

Baltimore and Maryland CASH Campaign comments

Thank you to Senator Warren and Congressman Cummings for their unwavering commitment to American consumers and for putting on this great event. Thank you, Congressman Sarbanes, for being a long-time supporter of our efforts and of our partner organization, the Baltimore CASH Campaign.

Maryland CASH Campaign is dedicated to improving the financial security of working families. CASH stands for Creating Assets, Savings, and Hope – which we achieve by connecting families to free tax prep and financial education, products that build savings and credit, and by promoting policies that protect consumers and create opportunities to build wealth. We work with a network of direct service organizations that prepare free tax returns for 18,000 households annually, bringing back over \$30 million in refunds to low income taxpayers. The network also provides financial education and coaching to over 6,000 people each year.

I want to tell you a story about Ms. Thompson, who works for a large hospital here in Baltimore. She makes a good salary, over \$50,000 per year, which is now the sole income for her and her husband. During the economic downturn, her husband wasn't able to find steady work and she found herself struggling to meet their basic needs. This was exacerbated by the unexpected costs of her aging parents. She turned to online payday lenders to fill her income gap. One loan quickly led to eight. Before long, she was over \$5,000 in debt and the lenders were automatically debiting all of her paycheck as soon as it was deposited. She came to us anxious and concerned about how she was going to pay her other bills. Due to the strong payday loan laws here in Maryland, as well as the enforcement capacity of the Commissioner on Financial Regulation, we determined that seven of the eight loans were illegal and she was advised to close her bank account. Closing the account was the only way to stop the ACH payments. Ms. Thompson was relieved but worried about the debt collection calls that would soon start and any impact on her credit score. Ms. Thompson's story is all too common for those in the middle class, who are just one emergency from desperation.

Many people in Baltimore would tell you that they are in the middle class. Their income may not reflect this, but they aspire to the tenets of the middle class – a good job with benefits, a stable home, a safe neighborhood, and good schools for their kids. For too many of these individuals and families, the cost is too high for them to fully realize these aspirations. While Maryland as a state ranks amongst the wealthiest, 55% of Baltimore City residents are liquid asset poor, meaning they don't have enough accessible savings to live at the poverty level for 3 months. We know these numbers increase for households of color, especially female-headed households.

If you work at a job that doesn't offer direct deposit, as many don't, you are left to cash your check and use money orders and bill payment services, often at a steep fee. Or maybe you use a pre-paid debit card to manage your transactions. These cards are uneven at best given their fee structures. If your pre-paid card has the face or name of a celebrity on it, you probably aren't getting the best deal.

We are particularly worried about pre-paid cards when they are used as payroll cards. Just last year, there was legislation by a county government in Maryland to require all employees to use a bank account or a pre-paid card as a condition of their employment with the county. Given the range of fee structures, we are incredibly concerned about the procurement process and contract for these cards. We know that there are good actors in this market and we are pleased that the CFPB is weighing in on these cards. We need this information to be available and accessible to public agencies and employers who are moving away from cutting checks.

For many residents here, tax-time is seen as a positive moment, since it is the largest lump sum of funds they will receive all year. For those who receive the Earned Income Tax Credit, the average in Baltimore City is \$2,493; the benefit of this lump sum is diminished by the high cost of paid tax preparation and refund settlement products. In 2011, Baltimore City EITC filers represented 34% of all Refund Anticipation Loans and 24% of the Refund Anticipation Checks in the state. Baltimore City has 23% of all EITC filers in the state, yet are

overrepresented in both products. The average cost of tax preparation in Maryland is \$268, but we have seen fees upwards of \$500.

Not only is tax preparation expensive, you are also at risk of having a tax preparer who isn't competent or ethical. In Maryland, we worked hard to pass legislation in 2008 requiring competency and accountability requirements for paid tax preparers, but, as of 2015, we just passed a bill that will allow the Individual Tax Preparers Board to have their full authority. Taxpayers deserve a faster response from our government and elected officials. The ethical tax preparers who have to compete with these bad actors deserve a faster response. A majority of states don't even have this basic protection. We need the IRS to have the full authority to provide oversight and regulation of paid tax preparers, which we, as a non-profit, are subject to through the IRS Volunteer Income Tax Assistance (VITA) Program. The VITA program here, through Baltimore CASH, serves over 9,000 households each year. We need more funding and partnerships to broaden access to many more taxpayers.

We see that access to basic transactional accounts as well as short-term credit is often dependent on where you live, what language you speak, and your age. We are seeing older adults, especially those on a fixed income, who are getting caught up with auto title loans and other collateral loans. We hadn't seen many of these in Maryland, mostly those who would get them in Virginia and Delaware. In the last 6 months, we have seen a dramatic increase in residents with these loans. While these loans fall under the 33% usury cap, there is not an ability to repay requirement, so many are not able to make their payment within the first few months.

We are already seeing warning signs around student loan debt for both traditional and non-traditional students. Student loan debt totals have surpassed credit card debt. Private loans with adjustable rates and balloon payment are the new toxic loans. Students are getting into trouble even with more mainstream loans, both based on the loan terms and their own financial capability around managing them. Since student loans cannot be discharged like unsecured debt, they impose lasting damage to an individual's creditworthiness.

We often hear that financial education is the solution to many of these issues. There is a lot of financial education happening in Maryland. There are many success stories, but there is also much to learn about how to build and scale effective programs. While personal responsibility is core, people also need access to affordable products in a transparent marketplace that has sufficient oversight. We understand that this is a balancing act, but right now, middle class individuals and families are shouldering the heaviest burden.

These problems are complicated, but the solutions don't have to be.

- We need to flip our tax-code right-side up to help all families save, invest, and build wealth.
- We need government oversight that protects consumers in the marketplace and allows businesses to profit.
- We need the private sector to provide innovation capital so we can try new ideas and learn about what works.
- We need the public sector to invest in what works and emerging markets to take ideas from small communities nationwide.

Thank you for this opportunity and we look forward to working with you in the future.

Robin McKinney
Director, Maryland CASH Campaign