The Wisconsin Credit Union League

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NEWS RELEASE

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Credit unions' help for low-income tax filers is part of larger effort to offer alternatives to predatory financial practices that hurt Wisconsin

Pewaukee, Wis. – Wisconsin credit unions are hoping that their help for low-income tax filers this year will flow more "unbanked" Wisconsin consumers into the financial mainstream, where they will receive fairer pricing for services and – beyond that – help to gain a stronger financial footing.

Credit unions are helping low-income tax filers by opening deposit accounts into which fast, free refunds can be deposited, providing a no-cost alternative to costly "refund anticipation loans" that cost taxpayers $23.4 million.

Credit unions will open deposit accounts for low-income tax filers at volunteer return preparation sites around the state, operated in partnership with the IRS, Department of Revenue and AARP. The sites offer free tax preparation, tax education and asset-building strategies to people with lower incomes, the disabled, individuals with limited English proficiency and the elderly.

Many low-income filers – who seek a fast refund to pay bills and meet immediate needs – turn to paid tax preparers charging exorbitant interest rates to obtain what's called a "refund anticipation loan," or RAL. These short-term, high-interest loans – secured by the pending refund – can drain hundreds of dollars from a typical refund.

For example, a single worker making less than $32,000 and raising one child would qualify for a refund of as much as $2,600. But to obtain that refund using a RAL, the filer could pay more than $100 on top of a typical $150 tax preparation fee, losing more than $250 of his or her total refund. According to the Wisconsin Council on Children and Families – a multi-issue child and family advocacy organization – more than 93,731 Wisconsin taxpayers paid an average of $250 in RAL-related costs in 2005.

"Essentially, they paid dearly to borrow their own money," said Brett Thompson, President & CEO of The Wisconsin Credit Union League, the trade association supporting more than 260 not-for-profit, member-owned financial institutions. "There's a better option through credit unions that's completely free, and just as fast."

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It only takes a small deposit – as well as meeting member eligibility requirements (such as living or working in a particular area) – to open a basic deposit account at a credit union. The account can then be used to receive tax refunds at no cost via direct deposit. Taxpayers receiving help at volunteer return preparation sites benefit not only by avoiding tax preparation fees and the rapid refund charges that are typical of RALs, but get their refunds in as little time as if they had used a RAL – usually within a week.

By providing an alternative to RALs, credit unions are also helping the state curb the broader "drain" RALs have on the economy. For example, RALs siphon away the tax benefit low-income filers should receive by claiming the Earned Income Tax Credit (EITC); The Wisconsin Council on Children and Families reports that as much as $14.3 million in this benefit was lost in 2005 in Wisconsin to RALs. The RAL fees by federal EITC recipients in 2005, for example, also denied the state of as much as $47 million in economic activity that could have resulted had consumers obtained and spent those funds locally.

Thompson emphasizes, however, that credit unions' help for tax filers is just one way of combating a more pervasive problem in the state: low-income people being targeted by non-traditional financial providers charging excessive costs for services that can be obtained more reasonably through mainstream providers like credit unions.

Through an initiative called REAL Solutions, Wisconsin credit unions statewide are offering lower-cost alternatives to a range of services that are often sought by low-income people, including payday loan services, check cashing, wire transfers and more. While doing so will not drive profits for credit unions, they see their effort as part of their mission as cooperatives. The purpose of not-for-profit credit unions is to serve members, not make profits.

Thompson says credit unions' goal with REAL Solutions is to meet consumers' immediate needs for transaction services while moving them through the steps of opening basic deposit accounts, building creditworthiness with small loans, and – over time – building wealth.

Credit unions make loans as small as a few hundred dollars and offer free financial counseling to improve their members' overall financial position.

For more information, visit www.freetaxrefund.org.

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Credit unions are cooperative financial institutions that are owned by their members and do not have stockholders. Because they are not-for-profit, they return earnings to members in the form of more competitive rates of return on accounts, lower interest on loans, lower fees and improved services. Two million Wisconsin residents belong to credit unions, of which nearly half are open to the local community. People can find a credit union to join by looking in the phone book or by visiting www.creditunion.coop.