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Prepared Remarks of CFPB Director Richard Cordray on the Illegal Tax- Refund Scheme Enforcement Press Call

By [Richard Cordray](#)

Thank you for joining us on the call as we announce our first enforcement action taken in conjunction with a tribal government. One way we further our mission to protect consumers is through appropriately sharing information with state and local law enforcement agencies. In 2013, we signed our first Memorandum of Understanding (MOU) with a tribal government, to work with the Navajo Nation's Department of Justice on consumer financial issues.

Today we are joining the Navajo Nation to file suit against Southwest Loans, as well as a company that owns several tax-preparation franchises, and two related individuals. Our investigation found that they illegally schemed to steer low-income citizens of the Navajo Nation into high-cost loans.

Southwest Loans was founded by a man named Jeffrey Scott Thomas. Separately, Thomas owned four H&R Block tax-preparation franchises in New Mexico. While the franchises have since closed, for many years they catered to low-income citizens of the Navajo Nation, particularly those who qualified for the Earned Income Tax Credit. Southwest Loans specialized in what are known as "refund-anticipation loans." These are high-cost loans made on the basis of a consumer's expected tax refund, typically carrying triple-digit annual percentage rates (or APRs).

H&R Block offered products designed to meet consumers' short-term financial needs. These products were decidedly less expensive than Southwest's refund-anticipation loans. Nonetheless, Thomas decided that his franchises would not offer these cheaper products but instead would sell refund-anticipation loans to his tax clients at an APR of 240 percent. He knew these citizens were particularly vulnerable because they had low incomes and needed immediate cash, and he harmed them by violating the law in several ways.

First, when consumers were steered to high-cost refund anticipation loans, the significant financial stake that Thomas and his employees had in these loans was not disclosed. In fact, Thomas was the financier who earned interest and fees on these loans, and his tax preparers earned bonuses based on the number of refund-anticipation loans they could get their clients to take out.

Second, the rates on these loans were grossly understated. The loan agreements told consumers that the IRS normally makes an electronic deposit in about 12 days, yet they based the APR on an estimate that the loan would last 45 days. Because this time frame was inaccurate, the APRs were significantly understated. As a result, consumers were deceived into believing that the loans were not as costly as they actually were.

Third, when consumers asked Southwest about whether their tax refunds had come in, they were deceived once again. Without informing them that the refund had been received, Southwest convinced the consumers to take out a second or third refund-anticipation loan while they “waited” for their refund. Based on our investigation, we concluded that unwitting consumers incurred over \$254,000 in unnecessary interest and fees as a result of these illegal practices.

The Consumer Bureau and the Navajo Nation have proposed an order to address these violations. If approved by the court, Thomas and his associate, Dennis Gonzales, who was the owner and president of Southwest Loans, would be banned for five years from doing any business related to refund-anticipation loans. The defendants would have to provide a full refund of interest and fees to consumers who were deceived into taking out a second loan after their refund had already come in. And the defendants would have to pay \$438,000 in civil penalties to the Consumer Bureau based on their illegal actions.

Today’s joint action with the Navajo Nation to police illegal and abusive practices is a milestone for the Bureau. Through our coordination and cooperation, we are putting an end to this sorry chapter, and we are glad to partner with the Navajo Nation to protect consumers in the financial marketplace. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.