

The “Daily Plan-It”™

SHUMATE BROKERAGE CORP.

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Spitzer Takes a Swing at H&R Block

Eliot Spitzer, the New York State Attorney General, has filed an interesting case against H&R Block Financial Advisors, Inc. In a lawsuit for fraudulent marketing of IRAs, Spitzer claims that H&R Block violated multiple laws through the marketing of IRA accounts to their tax clients.

Filling a void

Back in 1955, the Internal Revenue Service discontinued its practice of preparing free tax returns. Henry Block saw an entrepreneurial opportunity and, together with his brother, Richard, opened H&R Block, Inc. to fill in the gap that was opened by the IRS. By 1978, they were preparing more than one out of every nine tax returns in the U.S.

But the true entrepreneur is never satisfied, and in the 1990s, H&R Block Financial Advisors Inc. was created to meet their goal of becoming a financial partner to their clients, as well as their tax preparer.

Taking the ethics out of business ethics

According to Attorney General Spitzer, H&R Block opened more than 500,000 “Express IRA” accounts for their clients, who were told they would be getting great rates. Unfortunately, the unwitting clients wound up paying the company more money in fees than they earned in interest.

To make matters worse, the complaint alleges that senior management knew that their clients were losing money on these IRAs, and chose to take no action. H&R Block continued to push the Express IRA to their clients as a good way to save, in an effort to encourage repeat business.

According to Spitzer, the company failed to properly disclose its fees to their customers and warn them that the fees may be higher than their returns. They also described the returns as “great,” even though they were less than 1 percent annually. That

wouldn't be defined as great in anyone's financial dictionary.

A history of litigation

This isn't H&R Block's first encounter with questionable ethics with regulators. In 2003, they paid \$3.3 million for fees charged for audit protection. In 2004, the NASD charged H&R Block Financial Advisors with fraud for selling millions of dollars of Enron bonds in the weeks before the company's bankruptcy, even though their bond ratings were collapsing. In 2005, Block paid \$62.5 million to settle lawsuits over high-interest loans for customers waiting for tax refunds.

We thought that you would find this case interesting, and hope that you continue to enjoy reading the Daily Plan-It.

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