

# HOUSEHOLD



**Gary Gilmer**

*Vice Chairman – Consumer Lending*

*President HFC/Beneficial*

# CONSUMER LENDING

- Business and Customer Overview
- Results
- Economic Challenge
- Regulatory/Legislative Environment
- Predatory Lending
- California Lawsuit
- 2002 Outlook

# CONSUMER LENDING

- Branch-based consumer lending
- Middle-market customer, spotty credit
- Tradition of working closely with the customer with emphasis on service and flexibility

# CONSUMER LENDING

## *2001 Results*

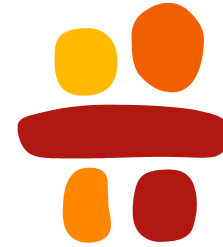
- Total volumes up 18% vs. 2000
- Receivables increased \$5.5 billion
- RE secured growth represented 99% of our total growth
- Revenues increased 11% for the full year

# CONSUMER LENDING

*2001 Results (cont.)*

- Maintained efficiency ratio under 29%, while investing in collections and sales
- Net charge-offs were 19 basis points lower than 2000
- ROMA and ROE above consolidated HI levels

# HOUSEHOLD



**Tom Detelich**

*Managing Director – Consumer Lending Sales*

# CONSUMER LENDING

*Driving Growth and Profitability in the Branch Network*

- Optimize the branch number and location
- Increase sales productivity
- Improve on expense efficiencies
- Maximize total branch output
- Improve quality assurance

# CONSUMER LENDING

*Optimize the Branch Network*

HFC Branches	455
Beneficial Branches	<u>933</u>
Total	1,388

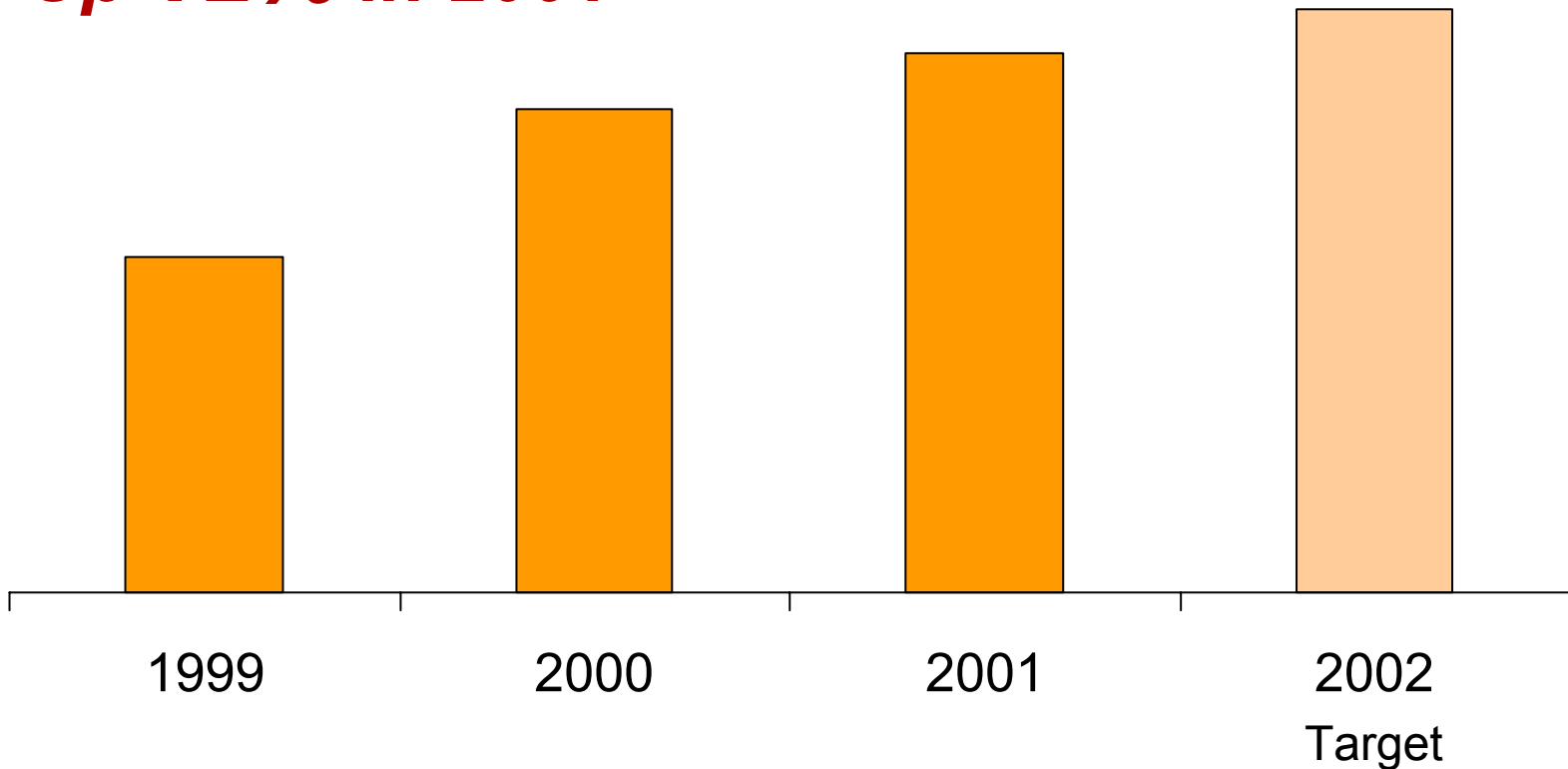
- 2002 - Total number of branches will remain unchanged
- “Gas” Project - Optimizes branch locations



# CONSUMER LENDING

*Loan Account Gain per Branch per Month*

***Up 12% in 2001***



# CONSUMER LENDING

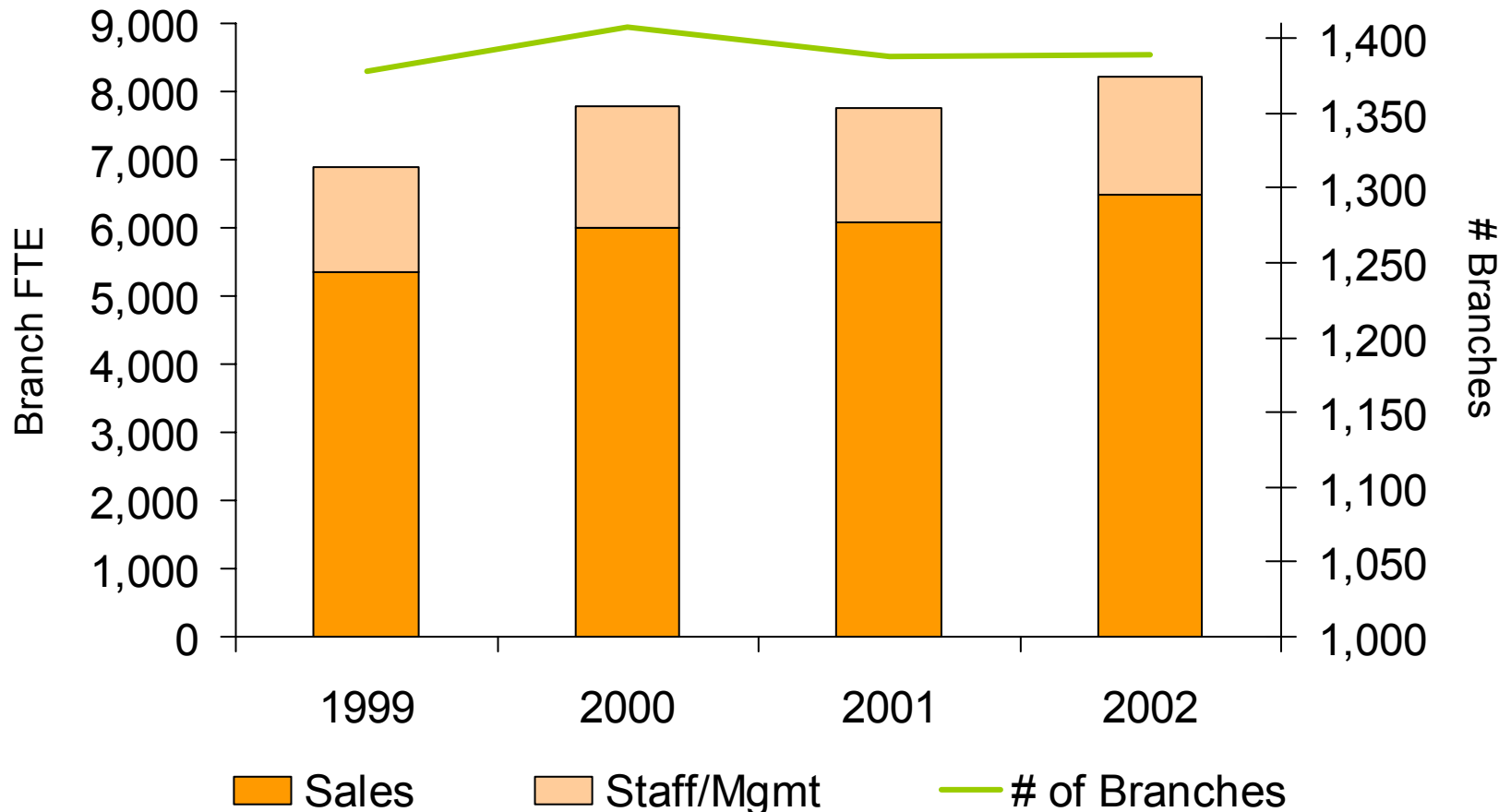
## *Increase Sales Productivity*

- Increased size of sales force by more than 500 FTE (4Q 2001 and 1Q 2002)
  - Added sales people in high productivity markets
- Increased productivity per account executive by 12% in 2001
  - Improved sales training
  - Improved leads and lead management
  - Improved products

# CONSUMER LENDING

## Growth of Branch Sales Force

*Added 1,100 Sales Execs since 1999*



# CONSUMER LENDING

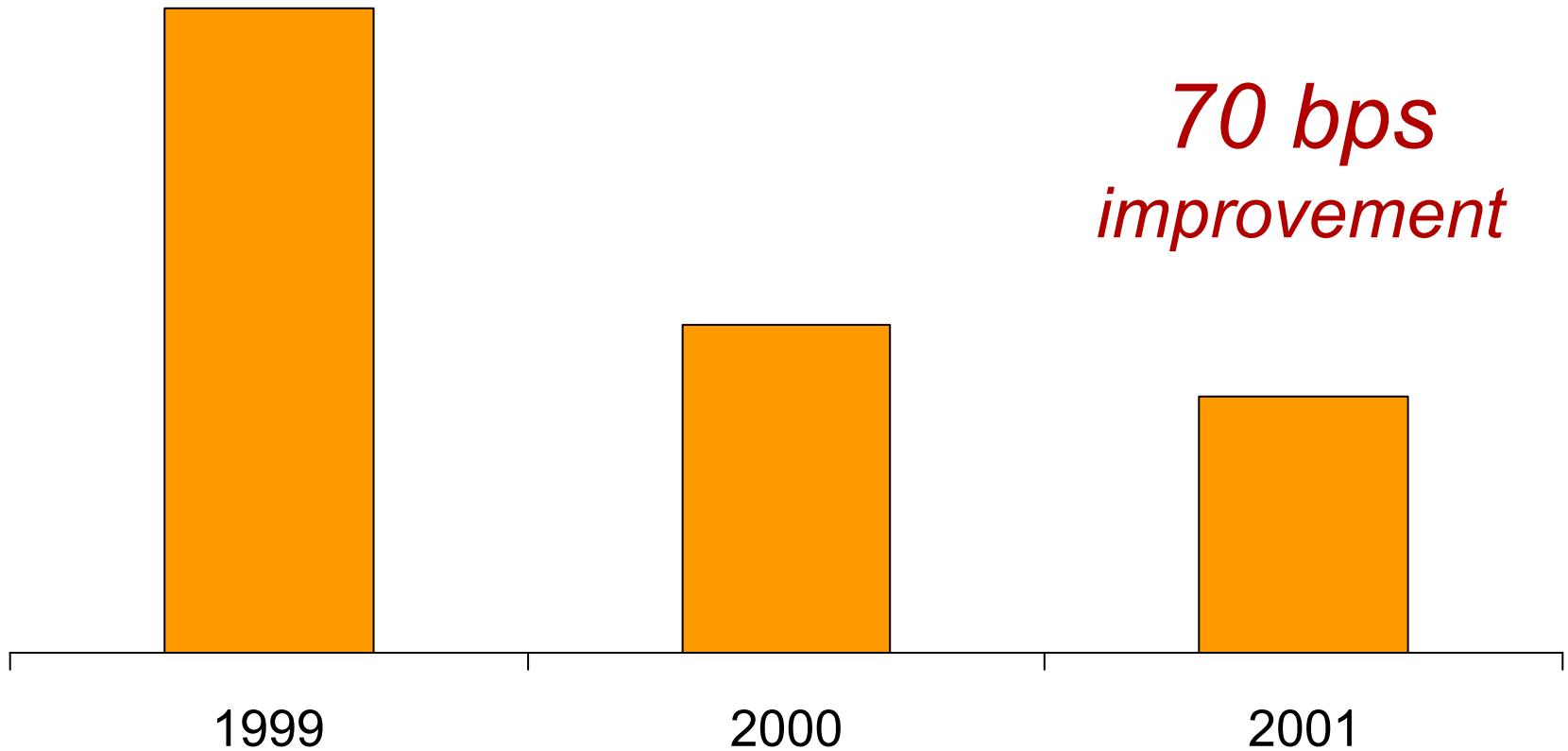
## *Improve Expense Efficiency*

- Growth of sales force relative to fixed costs and sales management
- Centralized servicing of non-core customers
- Development of lower-cost lead sources
  - Partners
  - Cross selling

# CONSUMER LENDING

*Efficiency Ratio: Branch Network*

*70 bps  
improvement*



# CONSUMER LENDING

*Maximize Total Branch Output*

- Traditional Approach - Drive more customers into the branch
- Today's Approach - Leverage branch network to expand relationships with customers
  - Partnerships
  - Cross selling

# CONSUMER LENDING

*Maximize Total Branch Output*

## Partnership programs

- MBNA
- Internet partnerships –  
Getsmart, Lending Tree, HFC.com

# CONSUMER LENDING

*Maximize Total Branch Output*

## Cross sell in 2001

- Retail Services - 59,000 cross sell loans
- Cards in Branches - 135,598 cross sell credit cards
- Referral programs with credit card and retail services



# CONSUMER LENDING

## *Increased Quality Assurance*

- Strongest controls in our history
- Improvements include:
  - Increased Quality Assurance staffing
  - Increased Quality Assurance systems support
  - Increased Quality Assurance testing

# CONSUMER LENDING

- Business and Customer Overview
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- **Economic Challenge**
- Regulatory/Legislative Environment
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# CONSUMER LENDING

## *Economic Challenge*

*2001 was a year of economic downturn as the economy slowed and unemployment rose*

In anticipation, beginning in 2000, we ....

- Significantly tightened underwriting criteria
- Continued the focus on secured growth
- Added 675 collectors in consumer lending

# CONSUMER LENDING

## *Regulatory/Legislative Environment*

*2001 was a year of heightened regulatory scrutiny and legislative activity*

In anticipation, we ....

- Have led the industry toward positive change, beginning with HOEPA
- Established blue ribbon consumer advisory board in February, 2001
- Launched groundbreaking “Best Practices” program in July, 2001
- Initiated call programs to legislators and regulators to take the lead

# CONSUMER LENDING

## *Predatory Lending Issues*

- Created high-impact partnerships with community groups to improve consumer financial education
- Launched second series of “Best Practices” in February, 2002

# CONSUMER LENDING

*Best Practices Initiative - February 2002*

- Simplified one-page disclosure
- Additional verbal disclosure on all direct mail loans
- 100% satisfaction guarantee
- Prepayment fee choice and new prepayment fee restrictions
- Pricing restrictions limiting points to five
- Rewarding responsible borrowers with reduced rates

# CONSUMER LENDING

## *California Lawsuit*

We were unexpectedly sued by the California Department of Corporations in November for overcharging certain fees.

These were:

- Systems programming errors related primarily to overcharging late fees (15% vs. \$15) and administrative fees (\$75 vs. \$50)
- Primarily restricted to errors on unsecured loans
- Required refunds totaling \$3.5 million, going back to 1998
- Undercharged thousands of customers

# CONSUMER LENDING

## *California Lawsuit - Response*

- Settled the lawsuit
- Significantly increased staffing in key compliance areas
- Launched intensive employee training programs to increase awareness
- Initiated compensation changes to discourage any compliance failure



# CONSUMER LENDING

## *2002 Outlook*

- Economic circumstances for our customers will improve throughout the year
- Competition will hold steady and continue to be rational
- Opportunities for growth continue to be excellent
- Expect another year of double digit growth in revenue and receivables

# CONSUMER LENDING

## *2002 Outlook*

- Margins will hold up well, we have pricing elasticity
- Efficiency ratio will improve, as we capitalize on our competitive advantage in cost management
- Delinquency ratios will behave well, relatively flat with 2001 year-end numbers
- Charge-offs will be somewhat higher than 2001, impacted by economic slowdown
- 2002 will be another record year