or settlement.

CREDIT REPAIR

Providers offer to repair credit, for a fee, by disputing inaccurate or incomplete information on the consumer's credit report. Consumers use credit repair options because they are looking for a fast and easy way to "clean" their credit report.

What is the Problem?

The consumer is paying a fee for a service they can do themselves. Use caution, as credit repair claims are often deceptive. Accurate information will stay on a credit report for the allotted time frame and no provider can prevent that, regardless of their claims.

What is the Result?

- There is no quick fix to repairing negative credit – it takes time.
- Money spent for a credit repair service might be better spent to reduce or pay outstanding debt.
- Consumers can do the same job as a paid provider at no cost.

Alternative Options:

- Locate a reputable credit counseling agency for a credit report review and to learn about options.
- Contact a reputable credit counseling agency. Reputable credit counseling centers can provide guidance at little or no cost. Visit www.nfcc.org for the location of the nearest center.
- Additional alternatives are listed in the "Where to Get Help" section.

DEBT CONSOLIDATION

Debt consolidation providers transfer one or more existing debts into a new loan product. The monthly cost of credit is lowered by extending the length of the loan. Collateral, such as the debtor's home, is typically required to secure a debt consolidation loan. Consumers use debt consolidation for the following reasons:

- Simplifies payment of several loans by rolling them into one.
- The monthly cost may be lower and more manageable because the loan is extended over a longer period of time.

What is the Problem?

- Debt consolidation loans typically require some sort of collateral.
- Trading unsecured debt for secured debt.
- Failure to make the payments puts the collateral at risk.
- Consolidation loans can include the payment of fees in addition to interest.

What is the Result?

Consolidating debt results in lowered debt payments and may solve current cash flows issues. However, consumers now have more money to spend and could get deeper in debt if an attainable spending plan is not developed. The goal should be to lower the reliance on debt for the future since debt is expensive, and gets more expensive the longer it is outstanding.

Alternative Options:

- Self help; contact creditors directly.
- Develop a spending plan to help reduce debt.
- Contact a reputable credit counseling agency. Reputable credit counseling centers can provide guidance at little or no cost. Visit www.nfcc.org for the location of the nearest center.
- Additional alternatives are listed in the "Where to Get Help" section.

IDENTIFICATION TO OPEN A BANK ACCOUNT

There are more options than you may think.[5]

What forms of identification are required to open a checking or savings account?

To open a checking or savings account, an individual must provide his/her name, date of birth, current address and an acceptable ID number. An acceptable ID number can come from one of the following documents: Social Security card, passport (U.S. or foreign) or other government issued ID.

Consular ID Cards

Many banks and credit unions now accept ID cards issued by foreign consulates, such as the Matricula Consular issued by Mexican consulates, as a primary form of identification. Contact the relevant local consulate to see if they issue an ID card accepted by banks and credit unions. Beware of "international IDs" that are not issued by governments. They are expensive and will not be accepted by local banks or credit unions to open accounts.

Other documents that MAY be accepted to open an account, depending on the policies of the individual financial institution, include: drivers license (foreign may be acceptable); telephone, gas, cable or electricity bill with name and current address; major credit card with an expiration date; voter registration card (foreign may be acceptable); student ID from a major college or university or military service card.

What is required for an interest-bearing account?

For an interest bearing account a Social Security number or an Individual Tax Identification Number (ITIN) is required. If an individual does not have either one, she/he may be able to open a joint savings account with someone who does have a Social Security number.

What is an ITIN?

The U.S. Internal Revenue Service, or IRS, issues Individual Taxpayer Identification Numbers (ITIN) to people who need to file income tax returns but are not eligible for a Social Security number. Consult with an immigration advocate or attorney before applying for an ITIN. To apply for an ITIN, you need IRS Form W-7.

Some local banks, credit unions or community organizations may be able to provide assistance. Do not pay for the W-7 form. It is free.

It is important to note that not all banks and credit unions accept the same documents. If legal documents are not accepted by one bank or credit union, visit a different one.

[5] The information in this section is largely taken from the Appleseed brochure, "Identification Needed for an Account," available at: http://www.texasappleseed.net/pdf/brochure_Immigrant_IDNeeded.pdf.

RESOURCES

Where to Get Help:

If a consumer is having trouble with a financial product or service, it is important to file complaints with the appropriate state and federal entities. Documenting problems can impact future legal and legislative action. To find the appropriate state and federal elected officials, visit www.fyi.legis.state.tx.us/. Given an address, the site will provide the names and contact information for appropriate elected representatives.

Elected officials often have staff available to help. Contact:

- Mayor, city council members and county commissioners
- State representatives and senators
- Members of the U.S. Congress

The Office of Consumer Credit Commission (OCCC) cannot assist with consumer issues except in relationship to licensed consumer lenders, pawn shops and subprime car lenders. Yet it is still important to report any problems with any of the products in this guide. Phone them at 1-800-538-1579 or email at consumer.complaints@occc.state.tx.us.

The Texas Attorney General accepts complaints. They do not respond to individual complaints, but compile statistics and may respond if a pattern of abuse emerges. Contact them at www.oag.state.tx.us/consumer/complain.shtml.

General Help:

- The Center for Responsible Lending provides numerous resources in relationship to these products on their website at www.responsiblelending.org.
- Learn to manage these products and use alternatives at www.MyMoney.gov.
- The Consumer Federation of America provides numerous resources at www.consumerfed.org.
- Go to www.RAISETexas.org and use their asset building data base to search for local resources (Volunteer Income Tax Assistance Sites, Individual Deposit Account (IDA) programs, debt/credit repair).
- The Better Business Bureau provides numerous resources at www.bbb.org/.
- The 2-1-1 Texas call center, loacally managed by United Way Capital Area, offers personalized assistance. Dial 2-1-1 from any phone, any location in Texas to receive help.

Check Cashing:

- Several city-wide programs are promoting free or low-cost transaction accounts to replace the need to pay a check casher.
    - Bank on Central Texas: www.bankoncentraltexas.org
- Federal regulators accept and remedy complaints for consumers in regards to accounts offered and serviced by banks. Visit www.ffiec.gov/consumercenter/ for the appropriate contact.
- Shop around for low-cost check cashing services. Many retailers, banks and credit unions offer low-cost check cashing services.

Payday Loans:

- For free information, contact the Federal Trade Commission: 1-877-FTC-HELP (1-877-382-4357) or www.ftc.gov
- Military members and families can receive assistance with these financial products at Military OneSource: http://www.militaryonesource.com or 1-800-342-9647.
- Some Texas credit unions and banks offer lower cost unsecured and secured small dollar loans. Shop to find one that offers these services locally.
- Some Texas credit unions are participating in the REAL Solutions short term loan program. These loans are capped at 18% interest and repayment is structured in installments so the consumer can pay back the loan over time. The program facilitates saving for future emergencies and helps build positive credit history. For information about participating credit unions, go to www.Realsolutions.coop/solutions/lending or call 469-385-6400.
- Texas 500% Interest is Wrong Campaign: www.stoppaydayabuse.org.
- The Consumer Federation of America can help find alternatives and provide advice on getting help. Visit www.paydayloaninfo.org/consumer.asp for resources.

Pawn Shops:

Pawn shops should be licensed by the Office of Consumer Credit Commission (OCCC). Representatives can assist in resolving individual complaints or problems. Phone: 1-800-538-1579.
E-mail: consumer.complaints@occc.state.tx.us

Subprime Car Financing:

- Subprime car lenders and "buy here, pay here" dealerships are generally required to be licensed by the Office of Consumer Credit Commissioner. If there is a problem with a licensee, representatives at the OCCC can respond to the complaint and provide direct assistance. Phone: 1-800-538-1579.
  E-mail: consumer.complaints@occc.state.tx.us
- Ways to Work has helpful tips on evaluating and buying a used car. This organization has direct providers in Houston and Arlington: www.waystowork.org. Family Services of Greater Houston offers a program in Houston. For information, visit www.familyservices.org.
- Learn to navigate with only one car per family or form a car pool group. Information is provided by NuRide at www.nuride.com (programs in Houston and San Antonio).

Sub-Prime Credit Cards

Federal regulators accept and remedy complaints for consumers in regards to credit card accounts offered and serviced by banks. Visit www.ffiec.gov/consumercenter/ for the appropriate contact.

Tax Preparation:

Community Tax Centers and Volunteer Income Tax Assistance (VITA) sites prepare and e-file tax returns for free. Volunteer tax preparers are trained and certified by the IRS, so the returns are prepared correctly. For the nearest site, call United Way 2-1-1 or the IRS general help line at 1-800-829-1040. You also may call the IRS if you think you have been scammed by a paid tax preparer. You can go to www.RAISETexas.org and use their asset building data base to search for a nearby location.

Debt/Credit Repair:

- The Federal Trade Commission offers information on selecting a reputable agency and how to implement self-help at www.ftccomplaintassistant.gov/. Phone: 877-382-4357. They also offer brochures such as: Knee Deep in Debt; Fiscal Fitness: Choosing a Credit Counselor; Settling Your Credit Card Debts; Credit and Your Consumer Rights; and Credit Repair: How To Help Yourself.
- The National Foundation for Credit Counseling (NFCC) promotes financially responsible behavior and high quality financial education and counseling services. Call 1-800-388-2227 to speak to a counselor near you or visit www.nfcc.org.
- The Association of Independent Consumer Credit Counseling Agencies (AICCCA) is a national membership organization, established to promote quality and consistent delivery of credit counseling services. Call toll free: 1-866-703-8787 to be connected to a credit counselor or visit http://aiccca.org/.
- The U.S. Department of Justice, Trustee Program, helps locate approved credit counselors.
  Visit www.usdoj.gov.ust.

GLOSSARY

APR (annual percentage rate) – Loan interest calculated on a yearly basis.

Auto-title loans – A loan against the value of your car. This loan usually requires a car that is owned outright to be used as collateral.

Balloon loan – A loan that includes a high payment (often the size of the original loan) at the end of the loan term.

Bank – A financial institution used for receiving, lending and safeguarding money. A bank is owned by a few individuals or stock holders.

Buy here, pay here lots – Used-car lots providing in-house financing.

Budget – A plan of expected income and expenses for a given time frame in the future.

Cash checking – A place that will cash your check without opening a bank account. There is a fee (usually 5% to 18%) for this service.

Collateral-based loans – A loan guaranteed by something of value such as a house, property of a vehicle.

Consumer Credit Counseling Agency (CCCA) – A nonprofit agency that specializes in consolidating consumer debt through negotiations or payment plans.

Credit Union – A co-operative financial institution used for receiving, lending and safeguarding money. A credit union is owed by the customers of the financial institution, called members. Credit unions are similar to a bank, but are non-profit.

Debt-Management Plan (DMP) – a repayment plan offered by consumer credit counseling service agencies that involve consolidating unsecured debts by negotiating with creditors to lower interest rates and fees.

Creditworthiness – The general qualification for borrowing that demonstrates willingness and ability to repay debts.

Earned Income Tax Credit (EITC) – A federal program that refunds income taxes to low-income wage earners.

Federal Deposit Insurance Corporation (FDIC) – An independent agency created by Congress that supervises banks, insures deposits of at least $250,000 and helps maintain the banking system.

Grace period – A period of time after the due date but before interest is added to the balance owed. With credit cards, this is the period in which finance charges do not accrue if you are carrying a balance.

Interest – The amount of money paid for the use of borrowing money.

Money order – An order for the payment of money, as one issued by one bank or post office and payable at another.

National Credit Union Administration (NCUA) – The federal agency that charters, regulates, supervises and insures federal credit unions.

Non-profit – A state and federal designation for organizations engaged in charitable or educational endeavors.

Nuisance fees – Fees charged by credit issuers above and beyond finance charges. These include late fees, transaction fees, over-the-limit fees and annual membership fees.

Overdraft protection – A bank line of credit that allows customers to overdraw their checking account. Customers are charged a fee each time it is used.

Over-the-limit fee – A penalty fee paid by credit card holders when they exceed their credit limit.

Pawn Shop Lending – A small dollar, short-term cash loan in exchange for something of value; most often jewelry, a firearm or a musical instrument. The item is returned if the loan is paid back.

Payday loan – A high-interest loan (usually 14 to 18 days) secured by a postdated check or an electronic debit authorization.

Predatory lending – Exploits vulnerable consumers by extending high-cost loans that do not take into account the borrower's ability or inability to repay the loan.

Prime rate loan – A loan in which the interest rate varies in step with the prime lending rate. A prime rate loan is offered to the most secure and credit-worthy borrowers. The prime rate is used as a guide for computing the interest for other borrowers.

Refund anticipation loan (RAL) – A loan facilitated by a tax preparer based on the anticipated refund a person will get from their federal income taxes.

Secured credit card – A credit card that is secured by cash deposited by the consumer into an interest-bearing account, which is controlled by the credit card issuer

Subprime loan – A loan targeted at consumers with poor or limited credit history. These loans carry high interest rates and more rigid terms.

Unsecured loan – A loan based on the promise of the borrower to repay it. These loans are not secured by collateral.

Variable interest rate – A rate that fluctuates based on economic indexes.

Volunteer Income Tax Assistance Program (VITA) – An IRS services that provides free assistance in preparing federal income tax returns for low and moderate income taxpayers.

Wire transfer – an order transmitted electronically from one bank to another to pay or credit an account.