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DENISE L. NAPIER

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# NEWS

**FOR IMMEDIATE RELEASE**

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## **H&R Block Agrees to Meet with Institutional Investors to Answer Concerns Regarding Questionable Refund Anticipation Loan Practices**

### ***U.S. District Court Invalidates Connecticut Law Protecting Consumers Nappier Says Company is Taking Advantage of their Most Vulnerable Customers***

Connecticut Treasurer Denise L. Nappier, along with North Carolina Treasurer Richard Moore and New York Comptroller Alan Hevesi, announced that the H&R Block has agreed to a meeting with shareholders to discuss the company's practices regarding refund anticipation loans (RALs). Refund anticipation loans are high-interest, short-term loans that are often marketed to low-income consumers for the maximum amount of their expected federal tax refund. The coalition of some of the largest public pension systems in the nation represents more than 1.6 million shares of H&R Block, the nation's largest tax preparation chain.

The Community Reinvestment Association of North Carolina (CRA-NC) recently submitted a resolution to H&R Block to be included on the proxy statement to allow shareholders to vote on refund anticipation loan practices. The company filed a "no-action letter" with the Securities and Exchange Commission (SEC) to block the resolution from the proxy statement, which was granted. The resolution referred to refund anticipation loans as "predatory" and would have requested that H&R Block "implement a policy mandating that the Company cease its current practice of issuing high-interest RALs, develop higher standards for any future issuance of RALs, and ensure that if the Company issues RALs in the future, such RALs are issued with an interest rate and accompanying fees that are reasonable and in compliance with all applicable laws."

"Shareholder concerns about the company's refund anticipation loan practices should come as no surprise, and preventing a shareholder vote won't make the issue go away," said Connecticut State Treasurer Denise L. Nappier. "Not only is the company taking advantage of its most vulnerable customers, but it does so in harms way as mounting legal expenses to defend its unscrupulous practices threatens to erode its profits and long-term shareholder value. It's long past time for a serious, substantive and direct dialogue with investors on this issue."

H&R Block markets refund anticipation loans, which allow tax filers to receive their anticipated refunds within one or two days of filing with a steep interest rate. The effective annualized interest rate, based on a 10-day loan, ranges from 40% for a loan of \$9,999 to 700% for a loan of \$200. For the average refund size of \$2,150, the rate is 178%. The National Consumer Law Center estimates 79% of taxpayers who were sold tax refund loans in 2003 had incomes of \$35,000 or less, and over half were recipients of the Earned Income Tax Credit (EITC), although EITC recipients make up just 17% of all taxpayers.

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There are an estimated 100,000 RALs each year in Connecticut (70% to lower-income households). In 2005, the Connecticut Legislature passed Public Act No. 05-107, *An Act Protecting Consumers in the Making of Income Tax Refund Anticipation Loans (Act)*. The Act incorporated and strengthened specific disclosure requirements on loan terms; capped the interest rate for RALs at 60% APR for the first 20 days, and at 20% for any period after the first 20 days; and forbade tax preparers from engaging in unfair or deceptive practices, from charging fees other than those specifically permitted by law, and created enforcement provisions. The Act imposed on a "facilitator" (such as H&R Block) disclosure requirements and precluded a facilitator from participating in the making of a refund anticipation loan that exceeded the Act's interest rate limits.

Last week the United States District Court, District of Connecticut, ruled on a case brought by nationally-chartered Pacific Capital Bank challenging the 2005 Connecticut Refund Anticipation Loan Act. The court's decision invalidates the provision of the law regulating facilitators using nationally-chartered banking institutions in regard to RALs, thereby prohibiting the state from regulating the interest rates charged by facilitators that use banks with national (out-of-state) charters. This decision will make the Connecticut Refund Anticipation Loan Act unenforceable against companies like H&R Block.

"In the investment community, anything that looks too good to be true is probably not prudent, especially if it is not in the interest of the long-term health of the business," said Treasurer Nappier. "In fact, it doesn't take a rocket scientist to appreciate that it is simply bad business to charge consumers, let alone our most vulnerable consumers, an outrageously high interest rate for their own hard-earned tax refund. To add insult to injury, companies that offer high-rate RALs are getting away with this unfair practice due to federal preemption when they act as loan agents for banks."

"This issue is not only with H & R Block," Nappier continued. "This is a systemic problem when it comes to predatory lending. Given recent court action that struck down Connecticut's 2005 law capping interest rates for RALs, we need now more than ever to look to Congress to enact a more responsible law that truly protects the rights of citizens. In the meantime, we will vigorously pursue our shareholder rights in the manner that will hopefully effectuate positive change that will benefit the financial outlook of the company, its investors and its consumers."

There have been numerous lawsuits filed against H&R block related to its RAL practices in states including West Virginia, Texas, Illinois, California and New York. Several cases have been settled at a cost of more than \$100 million and many are still pending.

"When you treat your customers unfairly, it will eventually damage your company and your bottom line," North Carolina Treasurer Richard Moore said. "As shareholders, we are concerned that continuing to market high-interest loans to the customers least able to afford them is not only a dubious practice, but potentially places our long-term investments at risk. We have the right to expect not only sound business principles but principled business."

"There is a concern that the practice of H&R Block, in offering refund anticipation loans, can affect the company's future reputation and market share. This issue must be addressed," said New York State Comptroller Alan G. Hevesi.

The text of the letter from Treasurer Nappier, Treasurer Moore and Comptroller Thompson to H&R Block is attached.

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