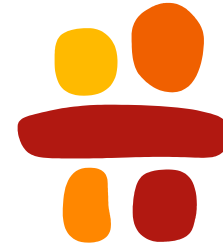


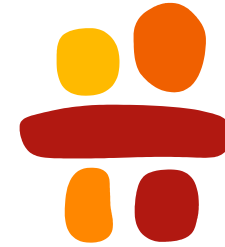
# HOUSEHOLD



**Dave Schoenholz**

*Vice Chairman – Chief Financial Officer*

# HOUSEHOLD



## MORTGAGE SERVICES

# MORTGAGE SERVICES

## *Overview*

- Secondary-market purchases of nonconforming residential mortgage loans from correspondents
- \$7.7 billion acquired in 2001, with net gain of \$3.4 billion
- Decision One mortgage banking subsidiary (purchased in 1999) originated \$3.0 billion in 2001
- \$18.3 billion total loans outstanding as of December 31, 2001
- Primarily A and A- borrowers
- Primarily first mortgages; combined original LTV is 88%
- ROE over 20%

# MORTGAGE SERVICES

## *Competitive Landscape*

- Industry consolidation has resulted in fewer, better capitalized, more rational competitors
- Major competitors include Citifinancial Mortgage, RFC/GMAC, Countrywide and Wall Street firms
- Banks withdrawing from nonconforming market under regulatory pressure
- GSEs increasing market share

# MORTGAGE SERVICES

## *Business Model*

- Channel for real estate secured growth – complementary to branches
- Imperfect market creating opportunities
- Centralized operations with sophisticated front-end controls, underwriting and valuation
- Focus on relationship management and value-added services rather than price
- Enhances credit quality/product mix of Household portfolio

# MORTGAGE SERVICES

## *Business Model (cont.)*

- Disciplined loan valuation and underwriting
  - 100% of loans are underwritten to Mortgage Services guidelines
  - Borrower's ability to pay is primary consideration
  - Valuation based on proprietary pricing/credit models
  - No delinquent loans purchased
- In 2001, purchased 75% of loans presented to us
- 90% of all first liens and 69% of all second liens purchased in 2001 had a prepayment penalty

# MORTGAGE SERVICES

*2001 Financial Performance*

<b>Managed Basis</b>	<b>vs.</b>	<b>2000</b>
Receivables	Increased	25%
Net Income	Increased	34%
Return on Assets	Increased	9 bp
Loss (Charge-off and REO) Ratio	Increased	28 bp
Efficiency Ratio	Improved	154 bp

# MORTGAGE SERVICES

## *2001 Initiatives*

- Hired two senior-level servicing and default management executives
- Increased collection staff by 40%
- Focused loan acquisition strategy on higher FICO scores
- Expanded forward commitments with selected correspondents
- Opened two new Decision One branches; expanding on west coast
- Enhanced retention program with improved segmentation of payoff leads and “retention score”

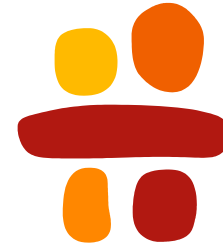


# MORTGAGE SERVICES

## *2002 Objectives*

- Grow net income 20%
- Grow portfolio 14%
- Maintain strong credit quality
- Manage attrition and improve retention
- Improve cross-sell borrower relationships
- Demonstrate market-based liquidity of real estate secured portfolio
  - Conduit
  - Securitization
  - Loan sale

# HOUSEHOLD



## UNITED KINGDOM

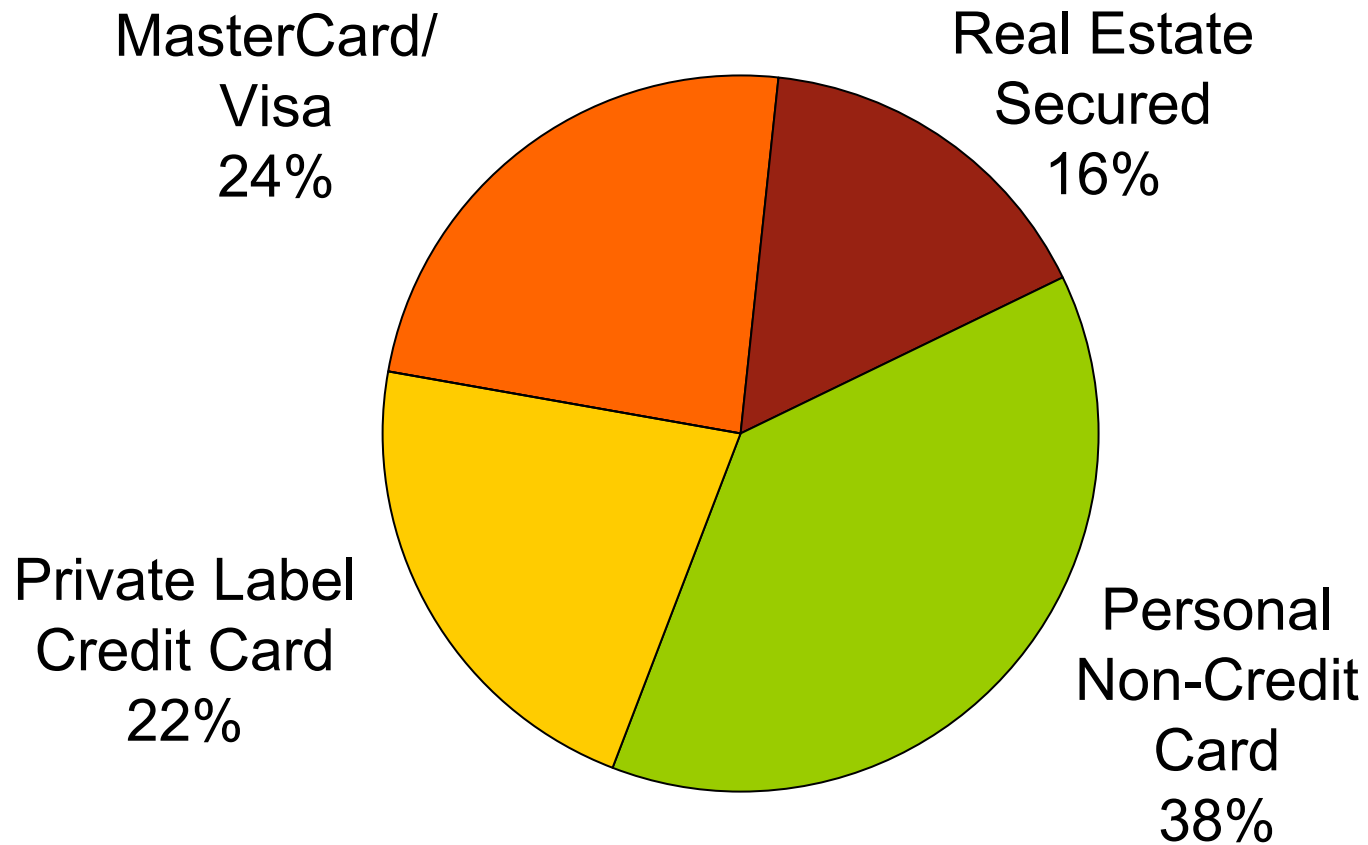
# UNITED KINGDOM

## *Business Overview*

- One of the U.K.'s largest consumer finance companies
- £4 billion in managed receivables
- 3 million customers
- 2nd largest U.K. provider of broker-introduced second mortgages
- 2nd largest provider of point-of-sale retail finance
- 218 branches located in the U.K. and Ireland
- Major issuer of credit cards in the U.K.

# UNITED KINGDOM

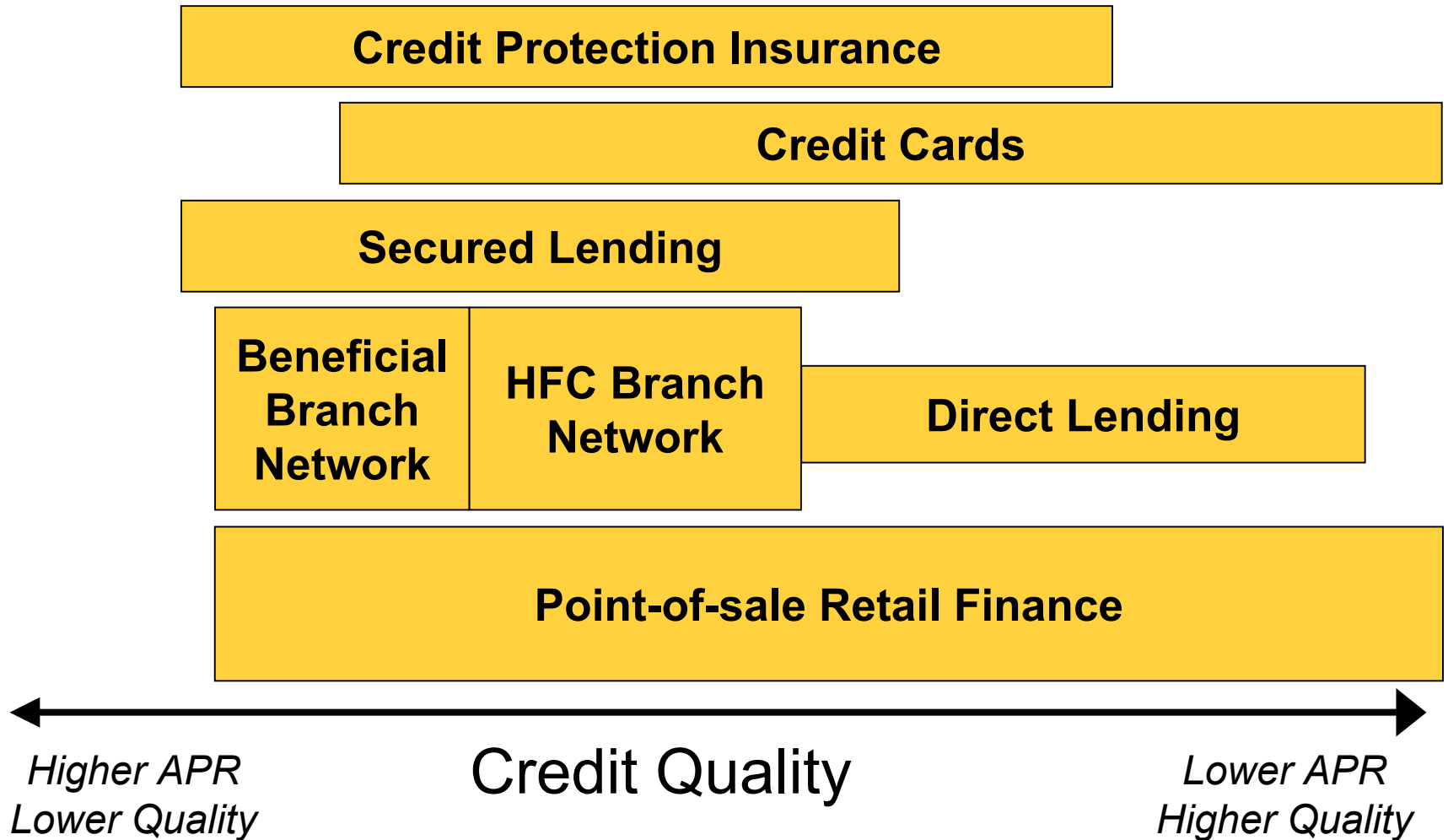
## *Managed Receivables*



*At December 31, 2001*

# UNITED KINGDOM

## *Customer Profile*



# UNITED KINGDOM

## *Operating Environment*

- Economic conditions were relatively benign in 2001 - low unemployment, inflation and interest rates
- Margin pressure in mass markets; less pressure in ours
- 2002 interest rates will remain low, but may rise towards end of year
- Economic forecasts in 2002 remain optimistic for consumer demand
- Increasing regulatory focus
- Bankruptcy laws in U.K. are favorable to U.S.

# UNITED KINGDOM

## 2001 Financial Performance

<b>Managed Basis</b>	<b>2001</b>	<b>2000</b>
Net Income (millions)	£125.1 *	£139.0 *
Receivables (millions)	£3,981 **	£4,438
Return on Assets	2.32%	2.83%
Unsecured Delinquency Ratio	4.58%	4.12%
Charge-off Ratio	2.53%	2.59%
Efficiency Ratio	43%	37%

\* *In 2001, net income includes Centrica settlement and net writeoffs. 2000 net income includes HSBC settlement.*

\*\* *Reflects sale of £702 million of Goldfish Card receivables*

# UNITED KINGDOM

## *2001 Initiatives*

- Extended Beneficial Finance brand and offices
- Continued growth in Central Sales
- Resolved Centrica partnership
- Expanded secured product
- Converted credit card system
- Maintained excellent credit quality
- European expansion



# UNITED KINGDOM

## *Objectives for 2002*

- Grow receivables
  - Expand Beneficial and HFC branches
  - Grow secured products
  - Expand credit card business
  - Innovate in retail finance
  - Expand direct marketing
- Maintain stable credit quality
- Establish and consolidate initial Central European start-up operations