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H&R Block Sues HSBC over Tax Loans

The nation's largest tax preparing service, H&R Block has taken up a lawsuit against HSBC bank USA over the latter's alleged backing out of funding tax refund loans given out by H&R. The loans, known as Refund Anticipated Loans (RAL), are due to expire next year. This comes on the back of the new IRS move announced in August to discontinue the practice of disclosing Taxpayer Debt Information (or tax indicators) which gives details of how much each taxpayer is entitled to receive in terms of refunds against what he or she owes in back taxes, child support and student loans. The ten-year practice of the IRS to divulge tax indicators will end soon and without these indicators, banks who underwrite the loans find it difficult to assess the loan-worthiness of the borrowers.

With funds from banks getting scarce and the difficulty in getting underwriting, the cost of the high-interest RALs will increase when the new tax season begins in January. Getting approval for RALs is also expected to become more difficult. Typically, RALs are used by taxpayers from the lower-income group who cannot obtain credit from other sources.

According to the lawsuit filed by H&R, HSBC did not take the necessary steps to ensure H&R will be able to offer the refund loans and refund anticipated checks during the 2011 tax season. A refund anticipated 'check'

is the account into which the tax refund is paid. This allows H&R to deduct their tax return preparation fees from the refund the taxpayer receives so that the taxpayer does not have to pay any fees upfront. H&R declared that about 40% of its customers took up either one of these products this tax year. According to Standard & Poor, this amounts to \$146 million in dollar value excluding the fees for preparing the tax return or 3.8% of H&R's total revenue.

This drop in revenue could translate to a similar drop in share value of the company of 10 cents per share. This loss in share value might be higher if customers looking for RALs decide to have their tax returns prepared in some other company. H&R was aiming to increase this segment of its business next year because the company had full funding for RALs, something that many other tax preparation companies do not have.

H&R's lawsuit allege that HSBC is pulling out of underwriting the RALs because it fears it would lose money without the IRS' tax indicator information.