

Office of Thrift Supervision Formally Eliminates 3% Tangible Capital Requirement for H&R Block

May 9, 2008 6:02 AM ET

Action Effective Immediately

Prior Supervisory Directives Relating to H&R Block's Capitalization Also Rescinded

Action Reflects Company's Sale of Mortgage Servicing Activities, Shutdown of Mortgage Loan Origination and Substantial Deleveraging

KANSAS CITY, Mo.--(BUSINESS WIRE)--May 9, 2008--H&R Block, Inc. (NYSE:HRB) today reported that it has been formally advised by the Office of Thrift Supervision ("OTS") that the OTS has terminated the prior regulatory requirement that H&R Block maintain three percent adjusted tangible capital at the parent company level at all times. The decision reflects the closing of the sale on April 30, 2008, of the mortgage servicing business of H&R Block's Option One subsidiary and deleveraging of H&R Block. The "3% Rule" applied to adjusted tangible capital levels to be maintained by H&R Block so long as it owned H&R Block Bank. The 3% Rule revoked today was entirely separate from the capital requirements applicable to H&R Block Bank, which are not affected by this action.

As a result of a variety of factors, including significant losses at H&R Block's mortgage subsidiary, H&R Block had been out of compliance with the OTS 3% Rule for a considerable time. H&R Block's failure to comply was the subject of several Supervisory Directives from the OTS. In addition, due to its failure to comply with OTS requirements, the Company was effectively precluded from repurchasing its own shares in the market until it achieved compliance with the 3% Rule.

In a letter dated May 7, 2008, the OTS advised the Company that "Given the bank's twelve percent super-leverage ratio requirement and Block's declining risk profile, the three percent adjusted tangible capital requirement is hereby terminated effective April 30, 2008. Our previous Supervisory Directives related to Block's capitalization are also rescinded. Block remains subject to the capital adequacy criteria set forth in the OTS Holding Company Handbook."

Chairman Richard Breeden commented "We are elated with the OTS action, which eliminates a significant constraint on the structure of H&R Block's balance sheet. By removing a restriction that we and the OTS concluded was no longer necessary, we have eliminated uncertainties that affected capital allocation and share repurchase decisions. The decision announced today is sound and sensible in addressing both regulatory and shareholder interests, and we want to thank the OTS for working with us to understand our issues and to find the right solution. We are now able to plan for the future of H&R Block Bank with much greater certainty, and to look at ways to utilize the highly flexible thrift charter to the advantage of our consumer clients without disadvantaging our shareholders. We regard this as a highly positive development."

About H&R Block

H&R Block Inc. (NYSE:HRB) is the world's preeminent tax services provider, having served more than 400 million clients since 1955 and generating annual revenues of \$4 billion in fiscal year 2007. H&R Block provides income tax return preparation and related services and products via a nationwide network of approximately 13,000 company-owned and franchised offices and through TaxCut(R) online and software solutions. The company also provides business services through RSM McGladrey and certain consumer financial services. For more information visit our Online Press Center at www.hrblock.com.

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