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Consumer Advocates Decry Use of Bailout Money to Make Predatory Loans to Working Poor Families

TARP Funds Being Used to Support Refund Anticipation Lending by Santa Barbara Bank & Trust

Advocates from local and national consumer groups blasted statements from Santa Barbara Bank & Trust that the bank intends to use funds from the U.S. Treasury's Troubled Assets Relief Program (TARP) to help make high-priced refund anticipation loans (RALs). On November 21, 2008, Treasury approved Santa Barbara as a recipient of $180 million from the TARP program.

"Santa Barbara is feeding off of taxpayer money twice in making RALs this upcoming tax season," stated Peter Skillern, Executive Director of the Community Reinvestment Association of North Carolina. "First, Santa Barbara is skimming off hundreds of millions in refund dollars in making RALs to working families. Second, it is funding its RAL loans using tax dollars from the bailout."

Santa Barbara is one in the handful of banks that makes RALs and partners with tax preparer Jackson Hewitt. RALs are loans secured by a taxpayer's federal refund, lasting only one to two weeks. RALs cost between $32 to $130 in loan fees, plus the ancillary fees, and can translate into high Annual Percentage Rates (APRs) of 50% to 500%. Nearly 9 million taxpayers received RALs in 2006, costing them nearly $1 billion in loan fees.

RALs target low-income taxpayers, especially recipients of the Earned Income Tax Credit, a special tax benefit for working families. Nearly two thirds of RAL borrowers are EITC recipients, yet they make up only about 17% of taxpayers.

Santa Barbara made 1.83 million RALs in 2007, earning $118 million in fees. It is one of the higher-priced RAL lenders, charging about 40% more than some of its competitors. Santa Barbara relies heavily on revenue from RALs and a related product, refund anticipation checks, and these products at one point constituted 56% of the bank's after-tax income.

"Californians are disappointed to see a supposed community bank in wealthy Santa Barbara take federal money while continuing to offer predatory tax refund loans to Earned Income Tax Credit recipients and other Californians in financial need," stated Alan Fisher, Executive Director of the California Reinvestment Coalition.

In order to make these RALs, Santa Barbara must have adequate sources of funding while they maintain certain capital levels required by banking regulators. According to Santa Barbara's own statements, TARP funds will help the bank maintain capital levels while it makes triple digit APR loans to working poor families. The following statements were made during a November 21 conference call to investors by Santa Barbara's parent, Pacific Capital Bancorp:

> "**Julianna Balicka -- Keefe, Bruyette & Woods**
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> I have two quick questions on RALs and I'll step back. The $4.5 to $5 billion funding that you could potentially do on balance if all other methods fail, does that include your TARP capital or does your TARP capital funding change the game that you can now do more on balance sheet?
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> **Stephen Masterson [CFO]**
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> The TARP program obviously helps us in a lot of regards. We want to use that TARP money for the purposes that it was intended and that is to continue lending in our marketplace, to continue the economic viability in our marketplace to strengthen our banking infrastructure. We didn't take the TARP money to increase our RAL program or to build our RAL program, but it certainly helps our capital ratios."

Pacific Capital Bancorp (PCBC), Transcript of Q3 2008 Earnings Call, November 21, 2008, from Seeking Alpha at http://seekingalpha.com/article/107896-pacific-capital-bancorp-q3-2008-earnings-call-transcript.

"The huge fees exacted by RAL lenders could be better used by working families to save in an emergency fund or towards a child's college fund. We must not allow TARP funds, which were designed in part to preserve homes and assets, to be used instead to strip struggling families of their assets," stated Dory Rand, President of the Woodstock Institute.

Consumer advocates pointed to Treasury's approval of TARP funds for Santa Barbara as another example of the lack of oversight and accountability for that program. Both the Government Accountability Office and the Congressional Oversight Panel for the TARP program have criticized Treasury for its failure to establish adequate controls to oversee banks' use of bailout funds.

"What was Treasury thinking in injecting hundreds of millions of taxpayer dollars to support a loan product criticized not only by consumer groups, but an IRS Commissioner and the National Taxpayer Advocate?" asked Jean Ann Fox, CFA Director of Financial Services. "The bare minimum that Treasury should do is to ensure that TARP funds are not used for predatory loans."

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