Consumer Corner

by Illinois Attorney General LISA MADIGAN

COSTLY CREDIT: *Refund Anticipation Loans & "Surprises" in Your Credit Card Contracts*

With tax season upon us, many people are tempted by the fast-cash lure of Refund Anticipation Loans. Unfortunately, these loans are quite costly and usually impact those of us who can least afford it. Likewise, an increasingly common clause in credit card agreements puts those under financial strain even further behind. The following questions and answers will give you information you can use to avoid these types of costly credit.

Q: *I've seen a lot of tempting ads lately for instant income tax refunds. How these do instant refunds work—and are they a good deal?*

A: An instant tax refund sounds tempting, but it's also costly. Refund Anticipation Loans, or RALs, are loans that consumers apply for through their tax preparers. In a typical transaction, a tax preparer lends the consumer the amount of his or her expected refund, minus interest and fees, and the consumer receives the money in one to two days. The debt is paid off when the government deposits the consumer's refund directly into the bank that issued the loan.

These short-term, low-risk loans carry an unjustifiably high price: an RAL's Annual Percentage Rate (APR) can range from a "low" of 70 percent to a high in excess of 700 percent. These rates are not a good deal by any standards—especially when you can get your *full* refund in as little as eight to 15 days if you file your taxes electronically and have your refund deposited directly into your bank account. Organizations throughout Illinois provide free tax preparation assistance to income-eligible consumers. For a list of free tax preparation sites near you, please contact the Center for Economic Progress at www.centerforprogress.org or by calling (312) 252-0280.

Q: *A few months ago, I was late making my car payment. Last week, my credit card company notified me that they're raising my interest rate from 9% to nearly 26%! When I asked why, they said that a "universal default clause" in my contract allowed them to raise my rate because of the late car payment. What exactly is "universal default," and is there anything I can do about this?*

A: More and more credit card companies are taking advantage of the universal default clause included in the fine print of many credit card agreements. Under universal default, if you are late making a payment to any of your creditors—such as utilities, other credit card companies, etc.—the card issuer has the legal right to raise the interest rate of your credit card. This makes paying your monthly bills on time more important than ever.

Chances are, you won't be able to get the interest rate lowered (unless you can transfer the balance to a credit card with a lower rate), and the late payment or delinquent account will likely be listed on your credit report for up to seven years. Beware of so-called credit repair companies that offer to "fix" your credit report: only time can remove *accurate* negative information from your file.

Attorney General's Consumer Fraud Hotline
1-800-386-5438 (TTY: 1-800-964-3013)

Attorney General's Senior Fraud Helpline
1-800-243-5377 (TTY: 1-800-964-3013)