

H&R Block Receives \$142 Million Cash From Sale of Mortgage Residual Assets

November 18, 2002 8:15 AM ET

Expects to Record \$122 Million Gain From Sale in Fiscal Third Quarter

KANSAS CITY, Mo., Nov. 18 /PRNewswire-FirstCall/ -- H&R Block Inc. (NYSE: HRB) today announced the completion by its subsidiary, Option One Mortgage Corp., of a net interest margin (NIM) sale, netting the company \$142.5 million by securitizing additional future cash flows from past mortgage securitizations that have outperformed their original expectations. The company had previously announced that it was pursuing such a monetization of residual assets.

The transaction, completed on Nov. 15, strengthens H&R Block's balance sheet by converting residual mortgage interests to cash. The company will realize a \$122.4 million pretax gain as a result of the transaction. This gain is expected to contribute 32 to 34 cents per share of additional income in the company's third quarter (net of accretion that would have otherwise been recorded), which ends on Jan. 31, 2003. Future accretion of income from these assets will be commensurately lower. The bonds in the transaction are backed by cash flows from 12 previously securitized Option One Mortgage residuals that are generating higher cash flow than originally anticipated.

"This transaction is consistent with our strategy to operate the mortgage business conservatively, with a goal to maximize cash flow," said Mark A. Ernst, chairman and chief executive officer of H&R Block. "The marketplace has validated the assumptions that we use in valuing residual assets. The \$142.5 million paid for these residuals confirms that our valuation process reflects real market value.

"We approach the mortgage business with the intent to optimize its cash earnings and minimize risk retained on our balance sheet. We are extremely pleased that the mortgage unit continues to deliver strong, high quality results."

The company was able to sell a portion of the remaining cash flows on previously securitized residuals (NIM transactions) because the original NIM bonds paid off sooner than anticipated. Credit rates on the original bonds remained low and the performance of the mortgages exceeded modeled expectations. These NIMs were valued according to conservative assumptions with respect to losses and prepayments. They also included interest rate hedging vehicles that guarded against the risk of an increase in interest rates, but enabled the company to profit from the higher margin when interest rates remained low.

"I know of very few companies that have been in the enviable position to write up mortgage residuals in the past few years. Our business model is conservative and risk averse, which is why the bond market values our securities so highly," Ernst said.

Since October 2001, the company has written up the value of its residual assets by a net \$233.8 million. The transaction Friday converts to cash and earnings a significant portion of these write-ups.

This transaction leaves residuals valued at \$229.1 million on H&R Block's balance sheet. These residuals represent only 1.4 percent of the \$16 billion in total outstanding securitized loans. Except for these residuals, Option One sells its mortgages and the risks associated with them. The residuals are made up of excess retained interest and prepayment penalty income. Subsequently in a NIM transaction, the company sells a substantial portion of its residual asset for cash, resulting in a significantly smaller residual security retained by the company. Friday's transaction could be termed a "re-NIM" because it sells for cash the residual cash flows from NIMs previously retired.

This press release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the company, the industries and markets in which the company operates, and management's assumptions and beliefs relating thereto. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of the exact income effect of this transaction on earnings per share for the company's third quarter, the uncertainty that the company will achieve its revenue, earnings or earnings per share growth or expectations for the third quarter or fiscal year, the uncertainty of assumptions utilized to estimate cash flows from residual interests in securitizations and mortgage servicing rights, changes in economic, political or

regulatory environments and in interest rates, the risks of litigation involving the company and its subsidiaries, and risks described from time to time in reports and registration statements filed by the company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors and risks into account in evaluating any such forward-looking statements.

About H&R Block

H&R Block Inc. (<http://hrblock.com>) is a diversified company with subsidiaries that deliver tax services and financial advice, investment and mortgage products and services, and business accounting and consulting services. As the world's largest tax services company, H&R Block served nearly 23 million clients during fiscal year 2002. Clients were served at the approximately 10,400 H&R Block retail offices worldwide and through the company's award-winning software, TaxCut(R), and its online tax services. H&R Block is the only major tax and financial services company that focuses primarily on helping middle-income taxpayers achieve their financial goals. Investment services and securities products are offered through H&R Block Financial Advisors Inc., member NYSE, SIPC. H&R Block Inc. is not a registered broker-dealer. H&R Block Mortgage Corp. offers retail mortgage products. Option One Mortgage Corp. offers wholesale mortgage products and a wide range of mortgage services. RSM McGladrey Inc. serves mid-sized businesses with accounting, tax and consulting services.

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-0- 11/18/2002

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