COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON HEALTH AND HUMAN SERVICES

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Room 696, City Hall
Philadelphia, Pennsylvania
Wednesday, March 10, 2004
10:00 a.m.

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RESOLUTION 040042 - Resolution calling on the Pennsylvania Attorney General, the Secretary of Banking, and the General Assembly to carefully scrutinize the conduct of tax preparers in connection with refund anticipation loans and to take appropriate action to ensure that these business practices are consistent with state law.

PRESENT:

COUNCILWOMAN MARIAN B. TASCO, Chair
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN W. WILSON GOODE
COUNCILMAN BRIAN O'NEILL
COUNCILMAN DARRELL CLARKE
COUNCILWOMAN DONNA REED MILLER
COUNCILMAN JUAN RAMOS

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I N D E X

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COUNCILWOMAN TASCO: Good morning. The Committee on Public Health and Human Service will come to order. I'd like to establish that we do a quorum in that Councilman O'Neill, Councilwoman Blondell Reynolds Brown, Councilman Goode, and myself. We establish a quorum.

This morning we're here to talk about the refund anticipation loans and some of the problems associated with this effort and giving people their loans on their income tax return and the high cost of the interest rate and the fees and to also discuss that there are other alternatives to this practice. And since this is the tax season and people are filing for their income tax returns, we wanted to have a discussion about it to provide information to our Councilmembers as they deal with their constituents as well as our constituents.

Before we begin, I'd like to offer any comments from any Members of the Committee before we begin. Any comments?

(No response.)

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COUNCILWOMAN TASCO: Thank you very much.

This is a hearing on a resolution. There's nothing to report out except that we will establish a report from this Committee that possibly further down the line we may think of or draft legislation around this issue, but today it's just a hearing to have the discussion on the problem.

I'd like invite Lance Haver to come up and give some comments and then we will proceed with the testimony.

I'm sorry. I have to have the Clerk read the title of the resolution.

THE CLERK: Resolution No. 040042, calling on the Pennsylvania Attorney General, the Secretary of Banking, and the General Assembly to carefully scrutinize the conduct of tax preparers in connection with refund anticipation loans and to take appropriate action to ensure that these business practices are consistent with state law.

COUNCILWOMAN TASCO: Thank you very much.

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The Chair recognizes Lance Haver. Would you state your name and identify your position for the record.

MR. HAVER: Good morning, Madam Chair and Members of Council. My name is Lance Haver. I'm Director the Mayor's Office of Consumer Affairs and I thank you for this opportunity to speak with you this morning. Of course, I'm in support of the resolution. I want to thank Council for taking the lead in this And especially Councilwoman Tasco who's been dedicating so much time and energy into helping protect people from these abuses.

I do want to raise just real quickly three points. One is that everyone of these companies that are offering the refunds, the loans, is actually violating Pennsylvania State law. Pennsylvania State law says that the most interest that any company can charge of a loan of $25,000 or less is 24 percent interest. All of these companies are charging well in excess of that. They are doing that by trying to get around the State laws by using an agreement that was signed by former

Attorney General Fisher.

The reason for my testimony this morning is not only thank Council for investigating this, but to ask Council about considering the possibility of using the business privilege license, which is 19-2602, Subsection 4D, which would allow the City to remove the business privilege license for any business that is causing or permitting a public nuisance. Now, I would argue that ripping somebody off, charging them 800 percent interest is a public nuisance. If Council would to decide that that is part of a definition after public nuisance, that would then give License and Inspections the right to rescind their business privilege license and no longer be allowed to operate and overcharge people.

So I'm just asking Council as they consider this to not only consider what the State can do, but to consider what the City can do in defining abuses of these types as a public nuisance and then using the existing laws to put an end to it. Thank you very much.

COUNCILWOMAN TASCO: Thank you very much.

Are there questions from Members of the Committee?

COUNCILMAN O'NEILL: Just that I think that we should talk to the State Legislature about making it a crime. This is worse than stealing from people.

COUNCILWOMAN TASCO: Thank you very much.

I think that's a good idea that's why we have these hearings so you and I will be talking about that because that would cause us to have to draft a piece of legislation and then shepherd it through the City Council. And we hope that our Councilmembers who sit on this Committee and other Councilmembers will join in supporting this because it does give us another piece, but we look at the whole legality of it and we will explore that.

MR. HAVER: And if I may, it's not just the RALs, it's also the payday lending, which the payday lending has a posted interest rate right now if we walked around the corner we would see that the payday lenders charge an annual percentage rate of 1850 percent. That's not a number I calculate, that's a number that they calculate, that's the number that they publicize. And as I know the Councilwoman's already written to the Philadelphia Daily News, but anyone who looks through the Philadelphia Daily News on a regular basis, as I know Council and their staff does, will see the advertisements for these payday lenders. They don't have a license. They're operating with without any legal right in the State of Pennsylvania and they're try to use a technicality to get around it. It is something, I believe, that can be qualified as a public nuisance. Thank you very much.

COUNCILWOMAN TASCO: Thank you. We will work with you on looking at that, investigating t, and possibly drafting a piece of legislation for discussion in Council.

MR. HAVER: Thank you.

COUNCILWOMAN TASCO: Next we have

Jean Hunt, Campaign For Working Families.

MS. HUNT: Good morning. I want to thank Council and Councilwoman Tasco for the privilege of being able to speak to you today. My testimony is really preaching the choir. I'm sure you're all aware of most of what I was going to say so I'll just skim it, and if there are any questions that you have for me about the campaign --

COUNCILWOMAN TASCO: I think you ought to do it for the record, because you provide information that's important for the robbed.

MS. HUNT: Okay. I'm here this morning to talk to you about some very good news and some very bad news. The good news is the Campaign For Working Families exists in Philadelphia. The bad news that refund anticipation loans also exist and they claim hard-earned dollars of low wage working families, harming those households and their neighborhoods.

First, I want to talk a bit about the Campaign, which is a project of the

Greater Philadelphia Urban Affairs Coalition. Our goal is to help low-wage families achieve economic stability and the American dream. And we believe that they're entitled to get all of the money that should come to them from the income tax process and not be ripped off by commercial tax preparers.

The earned income tax credit, which I will refer to as the EITC, is a tax benefit for working people only and it benefits those who earn low and moderate wages. A family with a household income of $34,696 a year can get some earned income tax credit. It reduces their tax burdens, it supplements their wages, and it helps families pay bills and save for the future. These refunds can be as high as $4,140 based on family size and income, which is a sizable chunk of change for a family to get at a given moment. This is the nation's largest anti-poverty program. In the year 2000, the earned income tax credit provided roughly the same level of federal assistance to low-income families as TANF and food stamps combined according to the Brookings

Institution.

When a family gets to use their entire EITC check for their own purposes, they can advance their future. They use this money to pay off debt, sometimes to cover rent or utility costs. We see families whose houses are being foreclosed, their mortgages are being foreclosed, and EITC credit could make a difference between losing the house and holding on to it. They may buy a used car to be able to get to a better job. We know of single mothers who have used their credits for a down payment on a home, for college credits to support their children's education, and to save. The result is a stronger community and a stronger Philadelphia.

In our first year of operations, which was last tax season, the Campaign brought $10.2 million directly into the homes of low-wage working families. This was both for the EITC child tax credit and dependent care credit. A hundred percent of those dollars went directly to the families. Tax returns were filed for over 8,000 individuals at our free tax sites, and more than 90 percent of these were filed electronically which means people get their refunds very quickly. We exceeded all of our goals in our first year of operation.

We don't have official data yet to calculate the impact on Philadelphia business, but the City of San Antonio where our sister campaign is conducted out of the Mayor's Office has done estimates of the impact of the 250 million EITC dollars that have come into San Antonio families. They estimate that those dollars generated an additional $259 million which was spent at local business on taxes, earnings, and job creation. The Bureau of Labor Statistics Consumer Expenditure survey says that two-thirds of EITC dollars are spent in local communities, 61 percent on retail trade, 23 percent on services, and 16 percent on utilities.

Thus far this tax season, we've already completed tax returns for over 4800 taxpayers, 2300 of whom receive the EITC. If you estimate a low average of a hundred dollars in savings in fees for these families we served, we've already saved them over $4.8 million. That's 4.8 million going directly to Philadelphia families instead of commercial tax preparers and rip-off loan companies.

Now, for the bad news. The Brookings Institution reports that in Philadelphia more than 41 percent of the EITC filers use commercial tax preparers and they get refund anticipation loans, which I call RALs. These loans may bring their money in at a maximum of 8 to 10 days sooner than they would have received their own funds which they're borrowing. Their borrowing their own dollars when they take out a RAL by getting it direct deposit. The average price that an EITC earner can pay for rapid refund is roughly a hundred dollars, but it can be more than five times that, depending on how unscrupulous the practice is. The interest paid on these loans can annualize to 800 percent.

In Philadelphia in 2001, 69,000

taxpayers sought a RAL. If you assume a small average interest fee of a hundred dollars on each one of those RALs, that's $6.9 million that was lost to the Philadelphia economy.

The EITC has been seen by unscrupulous financial service providers as an opportunity to make easy money and high profits with low risk. There's no risk to them. They're making money off of IRS checks that already belong to a taxpayer. By lending taxpayers their own money at high interest rates, there are huge profits to be made. These so-called financial services serve no one but the owners of the companies and they deprive Philadelphia households and communities of hard earned cash.

I want to give you one example of how the Campaign saves money for low-wage workers. We recently featured in the Daily News a taxpayer who completed her return at Congresso de Latinos Unidos. She received a total refund of $2,057. If she had gone to a commercial preparer, she would have paid $100 to fill out her federal and state return.

Then for filing her return electronically, the paid preparer would charge her $40. Her RAL would have cost $180, plus an audit protection fee of $35. Finally, a check cashing agency wold charge her 10 percent minimum to cash her check. Altogether she would have paid $525 for fees charges and interest, reducing her refund from $2057 to $1,532.

Refund anticipation loans weaken our families in neighborhoods. They take hard-earned dollars away from their rightful owners and they deepen the poverty of low-wage working families who are only trying to move their families up the economic ladder. We support your efforts to encourage the Commonwealth to regulate RALs and to protect Philadelphia residents from their negative impact. We hope to see the days when RALs are a thing of the past. Thank you for your support and your attention.

Councilwoman Tasco, I just want to call your attention to another document that we enclosed which is a spread sheet showing by zip code the number of RALs that were taken out in the year 2001, and we've tried to attach to this the Councilmanic districts for each of the zip codes so Council People can see the impact this is having on their constituents. Thank you very much.

COUNCILWOMAN TASCO: So in 2001, it cost over $20 million?

MS. HUNT: Yes.

COUNCILWOMAN TASCO: That went into the pockets of the preparers?

MS. HUNT: The commercial companies, yes. Most of which are not local in origin, they're all located elsewhere. We don't see the benefits of their profit.

COUNCILWOMAN TASCO: Could you tell me what is an audit protection fee?

MS. HUNT: Well, there's a series of fees. They have all different kinds of names that are attached on. If the taxpayer owes money to the IRS or child support or some other fee, there may be a withholding of the tax return. And so they put additional fees on to protect against that. But the reality is they have a system for checking for this at the time of tax return is done. They have a mechanized system, a computerized system. Now what they do is they break the RAL into two parts. They give people the first part immediately within like 48 hours and then they make them come back in 8 to 10 days to get the second part. So that they're really not seeing the full benefit in any way of getting the RAL. They don't get the whole amount anyway in the first 48 hours.

COUNCILWOMAN TASCO: Are there any other questions?

Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam Chair.

I notice in your testimony that you talk about people using their credits to make down payment on homes and to go to college and support children education, to save for the future. And also I have became aware that GPUAC is trying to link these credits also to some financial literacy training and investment options. Can you speak more specifically to that.

MS. HUNT: Yes. Thank you for bringing that up, Councilman Goode. The Campaign is actually not only focused on taxes. We have three pieces to this effort to help low-wage working families do better, and all of them are focused on achieving getting money from sources that already exist without new funding sources having to be created. One method is that a lot of working families qualify for public benefits such as food stamps, child care subsidy, health insurance, LIHEAP, et cetera. We want to be certain that every working family in Philadelphia collects every penny to which they are entitled. It can make a substantial difference in their cash flow.

And the third leg of our stool is financial education and protection from predatory financial practices. We work with the Community Economic Development Program at GPUAC and with others, such as the Consumer Credit Counseling Service of the Delaware Valley, to help people clean up their credit, make a plan for savings. Poor people will save in the same percentages as middle class people. Poor people lack simple ways to save that are automatic for middle class people. Middle class people, we have 401Ks, we have a number of systems which encourage us and assist us in saving. For poor people, those systems are not in place. So what we're trying to do is connect people to IDAs, Individual Development Accounts, or family savings accounts, to clean up credit which is a major obstacle for poor people, it's why it's so much more expensive to be a poor household than a middle class household because you pay so many more fees for everything that you have to do.

COUNCILMAN GOODE: Thank you.

COUNCILWOMAN TASCO: Councilman O'Neill.

COUNCILMAN O'NEILL: Does your organization do any counseling or connecting or attempt to connect people with credit unions?

MS. HUNT: Yes.

COUNCILMAN O'NEILL: Is that in a

special legislation that allows credit unions in low income areas not to have to go through an employer but can recruit people because it is a low income area and there's such a great savings in education available in credit unions?

MS. HUNT: I would like us to have deeper relationships. We work closely with Saba and Congresso in North Philadelphia east of Broad. And Borinquen Federal Credit Union is a partner in Saba and we try very hard to help families think about doing their banking services in places where the fees are low and the protection of their dollars is high.

We also work with PNC, Wachovia, and Citizens to open bank accounts at our tax sites. So that people can get a bank account on site and use that in their tax return so that they can direct deposit into that account. PNC has been most helpful in figuring out how to do that.

We're interested in expanding our relationships with the Philadelphia Federal Credit Union and other local credit unions in the coming year.

COUNCILMAN O'NEILL: I could also recommend the American Heritage Credit Union, which is a former Budd Company employees' credit unions. I know they've worked with Reverend Lusk in West Philadelphia to help establish a credit union.

MS. HUNT: That's a good suggestion. Thank you.

COUNCILWOMAN TASCO: Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you.

Let me first thank you for this visual that sort of illustrates the number of sites that you currently have. My only comment would be we'd like to see these pages multiply so that you can have even more sites in the next tax season.

How were these sites identified and/or recruited?

MS. HUNT: Well, we do two things. We do a data process, first of all, to determine the communities in Philadelphia where the highest potential number of earned income tax credit recipients. There are seven zip codes which consistently over the last three tax years have demonstrated the highest return. We have to assume that where there are high numbers of EITC, there are also high numbers of eligible EITC families who have not yet gotten their money. So we started looking in those neighborhoods and then had a set of criteria for sites, such as, do they have a constituency? Do they have a lot of people coming into their building? We wanted to be in sites where there was high visibility. There's technology requirements and a variety of other things. But the primary thing is the presence of families we're trying to reach and the capacity of that site to serve them and the relationships it already has with families.

COUNCILWOMAN BROWN: I would like to suggest, there are a number of churches that have credit unions and so an out reach to the clergy community might be useful as well in terms of building the location of sites.

Finally, has there been any

conversation, discussion, yet with members of the State Legislature? I believe it is the State that provides the authorizing legislation to have these individuals who -- the rich who steal from the poor, the check cashing sites

MS. HUNT: That's a State regulatory process. We're doing everything we can to support Councilwoman Tasco's efforts. We've been talking to the Secretary of Banking. We haven't talked as much as we probably should have to our State Delegation, although some members of the Delegation have been approached to be aware of the Campaign. We do have some state funds to help us run the campaign from the Department of Public Welfare.

COUNCILWOMAN BROWN: And you say most of those individuals who run check cashing places are not local?

MS. HUNT: Well, the big companies are not. There may be people running small operations that are doing it that are local, but the really big numbers, I believe, go to national organizations.

COUNCILWOMAN BROWN: Thank you for your testimony. It's very enlightening and important work that you and the Council Lady are doing. Thank you.

MS. HUNT: Thank you.

COUNCILWOMAN TASCO: Councilwoman Miller.

COUNCILWOMAN MILLER: Good morning.

MS. HUNT: Good morning.

COUNCILWOMAN MILLER: Thank you for your testimony. I just want to do a follow-up on Councilwoman Blondell Reynolds Brown's question around outreach to churches. What are you doing -- I know I've seen the ads in the newspaper occasionally when I read it. I don't always read the papers, so there's a whole lot of people that don't always read newspapers. Where else are you doing education and outreach? Because churches would also be a very good place to do that.

MS. HUNT: Let me first sort of describe the approach to doing outreach. We have a two-tiered approach. We do major media. We have four major media partners, The

Daily News, Channel 6, Unavision, and Power 99 Clear Channel. And through those, they do all free work for us in putting a lot of information out about the Campaign. But I agree with you, I believe you're right, that a lot of people are not reached in those ways. So we also do a bottom up community based outreach effort. We have 10 community outreach workers. These are leaders in their communities who are part of large networks who have helped us design a community-based approach to spreading the word about the Campaign. We use any network we can find. We use parents in schools, we use neighborhood associations, block captains, churches, sororities, anything we can do to get the word out. We've had a very active relationship with Reverend Steve Avenger from Grays Ferry South Philadelphia who helped us last year do outreach through the churches and had last year five sites located in churches.

I just want to say one word about doing taxes in churches. It's a mixed experience. There are many people in churches who do not want their financial information known for whatever reasons. And we found in some churches, it really suppressed -- the congregation would not come to that tax site to get their taxes done. We do have one church in North Philadelphia, Beloved St. John at 26th and Lehigh that does more taxes than any other site in the City. So there's a mixed experience with churches. And I think it depends on their history, their connection to the community around them, and the nature of the congregation itself.

We continue to work closely with the clergy and are very interested in deepening those ties.

COUNCILWOMAN MILLER: I'd just like to know, are people actually taking advantage of being able to acquire a bank account at the tax sites?

MS. HUNT: Last year we opened 170 new bank accounts at the tax sites. We expect open more than that this year. But I think there's much more to be done. I think we did find last year that 50 percent of the people that came to the tax sites were already banked. And there are a sizable minority of people who do not want a bank account for whatever reason. They know about bank accounts; they don't want them for whatever reason. So the number is a much smaller number than you might believe of who might benefit from getting banked as a result of their connection with us.

What we seek to do is to really build year-round relationships with families because these questions about how you handle your money what you do money personal. They do don't tend to be one exchange with a stranger. They get worked out over time as families develop trust with somebody that is helping them in variety of ways. Our goal is to work on development of programs and other programs where there are relationships that exist and start to say, "Let's Prepare for the earned income tax credit. You get it February or March. Plan now where you are going to put or use it." How to get every penny out of the tax credit ultimately is our goal.

COUNCILWOMAN TASCO: I'd like to ask you what's the criteria FOR setting up the site.

MS. HUNT: I can send you the list. There's a long list, but it has, does the site have a constituency of people going in and out of it? Is it a busy place? Is it a trusted place in its neighborhood? Does it have good technology facilities? Is it secure and safe? Is it a place people will feel comfortable coming in the evening or on the weekends?

My colleague --

COUNCILWOMAN TASCO: Well, that's okay. There is criteria so we would like to have a copy. I probably have it in all the information you've given me. If not --

MS. HUNT: You might not. And if you don't, I'd be happy to provide it to you.

One word I want to say is that last year we ran 26 sites. This year we're running 18. Our goal is not to do many, many, many, many teeny sites because it's hard to do good quality. So our goal is to do smaller bigger sites that are more available and then run satellites in places where, send somebody with a laptop to a union hall, to a charter school, to a church and say, "You can come get you taxes done for free on these dates," and then have those satellites relate to the larger sites.

COUNCILWOMAN TASCO: Is there a site on Ogontz Avenue?

MS. HUNT: No. Your district is lacking this year. We had a site last year that the Food and Commercial Workers helped us get set up, but that site went away. We were counting on Fernrock CDC, and at the last minute they withdraw from doing taxes. They've been doing them for a number of years. Next year there will be a site in that general area. There's one in Germantown. There's one on Broad Street, but that doesn't really serve the community that you're speaking of.

COUNCILWOMAN TASCO: Well, because I notice that you have a lot of -- and I'm not saying that they're bad people; I don't know. But there are a lot of the private commercial sites in the 19150, 19138 area, but we don't have a site there. And when we tried to do the issue a term program, that's where we have a very high number of foreclosures and predatory lending. But at the same time, the area is cited as being high income area, so people assume that these people are educated. But money is like -- it's not just poor people, it's middle income people who also need some help and education. So I need to talk to you about that so we could possibly get a site going up in that area.

And also I think more education is extremely important because people don't listen. And if you look at television, you see the commercials. The commercials are designed to entice particularly African Americans to go in and get this rapid loan; a man taking his wife to the hospital to have the baby and runs and gets the check. That media is very powerful. In our effort to educate people, we don't have the same dollars to counter that kind of advertising. So I thank you and appreciate what you're doing and GPUAC, which I just love for doing this and we'll continue our effort to try and stop this.

And I want to go on the record with my colleagues to let them know that we are working very closely with the State Banking Secretary, and we need our colleagues on Council to talk to their State Representatives. But as you say, we're preaching to the choir. What we find, because the State is so large and we have 203 State House Members and 50 Senators, when you don't get this -- the problems are visible in the Hindu lands, then it's very difficult to get a State Legislator to understand what the problems are. So there is a state-wide effort -- I'm sure ACORN will talk about that in their effort education to educate our legislators about this whole issue of predatory lending and the earned income tax credit and the impact that unsavory business practices has on our community. It is a much more difficult process. And even with the Secretary of Banking, he is -- and I must say and I have to give credit to the Governor for putting in a Banking Secretary that is sensitive and understands the issues. He has met with us several times to try to address this issue with the State Legislature. So he's doing his part to work with them to try to change the thinking and also legislatively what to do. Certainly, we don't have the dollars to compete from the lobby of these businesses. So having the will and sensitivity is a plus for us because we didn't have that in the past when we were doing the whole issue of predatory lending.

MS. HUNT: Well one resource that might be of use to you in your discussion with the State, Brookings Institution's most recent report on the earned income tax credit shows how rural poor people have much less access to the EITC than urban poor people. And there's a lot of very good data, including some data about Pennsylvania. So I would recommend that you -- rural legislators, they actually have a number of constituents in their districts who could benefit from the EITC but can't access it and who, when they do try to access it, may be getting ripped off by these RALs. So I think you could build a case based on that.

A billion dollars comes into Pennsylvania annually from the earned income tax credit. It's not a small thing.

COUNCILWOMAN TASCO: Well, it takes the leadership of the elected officials to move this stuff forward.

Thank you very much.

Any other questions or comments?

MS. HUNT: Thank you. I appreciate the effort.

COUNCILWOMAN TASCO: Thank you for doing a good job, Jean. You always do.

Next we have ACORN, Victoria yarn.

MS. YARN: Good morning. Before I get started, I'd just like to thank Councilwoman Tasco for organizing these hearings and for bringing public attention to this issue. Refund anticipation loans, it's an issue that's been ignored for far too long in our communities.

COUNCILWOMAN TASCO: Would you identify yourself for the record, please?

MS. YARN: Of course. My name is Victoria Yarn, I am Co-Chair for South Philadelphia ACORN. Now, for those that don't know, ACORN is an acronym. It stands for Association of Community Organizations For Reform Now. We are about 25 years old in the City of Philadelphia and one of the oldest grass roots organizations here. We have currently opened offices in Allentown, Harrisburg, and Pittsburgh, and I am here representing some 8,000 low to moderate income due-paying members that are part of ACORN.

In the last three months, ACORN has been active here in Philadelphia and throughout the country in a wide scale effort to keep dollars in our community to stop the scam of rapid refund or refund anticipation loans. Now, ACORN refers to these as rip-offs instead of rapid refunds, we call them rapid rip-offs because that's what they are. And what goes on is it's a product that produces huge fees. It's income for lenders and tax preparers while costing low-income taxpayers billions. Rather than go into our communities

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and the local businesses of Philadelphia, federal EITC dollars go directly to into predatory lender tax preparer pockets.

Since December, ACORN members have demonstrated at hundreds of H&R Block offices and passed out information to tens and thousands of taxpayers about the dangers of rapid anticipation loans. On Monday, over 500 ACORN members met up in Washington, D.C., TO meet with our Legislators about the problem and to do a large demonstration against Jackson Hewitt. I am here today to do everything in your power stop the rapid rip-off scams that skim millions of dollars out of our community every year.

. My neighborhood and other ACORN neighborhoods throughout the City are full of signs and ads about instant refunds. It's as if tax preparers like H&R Block and Jackson Hewitt want us the choices to get your money now through them or wait forever. Their aggressive and deceptive advertising has led many people to have no idea how quickly they can get a refund from the IRS much less that there are free sites throughout the City despite the hard and successful work of the Campaigns for Working Families who we give complete credit to for getting the word out. RALs take money from people who need it most. Fifty-five percent of people sold RALs get the earned income tax credit. Fifteen percent of all taxpayers qualify for the EITC. And more than 40 percent of households that got the earned income tax credit lost money to RALs, myself being one of them.

Several State Legislators are currently working with ACORN on state-wide legislation to restrict the terms and fees of these rapid refund anticipation loans which would require action at the state level. However, there are things within the power of the City of Philadelphia that could greatly limit the ability of these predators to mislead our consumers. One of the most important would be that the City of Philadelphia can require any business that makes a RAL to publicly post certain disclosures in large font regarding RALs, things that would include a schedule showing the amount of RAL fees, examples of the RAL interest rate or a notice to consumers about the nature and risk of RALs, similar to the postings that go on in bars about alcohol to pregnant women.

We would like the thank Marian Tasco again for all of her commitment to the financial equality of every community and thank all the Members for listening today. If we act soon, by this time next year we'll be able to celebrate the addition EITC dollars we were able to keep into our communities.

COUNCILWOMAN TASCO: Thank you very much.

Are there any questions from Members of the Committee?

Councilwoman Brown.

COUNCILWOMAN BROWN: You mentioned that there are a number of State Legislators actively involved with you. Are any of them from Philadelphia?

MS. YARN: Let me ask Ally. I'm not sure about the answer to that question.

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MS. KRONLEY: I'm Ali Kronley, I'm the head organizer of ACORN out of Philadelphia.

Several of the Philadelphia State Representatives have been very, very supportive of RAL legislation and have offered commitments to our organization. The larger issue, as some people have mentioned, is we really need people outside of the City of Philadelphia, and we're excited that we have a Republican State Rep out of the Lehigh Valley who is now committed to introducing legislation around limiting fees and requiring disclosures. That's kind of different things that can happen at the state level around refund anticipation loans, so we're going to be moving forward with him, in part because he's out of a more rural area and he's Republican.

COUNCILWOMAN BROWN: Thank you for your testimony.

COUNCILWOMAN TASCO: Any other questions?

(No response.)

COUNCILWOMAN TASCO: One of the concerns that we've had is the ability to educate people. It's much harder because we have limited access. I must thank some of the -- particularly the Daily News for spending a lot of time on the earned income tax credit program and running stories about it and editorials about predatory lending. And I have to thank ACORN for bringing the whole issue of predatory lending and consumer issues to the attention of City Council. It's not something that was generated by me but because their involvement throughout this country on this issue -- and I will tell you that I was at the National League of Cities this past weekend. I wish I had known you were up there Monday; I would have rallied with you. I was there. There are many, many legislators across the country who are not aware of this and so I've been asked share information with them so they can know what it is and start taking action in their communities. It's a great way to network with other -- while they're local elected officials, they can certainly bring attention to their State Legislators ours and then still on the City level promote issues of the earned income tax credit and setting up sites and things of that nature. So we appreciate the work that you're doing across the State and working with the legislators because that is important. It is something that we need to regulate because we will never educate people about this, not everyone. So if we have legislation that protects them, then we can find another issue we have to deal with.

Are there any other comments or questions?

Councilwoman Miller.

COUNCILWOMAN MILLER: Good morning. Thank you ACORN. I would just like to know when you did the protest at H&R Block, was it effective? Did people not go in?

MS. YARN: It was extremely effective. What we're doing is -- obviously, we're not there to create legal issues, but we are there to educate people so we kept our membership moving. We handed out a lot of flyers. And there were numerous people, I'd say, 10 out of every, say, 12 that did not know that this was the issue, that were not aware that there were free sites available, that there were other options. I didn't know myself, AND I've lived in Philadelphia 10 years now. I'm 36 and I've been paying taxes quite a while. I didn't find out until working with ACORN there was free sites out there. I figured I had to either do the taxes myself or I had to go to one of these tax preparers. And after going to them and looking and what they're charging and then not qualifying for RAL myself because I had child care expenses, I said to them, "Well, when am I going to get the money back?"

And they said, "You don't get the money back. You just don't qualify. You paid for the service, you just don't qualify."

And this is something that's happening -- if it's happening to me and I'm educated, what's happening to those people that have no idea? What's happening to those people that are spending these -- you know, these are hard-working people, these are blue collar people that are working for the fast food places, for the restaurants, for the supermarkets that are saving every dime to pay for their families. They pay all of these taxes and they want their money back, and then they're getting hit on both ends because H&R Block is hitting them and then the bank that gets this money for H&R Block is charging as well. That's in addition to the 200, 300, $400 that H&R Block and Jackson Hewitt charges to begin with. And these are poor, hard-working people that deserve every penny they can get.

COUNCILWOMAN MILLER: I'm glad to hear that people did take the flyer and not go in. I drove by a Jackson Hewitt office and it was standing room only almost. I couldn't believe so many people were actually in that office. So I'm just happy to hear that people are reading the flyer and taking your advice.

MS. YARN: If you're not aware, ACORN is in 10 communities throughout the City of Philadelphia. We're about 6,000 members strong within the City of Philadelphia alone, and we have what we have neighborhood meetings where I'm Co-Chair for South Philadelphia so when I have my meeting, this is one of the things I educate our membership on. This is one of the things that we talk about and we give them other options for this, and we desperately need the City and State's help with this, because although we have a lot of power and although we've done a lot of information sharing, we could always use the help to change the legislation because that's where the scam is going to stop.

COUNCILWOMAN MILLER: I'd actually like to get some -- I'm sure Councilwoman Tasco has flyers and information to give out to some of the meetings that I'll be going to. Like, I'm going to a meeting tonight, and I think people are just not aware. They think they have to run out to H&R Block or whatnot. And the rapid refund, if you money right now, then that's real tempting. But I am aware of ACORN. I'm from Germantown. They have a ACORN chapter in Germantown. So thank you.

Thank you for your information.

MS. YARN: Thank you.

One of the last things I'd like to leave you guys with is the thought I was in Delaware County over the weekend, and in Delaware County you don't find the signs that say, "Get your money now." You don't find the little corner shops where there's some guy you've never seen in your community before suddenly opens up business talking about "Come and get your taxes done." There's no clear indication that these things exist out there. But you walk into my neighborhood, I'm at 23rd and Reed, you walk into my neighborhood and every lamppost has a RAL sign on it. You've got businesses up and down Point Breeze. There are three brand-new stores on Point Breeze alone that have just opened up strictly to do these taxes. They're infiltrating our communities by leaps and bounds, and our people have no clue. It's a sin and a shame. They're taking this money from the mouths of these kids.

You know, I thought about it, the

$300 that I spent to do my taxes through H&R Block, that was uniforms for my kids, that was money for subway tokens. The extra money that I'm spending for all these fees and services can go to help -- what about the people that are behind in their utilities? What about that money helping them get caught up utilities? That's what some people wait on their tax time for, because wintertime is hard for people in this City. So they take that money and want go and pay these bills off so that they're not behind, so their credit's not ruined. But you've got these scam artists who are taking every dime they can. They're bilking our City. And it's not just not fair to our people, but it's not fair to our kids who have no choice who live in these households that are getting ripped off. You know, Mom's got to skip buying what I need because H&R Block took the extra money. Or we can't do family vacation this year or we can't buy the freezer so we can buy bulk meats to put in because they took the extra money.

And I really just want to thank you

guys for just taking the time to listen to us and help us do something about this. This is fantastic.

COUNCILWOMAN TASCO: Thank you very much.

Anymore comments or questions from Members from the Committee?

(No response.)

COUNCILWOMAN TASCO: Thank you for your testimony. It's interesting. We get the Earned Income Tax Credit Program going so we know a lot of people are going to be aware of it. All of sudden you get the additional businesses opening up. Because a few years back, you had to really look for someone to prepare your taxes.

And our objective is not to stifle business. We want business; we just don't want these businesses people gouging folks in the community, which they're doing. And so taking advantage of -- you get one program, somebody knows exactly how to take advantage of it and defraud people.

Thank you so much for your

testimony.

MS. YARN: Thank you.

COUNCILWOMAN TASCO: Our next panelist is Irv Ackelsberg, Community Legal Service.

Good morning.

MR. ACKELSBERG: Good morning. It's been a pleasure to be here.

For the record, I am Irv Ackelsberg, I'm a managing attorney with Community Legal Services. I run the office at Broad and Erie in North Philadelphia, and I also lead our consumer law effort.

I've given you some written testimony which I'm going to summarize and supplement. Essentially, what I'd like to do is to try to give you a greater understanding of just how the gouging works, who's doing it, how these transactions are structured, and a little bit of an understanding of the regulatory environment in which these businesses are operating.

I think focussing on the earned income tax credit is really the appropriate focus. I mean, this is an enormously important source of income for the people of our City and for the economy of our City. And anytime -- I mean, this is just the way things work. Anytime there is a federal program which is offering money, there are going to be businesses that crop up with the idea of trying to access some of that money. It's ordinarily done with -- its packaged in a way so that people feel like in order to access their entitlement, they have to go through these various intermediaries. Essentially, we know that it's built on a lot of fiction. It's built on a fiction as to the speed at which you get your refund, it's built on the fiction of -- it's built on a lot of ignorance of the fact that a lot of people aren't aware that you don't have to line up at Jackson Hewitt, that there are free sites available.

What I'd like to do is to show you how it is that upwards of 20 percent of someone's benefit can be siphoned off. You really have to break it down into sort of three separate siphons or three separate aspects of the delivery system at which money disappears. And again, this is a federal income support program that uses the tax system as its delivery mechanism. The whole point is -- in so ways it's not really -- it's connected to income; it's not really connected to taxes. The income tax credit is given over and above whatever credits you're entitled to based on the tax laws. This is a separate benefit, essentially the way that we support low income wages in this country, but they use the tax system as a vehicle.

So first off, in order to get your benefits, if you don't know about the Campaign for Working Families, you're paying a fee to just simply get the return prepared, and that's a fee that, you know, it could be anywhere from $20 to $50 to $80. Those are the kinds of fees that we've seen. Then you have the fees attach to the rapid refund loan, the refund anticipation loan. And these are financed charges and application fees and a variety of fees attached to getting the money quickly which, again, is largely fictional.

People don't realize that in this day and age of electronic filing and electronic deposits, people are getting their money as quickly as a week after they're filing, particularly if they have checking accounts.

The third level of fees which I don't think has even been mentioned here, but in many cases dwarf the refund anticipation loan fees are the check cashing fees. And I want to explain to you kind of how it all works and show you some examples so that you, again, get a greater understanding of how this multi-million dollar scam operates.

First of all, let me tell you, in terms of the loans themselves, they're made -- as far as I know of, they're made by three banks, national banks, one is Household, one is Bank One, and another is called a bank called Santa Barbara Bank and Trust. And these banks market their product directly to tax preparers. They don't market it to consumers, they market it to the whole tax preparation industry. And what they can offer the tax preparation industry is getting people their money quickly, of course, but also there are various economic incentives built in. And I'm not entirely clear on how all the money passing does work, but there are essentially kickbacks from these banks to the tax preparers that are actually arranging the loans. And that's an important thing to understand, that the tax preparer is essentially an arranger of a loan that's being provided by somebody else. And to understand the --

That's a critical distinction when you get at how do we regulate this in Pennsylvania. Because the loans themselves are essentially free from many kind of regulation. The loans themselves -- we, since the 1980s, we as a society have been dealing with the ramification of the disease called "deregulation." And one of the things that happened as a result of deregulation is that State usury laws, which are traditionally the mechanism by which not just this society but all civilized societies have regulated lending, state usury laws essentially were preempted federally in the 1980s and remain so, particularly if a national bank is making the loan, and we see this on credit cards. State government essentially lost the power to protect its citizens from usury, something that's been there since the days of the Bible. And so we have to find other mechanisms for regulating.

Now, while it's not within the power of the Banking Department to regulate the rates charged by refund anticipation loans that are provided by out-of-state banks; it is definitely within the jurisdiction the Banking Department to regulate the arranging of loans. And under State law, the arranger of a loan is called a broker. Tax preparers, to the extent that they are arranging these high-cost loans are functioning as loan brokers. Under State law, they're required to be licensed as a loan broker and they have to be subject to examination by the Banking Department, the State Banking Department. By searching web site of the Banking Department, you can see that very few tax preparers have bothered to get a license. And so one aspect of the power that exists and the way that the Banking Department can begin to try to get ahold of this is to force the licensing of tax preparers and then to use their examination power. And I'm going to show you in a couple of ways when you look at an example of how, for example, the extent to which the broker, meaning the tax preparer, is obtaining additional fees that are not part of what's disclosed to the consumer as the cost of the loan, it may be that the Banking Secretary has certain powers to prevent some of the gouging.

The other aspect of the Banking Department power, which I'll get to in a moment, is in the regulation of check-cashers. And this is an area very right for a legislative fix, which I'll explain before I finish.

What I'd like to do is to show you what these look like, these loans. And if you turn to the back of the testimony, I have a couple of exhibits. One I've call Exhibit A which is 4 pages, and one Exhibit B.

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Exhibit A is an example of a refund anticipation loan agreement that is being used this year. This particular one is being used by a tax preparer that operates out of check cashing stores. I mean, it's important that you understand that people are just not going to H&R Block to Jackson Hewitt; they're also purchasing tax preparation services and obtaining refund anticipation loans directly in the check cashing stores who are primarily interested in getting their hands on the check at the end of this process.

Now, this particular agreement is with the bank that I mentioned called Santa Barbara Bank, and the way it works -- and you can look at it yourself. You can see that it's four pages of very dense legal language, but essentially it says this --

And I should say this is primarily designed for someone who doesn't have a bank account. If someone has a bank account, this whole notion of refund anticipation loan is so absurd, given that you can get the refund into your account within a week really. I mean, the IRS is advertising two weeks, but that's just so people don't get angry with them when it's longer than a week, but really it's around a week, between a week and two weeks. So the whole idea someone with a bank account needs to pay someone to get it a few days earlier and pay 400 percent interest is kind of absurd.

So this is really designed a product for people who don't have bank accounts. And what this explains is that Santa Barbara Bank will set up a special account. The consumer is assigning the tax refund to the bank. The bank sets up this account to receive the refund electronically and then will be making a loan secured by the tax refund that it's going to receive. And then what it does is deducts from the money received all the fees, not only the refund anticipation loan fees, but the tax preparers fees. And so then what happens is the consumer receives a check, not a US Government check. This would be a check in this case from Santa Barbara Bank. So let's assume someone has no checking account.

What they're getting then is a check from Santa Barbara Bank, in this example. And it gives you some of the prices. It tells you that for just setting up the account, that's going to cost $28 dollars. And then on the last page, it gives you some of the fees, refund anticipation fees that depend on the size of the refund. And so you can see that the fees based on refunds up to $5,000 are from $34 to $99, representing interest rates, annual percentage rates between 67 and 424 percent a year.

Now, we also need to think about, well, how does someone find out -- I mean it's giving you a range of possible prices. Well, when do you find out what is it actually costing me, not this hypothetical person: What's it going to cost me? And think about the Federal Truth in Lending Act which says to borrowers that they're supposed to get the price of credit before they consummate the deal. The whole point of Truth in Lending is to enable consumers to make choices and to decide -- and to enable consumers to shop.

When does someone in a rapid refund loan transaction actually find out the cost of the loan? And the answer is, when they get the check.

Exhibit B, if you turn to that, this is an example of the way the disclosures work. What you're looking at is this stub that was attached to a refund anticipation loan check from Household Bank two years ago. So this isn't the same bank, this is an example from a different bank and two years ago. And I'm going to take you through this. First of all, I'm going to have to explain to you like what all this means based on what I think it means because it's not very clear and so I'm a lawyer who specializes in this stuff and I'm not exactly sure what's here, but I'm going to surmise what this represents. I believe what that this represents is the following:

An individual had a refund, an earned income tax credit, whatever, of about $2500. That's what it was determined she was entitled to. This is stub that was attached to a check she got for $2,295. And it shows all the deductions that were made from her check. And I'm going to tell you what I think they represent. First, you'll notice that they deducted $79.99. I believe that's tax preparers fee. It's not clear. There's a name there. That's probably the tax preparer. There's $3 charge going to someone else; I have no idea what that is. And then there's $121.99 in finance charges; those are the refund anticipation loans. And it's interesting. If you look at the small print, if you go back and you look at the small print later in the Santa Barbara case, you'll see that under that contract, while they say that the finance charge maxes out $99, it also says, Well, if there's earned income credit you can charge another $5 -- God knows why -- and if the tax preparer is gets more fees, they'll be more fees too. So there's this great uncertainty about what in fact is happening. And here we see at least one example of the kind of thing that happens. So this person then would have received this check for $2,295, but unless this person had a bank account, which I'm assuming she, didn't she then has to cash that check.

Now, let me move for a minute to check cashing and explain to you the legal environment around check cashing fees. This law was passed in 1997. It's called the Check Cashing Licensing Law. It was originally proposed by Representative Curtis Thomas. When Representative Thomas proposed the legislation, one of the things he had in that bill was a 2 1/2 percent limit on a fee for cashing any government check. When that bill got to the Senate, it was changed. And it was changed, I believe, through intensive lobbying by the check cashing industry which got it changed to limit that 2 1/2 percent category to only government assistance checks which was then defined by a check that comes periodically.

Now, I've been arguing to the Secretary that earned income tax credit arrives periodically every year. It just happens to come in a tax refund check. But that's pushing the envelope because it is well known that the whole purpose of that amendment in the Senate was to carve out tax checks as a free-for-all. And so what is happening is that the check cashing industry views tax season as the equivalent of what retail views Christmas, the Christmas season; that's their big season. They can get lots of fees. And in fact, what we've discovered is that some of the check cashing businesses in this City have been paying their employees, the cashiers, bonuses based on the amount of money they can grab out of a tax refund check.

I mean, you might remember that we had an agreement with Currency One that was announced about a month or two ago, it's the largest cash checking chain in Pennsylvania, and they agreed to stop their employee incentive program. They also agreed, to their credit, charge no more than 2 1/2 percent for a US Treasury tax refund. However, remember that this refund anticipation loan that I showed you, it would not be a US Treasury check. It would be a check from Santa Barbara, from Bank One, from Household

Finance. And they're charging, if they can get away with it -- and I'm not focussing here my comments at all on Currency One. I mean, this is the check cashing industry at-large believes that it has the legal authority to charge up to 10 percent.

So if this person who got this check from whoever the tax preparer was, possibly a check cashing joint, and she got her check for $2,295, based on an original benefit of $2500, let's assume that she then had to cash the check and cashed it right there and ended up paying that 10 percent fee. What I've done in my testimony is add it all up. It would mean that from a $2500 tax fund, she would actually walk out of the store with $2,065.52, meaning that a total of $434.48 or 21 percent of what she actually got was siphoned off.

Now, this last problem can be easily fixed. I've already given Representative Thomas some language that will fix this problem. The original intent of the legislation was that this not happen. It has been happening. It shouldn't happen. And this is one thing that I would say that this body could mobilize, could try to mobilize the delegation around. Is fixing that loophole. But also to try to get some Banking Department attention on the arrangers, the brokers of refund anticipation, namely, the tax preparers themselves.

I'm open to questions.

COUNCILMAN RAMOS: Mr. Ackelsberg, I just turned to the Chair and told her, "He said a mouthful."

Is cash checking lobby that strong?

MR. ACKELSBERG: I don't believe so. Actually, I think, frankly, that at least as to the fee charged on government checks, since the largest check cashing chain has already agreed in this agreement between the Banking Department and CLS and ACORN to limit itself to 21/2 percent at least as to government checks, it seems to me that we've essentially neutralized much of the lobby. In fact, I think probably Currency One could be convinced to support that fix so that they're not at a competitive advantage based on their agreement with us.

I think the rapid refund checks are a little more difficult. I think the reality is that these businesses have essentially created business plans which depend on skimming these enormous fees from these RAL checks. And I think to really address the problem, we're going to have to figure out ways -- I mean, if check-cashers are here to stay in some form, and I believe they are, given that the banks don't be in any hurry to serve our neighborhoods, then I think that we need to get the Banking Secretary -- and I think we don't need to get him to do this, he's already doing this -- to start thinking about ways in which check-cashers can operate in less unsavory manners. You know, they are basically building their business on this, and so they will fight very hard. Do they have power, I really don't know how much power they have.

COUNCILMAN RAMOS: Thank you.

COUNCILWOMAN TASCO: Is there any way that we can get this discussion in a public forum through the State Legislators? Because part of getting legislation passed is getting to the majority of the people that have to pass it, and I'm not sure -- I mean, we don't have hearings like we used to have around the State from the State Legislature. They just pass legislation without any public input. But what is a process for us to encourage them or get someone to introduce legislation where we could at least have a discussion around the State with the Legislators or at least get them into a room to help them understand what the issues are?

MR. ACKELSBERG: One of the opportunities we have at this moment in time is that we have a Banking Secretary who in his one year in office has paid more attention to the interest of low income consumers than probably all previous Backing Secretaries did in the last 50 years combined. He has really made clear that these are issues that he cares about. And I believe that because of that, there are opportunities. I mean, it is unique to have a Banking Department that cares about these issues and the Administration has some ability, some credibility to at least get issues on the table.

I also feel that what we've seen happen with payday loan legislation over the last couple of months is actually quite encouraging. And payday lending is something related to all this. In fact, in some places where people have gone into these check-cashers and gotten these kinds of transactions, they're also in hock for their next paycheck at 500 percent interest on a payday loan that, again, is operating very similarly to RALs in that they're not legal products in Pennsylvania, but there are these out-of-state banks that are making the loan maybe, because we don't know who is really making loans, and then you have these entities in the state that are arranging the loan. And the Secretary has actually made clear that he's going to start looking at these arrangements. And through his intervention, a bill that would have authorized payday lending in Pennsylvania, which unfortunately had support from some of our own delegation, has essentially been squashed because the Banking Department didn't want to see payday lending authorized. So I think that's a really opportunity -- and the fact that the Committee in the House essentially left it up in large part to Banking Secretary to make that call was very encouraging. And so I think that it's conceivable that that relationship that's been developing between the Administration and at least the House Committee could work on some of the issues that we're talking about today like amending the check-cashing law, for example.

COUNCILWOMAN TASCO: Thank you.

Any other questions?

Councilman Goode.

COUNCILMAN GOODE: I want to ask the question, even though the Banking Secretary being very helpful and is doing some good work, to what extent are we limited in terms of legislating on the issue of financial services?

MR. ACKELSBERG: We went down that

road June of 2001.

COUNCILMAN GOODE: I'm really asking to distinguish between the limitations regarding banking and financial services, or are they one in the same in terms of how we're limited in terms of legislating?

MR. ACKELSBERG: Well, I think that as a practical matter -- I mean, financial services, for example, what we talking about? If we're talking about check cashing, if we're talking about loan brokering, there are State statutes which give to the State Banking Department the authority to regulate those industries. So I think it would be fair to say that in those particular examples, certainly in check cashing, in small loan lending, in loan brokering, that those are State functions. And given what happened in 2001, I would suspect that the Legislature would regard with some antagonism any effort to challenge that.

But there are local angles that I know have been discussed. I mean, one of them, for example, is signage and licensing and when check-cashers are posting large signs or tax preparers on telephone poles or even on their own stores, I think that the City does retain certain powers to not only regulate where the signs are placed, but the extent to which signage which goes through L&I can be deceptive.

COUNCILMAN GOODE: That's really what I'm getting to, not so much whether we can get past the legal hurdles of what exists in terms of limitations with regard to banking and check-cashing, but how we can actually deal with other local laws that would impact financial services and also how we might be able to use our Home Rule authority with regard to our depository relationships.

MR. ACKELSBERG: Well, the depository relationship, I think, is still a handle that I believe you have despite what the Legislature said in June of 2001 in connection with predatory mortgage loans. And one way in which you might direct that is to make sure that the large banks -- I would say really two things that you could focus on.

One is making sure that there is widespread access to low-cost checking accounts in the banks. It is continually difficult for us to send people to banks and expect that they're going to walk out with a bank account. Banks are not very welcoming to our clients. And even those banks that have products that are targeted to the, for example, the person on SSI or the person with low wages who might have three or four regular bills that they're paying every month, those are the kinds of accounts that we need all the banks to be providing, and not just in a nice brochure but, in fact, on the street in each one of the branches in the neighborhood.

The other thing that I believe this body could be pushing the banks to do is -- and I want to allude to what I said before about the check-cashers needing to sort of come out of low life and into sort of more respectability if, in fact, the check-cashers are here to stay. There has been some experimentation and some scholarly writing about the possibility of banks and credit unions actually partnering with legitimate check cashing operations in such a way that people would have the ability to cash checks the way they do now but would also at that same site have the ability to open a savings account with a bank or have access to a MAC machine where they don't pay any surcharges. I mean, I think that those things could be set up. I know that, for example -- I just got an article sent to me by an economics professor at Swarthmore who's been looking at this. I know that there have been some of these setups, and we could push for the big banks here to be doing some of that to try to raise the benchmark for what check cashing services mean. And I think we should try to move toward the situation where check cashing is a transitional -- relying on check-cashers is a transitional situation up until the point where you can get a low-cost bank account.

But I think we're a long ways from that, but if the City wanted to use the leverage it has -- I know the Banking Secretary has started these discussions and it would be great if that were reinforced with the City's deposits leveraging, you know, more demands similar to what the Secretary and we have been calling for.

COUNCILMAN GOODE: Thank you.

COUNCILWOMAN TASCO: Thank you very much.

There was an earlier piece that was put forward by Lance Haver, and he's still here I think he does want to come back to the table, about using the business privilege tax as a possible means of controlling license. Because we do have the nuisance business law, that is a state law as well as a local law to not issue business privilege license for those companies that are deemed to causing a problem in our community.

MR. ACKELSBERG: I know that check-cashers already have a special status under the zoning laws where I believe that there is a category that includes, I believe, bars and other potential nuisance businesses. Check cashing actually I think is included in the list in the Code whereby even if -- I think the way it works is that even if the store would be consistent with zoning, there still has to be notice to the community before the store is opened. I think that you already have some existing handle for treating check cashing stores in some special way because they're treated specially under the zoning laws, I believe.

COUNCILWOMAN TASCO: I'm not sure it's enforced.

MR. ACKELSBERG: Well, that's another question.

COUNCILWOMAN TASCO: Any other questions from Members of the Committee?

(No response.)

COUNCILWOMAN TASCO: Thank you very much. We appreciate all the hard work you do. And certainly, we will continue to explore ways that we can protect the consumers here in Philadelphia.

MR. ACKELSBERG: Always a pleasure to talk to you, Councilwoman

COUNCILWOMAN TASCO: Thank you.

Is there anyone else to testify on

this bill?

MR. HAVER: Thank you very much FOR letting me back, and I apologize for not going over this earlier.

COUNCILWOMAN TASCO: State your name for the record.

MR. HAVER: It's Lance Haver.

I didn't want to give you the idea that the City is doing nothing to try to the get the information out about the earned income tax credit.

This year for the first time, the City is trying to use all of its resources whenever working people come in contact with the City or any department in the City or anything the City owns because they're facing some financial difficulties, the City is doing outreach over the earned income tax credit and referring everyone to the Working Families Campaign. So I'd like to give you a brief list and then talk specifically about a program that's being piloted at the PGW office that may address some of Councilman Goode's questions.

In all the PGW bills --

COUNCILWOMAN TASCO: What's "PTW"?

MR. HAVER: PGW, forgive me.

COUNCILWOMAN TASCO: PGW, okay.

MR. HAVER: Philadelphia Gas Works. In all the Philadelphia Gas Works offices and all their bills and their bill collectors whenever they come into contact with consumers, they talk about the earned income tax credit. The same thing is true with the Water Revenue, their bills, the office, bills collectors. Same thing for the Revenue Department. In fact, if we went to the basement of the MSB Building, there are postings there now because we know people go to the MSB Building to enter into repayment agreement for the water bill or their taxes, so we have all the information up there about the Working Families Campaign referring people to the sites. At all the energy centers, at all the housing counseling agencies, every one of the businesses that's in an empowerment zone has been mailed to with information to get out to the workers in those areas, all the libraries. This year for the first time, we've mailed to all the block captains and all the town watches. The Sheriff's Office will begin when it delivers the mortgage foreclosure lawsuits to include with that lawsuit information about the earned income tax credit where people can go to try and get that check so that they can rectify their situation and save their home. Whenever people apply for LIHEAP or Crisis, we'll be doing the same thing. And every rec center and every health center also has the information.

The reason I'm bringing this us up is I know you're going to be going through budget hearings soon and that I know that there many more important issues, but those of you who can keep in the back of your mind asking whoever showing up before you, "What are you doing? What is your department doing to help people understand these federal benefits that could be flowing into the City? How can you when you contract with a bill collector make sure that bill collector when calling on families homes say, 'Look, if you're having some trouble paying your bills, have you filed for your earned income tax credit? Are you getting food stamps? Here's a center that you can go to that's going to help you get that benefit.'"

Now, one, on a human level, that certainly helps the family. But, two, on an economic level, this is a tremendous economic stimulus package for the City of Philadelphia. If we could get everyone in Philadelphia who qualifies to get the money, we would be bringing roughly $85 million into the City that we're not getting. So on two levels, one, the human level; and two, on a level of economic stimulus asking the City departments as they go about their normal business and come into contact with our citizens and our population who are having some difficulties to make sure we get the information out about the earned income tax credit LIHEAP and Crisis and all the other government programs.

COUNCILWOMAN TASCO: Have we done anything with the Chamber to seek from the business community to include in their employees' W2 forms the information about the earned income tax credit and the location of the centers?

MR. HAVER: The Working Families Campaign, I believe, is doing that. But what I'm focussing on is I didn't want to give you the idea that the City is silent on this issue. The City is doing what it can. And I'm kind of appealing to you in the next round of budget negotiation that you kind of remind us that this is a tremendous opportunity for the City to bring in. You know, if I were to use the multiplier index on that 85-million-dollar figure in the same way we use the multiplier index for the stadiums, we would multiply that number by 1.7 percent and we would call it a tremendous economic stimulus package. So it's there. We can access it if we choose to. If we make this a priority whenever we come into contact with our residents, we will do a much better job and we will help inform people; because, Councilwoman, I agree with you, the competing medium of television is very difficult to overcome. And so if we see people when they are in trouble and they're coming into our gas offices or our Water Department or our Revenue Department when they're in trouble, they're much more likely to be able to learn what they can do to rectify their situation than just a general mailing.

I just wanted to call your attention to a pilot program that we're trying at the South Philadelphia office of PGW, the Philadelphia Gas Works. The Working Families Campaign has a site. Philadelphia Gas Works is opening bank accounts for people who come in there and want to try -- what's happening in that case is people, instead of being charged a fee, are being allowed to put some of the money on their arrearages on their gas bill, have the bank account opened, and the money sent directly to their bank account. What that does, of course, is, one, it saves the consumer money. Their taxes are done for fee. They don't have to pay the check cashing fees. They don't have to pay for the interest on the rapid rip-off. The second thing it does, of course, is help people keep their gas on because being able to pay on their gas bill is a tremendous benefit. And the third thing, of course, it does is the more people who we can help find money to pay on the gas bills, the less pressure there is for the gas rates to continue to climb.

Now, it is a pilot program, and I'm hoping the Gas Works, as I talk to you in the future, will talk about this and let you know how it's going. But as we start to look at alternatives to the check cashing industries, to the rapid refund industries, one of the possibilities is using our own offices, the Gas Works, the Water Department, as a way of competing with the check cashing places, coming up with innovative solutions so that we benefit our citizens, benefit the City, and keep more money in Philadelphia.

Thank you. I'm sorry I didn't mention that before.

COUNCILWOMAN TASCO: Thank you very much. We appreciate it.

Jean.

MS. HUNT: I just wanted to add one quick thing. The State of Pennsylvania estimates $75 million of unclaimed state tax back money sits in Harrisburg that does not come into the homes of Philadelphia residents. So just add that in the economic -- when you think about unclaimed earned income tax dollars, we have unclaimed state tax dollars. As you know, the State has mandated that any family making less than $35,000 a year does not have to pay state income tax. Those dollars are withheld automatically out of people's paychecks. They sit there waiting for people who make $35,000 or less be able to claim those dollars.

We file state taxes at our tax sites. It's another economic benefit to the City that you should just keep in mind when you're thinking about these issues.

COUNCILWOMAN TASCO: Okay. Thank you very much.

Is there anyone else to testify on this bill?

We'd like to thank the Councilmembers for staying and listening. It's a very strong program issue, and we will continue to work on it with all parties, ACORN, CLS and Campaign for Working Families Program, and our consumer advocate Lance Haver. And we thank you all so much for this testimony.

We will recess, which means we'll keep the record open so we may come back again maybe in the spring or the early fall and begin to discuss what we should do next year. It will be an ongoing discussion around this issue and we will not have to continue to introduce resolutions. So we'll recess until the call of the Chair. Thank you.

(Council adjourned at 11:35 a.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of March 10, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON PUBLIC HEALTH AND
HUMAN SERVICES

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Lisa C. Bradley, RPR