

Block Revamp of Tax Lending Turns on Thrift

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By [Erick Bergquist](#)

Addressing criticism of its loan and retirement account products by consumer advocates and officials of several states, H&R Block Inc. has made a number of refinements, some made possible by its new thrift charter.

The tax-preparation company said Thursday that it will reduce its fee for taking out a refund-anticipation loan by more than 40% from last tax season and that it will no longer offer the Express IRA, a third-party product that got Block sued this year by New York Attorney General Eliot Spitzer.

Instead, its thrift will offer a new individual retirement account that has no setup fee and a lower minimum balance, and it will waive account maintenance fees so long as the account holder continues to use Block's tax-preparation services. Block also introduced a savings account, which like the IRA promises a 5.25% annual return.

Some of the company's critics said the changes were encouraging but did not put their concerns to rest. And one of its main competitors said previous attempts by tax-preparation firms to sell banking products have failed.

At Block's annual meeting Thursday, its president and chief executive, Mark Ernst, called the changes to the refund-anticipation loan "a new standard we challenge our competitors to meet." When combined with an H&R Block Bank account, the lower-cost loans "can be a bridge to entering the financial mainstream," he said.

Block, of Kansas City, Mo., said the changes to the refund-anticipation loan were made "in cooperation with" its funding partner, HSBC Holdings PLC. A spokeswoman for the London company said in a voice-mail message that it is "supportive" of Block's announcement but that it would be "inappropriate to speculate on what this does" for HSBC's profits on the product.

Block had been expected to announce changes to its loans, but the details were not made public until Thursday. Nor had it previously given many specifics about its banking strategy, except to say it would be targeting the unbanked and underbanked. The company was approved for a thrift charter - over the objections of consumer advocates - in March.

Fees for Block's refund-anticipation loans will fall to as low as \$60 (including a finance charge of less than 1.1%) when the consumer takes out a free bank account at the thrift. The average size of a Block refund-anticipation loan is \$2,800, so on an 11-day loan the finance charge would be at a 36% annual percentage rate, which Block spokeswoman Denise Sposato said was "the benchmark suggested by most consumer advocates."

The bank account carries no overdraft fees, minimum balance, or transaction fees for purchases. It comes with a prepaid card that Ms. Sposato said lets the nearly 3 million H&R Block customers who do not have bank accounts avoid high check-cashing fees.

Mr. Ernst said check-cashing and refund-anticipation loan fees can reach \$140 per customer during tax season. The average customer, with year-round use of the bank account, can

save \$460 a year, he said. The card account can also accept payroll and other deposits at thousands of retail locations nationwide.

In an interview, Douglas Hartung, Block's director for financial products, contrasted the new Easy IRA to the Express IRA, which cost \$15 to set up and had a maintenance fee of \$10 on balances below \$1,000. The minimum balance to avoid such a fee has been lowered to \$300, he said.

Sarah Ludwig, the director of the Neighborhood Economic Development Advocacy Project in New York and a leading critic of Block, said, "It's good to hear that they're hearing advocates saying that ... [the refund anticipation loan] is a product that gouges people, that it's predatory and usurious by nature, but it remains to be seen how they're going to implement this, and I think they still need to comply with New York's usury limit of 25% on small loans" of the size of Block's tax refunds.

Though "it's important to help bring people into the banking mainstream and encourage people to get accounts," Ms. Ludwig said, "I'm not thrilled with the idea of consumers opening accounts with H&R Block, which has a record as being a fringe broker." The proof of its commitment would be in what charges it includes with the new loans and accounts that it does not mention in its press releases, she said.

Peter Skillern, the executive director of the Community Reinvestment Association of America in Durham, N.C., who attended the shareholders meeting and ran unsuccessfully for election to the board, said he "appreciated the reforms that ... [Block] talked about today."

But "rather than dress up this pig" in finer clothes, he said of the refund-anticipation loan, it would be better to "get rid of it entirely."

John Hewitt, the chief executive of JTH Tax Inc., a Virginia Beach company that does business as Liberty Tax Service, applauded the discounted pricing for refund-anticipation loans and said, "hopefully that product will be available to all" of Block's competitors, including his company, that also work with HSBC.

However, he tried to sell bank accounts, IRAs, and mortgages through tax-prep offices, as Block is doing now, more than 20 years ago at his former company, Jackson Hewitt Inc., and none of them worked.

"It's like going to a McDonald's and asking for a Big Mac, a Coke, and fries and being asked, 'What about a mortgage?' " and the customer says, "No, leave me alone, I just want a Big Mac, a Coke, and fries."

According to Mr. Hewitt, H&R Block is "trying anything they can to stop the bleeding," having lost about a million customers over the past four years. But the unbanked "live paycheck to paycheck" and are not inclined to save their tax refunds in a bank account.

"Block has spent almost \$1 billion doing research and development for Liberty Tax," Mr. Hewitt said. "We will copy" anything that works, and skip the rest.

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